

Phil Norrey
Chief Executive

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

County Hall
Topsham Road
Exeter
Devon
EX2 4QD

(See below)

Your ref :
Our ref :

Date : 16 June 2016
Please ask for : Stephanie Lewis

Email: stephanie.lewis@devon.gov.uk

INVESTMENT AND PENSION FUND COMMITTEE

Friday, 24th June, 2016

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

P NORREY
Chief Executive

A G E N D A

PART I - OPEN COMMITTEE

1 Apologies for Absence

2 Minutes (Pages 1 - 4)

Minutes of the meeting held on 26 February, attached.

3 Items Requiring Urgent Attention

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

4 Annual Internal Audit Report 2015/16 and the proposed Internal Audit Plan 2016/17 (Pages 5 - 14)

Report of the County Treasurer (CT/16/53), attached.

5 Training Plan 2016/17 (Pages 15 - 24)

Report of the County Treasurer (CT/16/56), attached.

6 Pension Fund Budget (Pages 25 - 28)

Report of the County Treasurer (CT/16/57), attached.

7 Investment Management Report (Pages 29 - 34)

Report of the County Treasurer (CT/16/58), attached.

8 Devon Pension Board (Pages 35 - 40)

The Minutes of the Devon Pension Board held on 14 April 2016 are attached.

The Committee's attention is drawn in particular to the following Minutes and the request/suggestions set out therein, for consideration:

Minute 5 (The Role of a Member: Impartiality)

Minute 9 (Devon Pension Fund Risk Register)

Minute 11 (Members' Training)

9 Applications for Admitted Body Status

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

- (a) IMASS - Devon County Council transferred 2 staff from the occupational health team on 1st April 2016.
- (b) Burton Art Gallery – a new company has been set up to run this gallery formally run by Torridge District Council, with the transfer of 8 staff on 1st April 2016.
- (c) Libraries Unlimited – New organisation set up to run Devon County Council libraries, with the transfer of around 500 staff on 1st April 2016.
- (d) Glen Cleaning – Kenn Primary School cleaning contract, with the transfer of one member of staff on 1st April 2016.

10 Dates of Future Meetings

The Committee will meet at 10.00am on Friday 16 September 2016, Friday 18 November 2016 and Friday 24 February 2017.

11 LGPS Pooling of Assets (Pages 41 - 42)

Report of the County Treasurer (CT/16/54), attached.

PART II - ITEMS WHICH MAY BE TAKEN IN THE ABSENCE OF THE PUBLIC AND PRESS

12 Exclusion of the Press and Public

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

13 LGPS Pooling of Assets - Submission

Report of the County Treasurer (CT/16/61), circulated separately.

14 Investment Advisor Arrangements

Report of the County Treasurer (CT/16/59).

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

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership

Devon County Council

Councillors R Gilbert (Chairman), R Edgell, D Hannon, R Hill, R Hosking and C Channon (Vice-Chair)

Unitary and District Councils

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

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

Any person wishing to inspect any minutes, reports or lists of background papers relating to any item on this agenda should contact Stephanie Lewis on 01392 383691.

Agenda and minutes of the Committee are published on the Council's Website at http://www.devon.gov.uk/index/your_council/decision_making/cma/index_exc.htm

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Induction loop system available

INVESTMENT AND PENSION FUND COMMITTEE

26 February 2016

Present:-

Devon County Council:-

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

Other Employers

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

Union and Retired Members: Non-Voting Observers:-

Mr Franceschini, Mr Lomax and Ms Rimron

Apologies:-

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

Also in Attendance

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

***116**

Announcements

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

***117**

Minutes

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

***118**

LGPS Update: Pooling of Investments

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

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

Agenda Item 2

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INVESTMENT AND PENSION FUND COMMITTEE

26/2/2016

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

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

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

***119 Actuarial Review 2016**

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

***120 Investment Management Report**

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

***121 Treasury Management Strategy**

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

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

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

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

***122 Applications for Admitted Body Status**

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

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

***123 Committee Training**

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

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

***124 Dates of Future Meetings**

Dates of future meetings of the Committee are available at:

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

***125 Exclusion of Press and Public**

RESOLVED that the press and public be excluded from the meeting for the following item of business under Section 100(A)(4) of the Local Government Act, 1972 on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Schedule 12A of the Act, namely information relating to financial or business affairs of another person, other than that of the County Council and disclosure of which would be likely to inhibit the free and frank provision of advice and exchange of views for the purposes of deliberation, in accordance with Section 36 of the Freedom of Information Act 2000, by virtue of the fact that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

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

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

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

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

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

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

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

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

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

Report of the County Treasurer

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

It is recommended that:

- (a) the Committee formally accepts the Annual Internal Audit Report for 2015/16.**
- (b) the Committee formally approves the Internal Audit Plan for 2016/17.**
- (c) members authorise the Assistant County Treasurer Investments to execute the Service Level Agreement relating to the Internal Audit Plan.**

1. Annual Internal Report – 2015/16

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

Agenda Item 4

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

- 2.1. Under the Local Government Act 1972 the Authority, and specifically the Chief Financial Officer (the County Treasurer), has a statutory duty to “make arrangements for the proper administration of their financial affairs”. Assurance that this is the case is given through the reporting of Internal Audit. The audits have been carried out under the terms of Accountancy and Audit Regulations 2015 and in accordance with the Public Sector Internal Audit Standards.
- 2.2. The Internal Auditors for the Pension Fund are responsible for ensuring that all financial systems are operating effectively and in line with the Authority’s financial regulations. This is achieved through the two audit plans: one for the Devon Pension Fund and one for Peninsula Pensions.
- 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

The Aim of the Plans

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

The Plan

- 2.7. The audit plans for the financial year 2016/17 allows for up to 40 days of internal audit support for the Pension Fund and 45 days of internal audit support for Peninsula Pensions and will be delivered by Devon Audit Partnership (DAP), the internal audit provider for the Council.
- 2.8. This covers the financial audit reviews required as part of Internal Audit responsibilities in reporting to the County Treasurer, and also provides a level of assurance to External Auditors on the security and effectiveness of the financial systems. DAP will provide the documentation required by external audit to ensure they are satisfied with operations.
- 2.9. DAP will liaise with the Fund’s external auditors to discuss the testing planned to ensure this satisfies their requirements and reduces their need for review of these financial systems. The remainder of the planned days incorporates reviews of specific systems as identified through an audit risk assessment process, the Authority’s risk register and liaison with management.

- 2.10. Any major findings (if applicable) from the previous year's audit plan will be reviewed to ensure that agreed recommendations have been implemented and are effective.

Timetable

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

3. Other relevant information

- 3.1. The Devon Pension Board has previously considered the above issues (i.e. the Internal Audit Report for 2015/16 and proposed Internal Audit plan for 2016/17) 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 2015/16

and

PROPOSED INTERNAL AUDIT PLANS 2016/17

Section 1 - ANNUAL INTERNAL AUDIT REPORT 2015/16

1 INTRODUCTION

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

1.3 This supports the organisation in complying with the Accounts and Audit Regulations 2015 which requires all Authorities to carry out a review at least once in a year of the effectiveness of its system of internal control, and to incorporate the results of that review into their Annual Governance Statement (AGS). The AGS must then be published with the Annual Statement of Accounts.

2 BACKGROUND

2.1 Service Provision

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

2.2 Regulatory Role

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

- **Section 3, 5 and 6 of the Accounts and Audit Regulations (England) Regulations 2015** which state that “....A relevant authority must ensure that it has a sound system of internal control which—
 - (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
 - (b) ensures that the financial and operational management of the authority is effective; and
 - (c) includes effective arrangements for the management of risk...”
- “.....A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance...”



- “.....conduct a review of the effectiveness of the system of internal control required by regulation 3; and prepare an annual governance statement.....”
- **Section 151 of the Local Government Act 1972**, which requires every local authority to make arrangements for the proper administration of its financial affairs.

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

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

3 OBJECTIVES AND SCOPE

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

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

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

4 INTERNAL AUDIT COVERAGE 2015/16

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

Agenda Item 4

Key – PF = Pension fund PP = Peninsula Pensions

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

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



devon**audit**partnership

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

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

5 INTERNAL AUDIT OPINION

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

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

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

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

Section 2 - INTERNAL AUDIT PLANS 2016/17

1 INTRODUCTION

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

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

2 THE AIM OF THE PLANS

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

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

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

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

3 THE PLANS

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

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



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

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

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

4 TIMETABLE

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

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

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

5 2016/17 PLANS

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

Devon Pension Fund Plan 2016/17

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

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

Agenda Item 4

Peninsula Pension Plan 2016/17

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

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

Robert Hutchins
Head of Devon Audit Partnership
April 2016

TRAINING REVIEW 2015-16 AND TRAINING PLAN 2016-17

Report of the County Treasurer

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

Recommendation: that the Committee approves and adopts the 2015/16 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 2015/16, and sets out the Training Plan for 2016/17. A draft of the Training Plan was presented to the Pension Board on 14 April 2016, and changes have been made to the plan in response to comments by the Board.

2. Training 2015/16

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

Dates and a summary of items covered are detailed below:

Pension Board Training - June 2015

- Introduction to the LGPS
- Public Service Pensions Act 2013
- Governance Arrangements
- Investment Fundamentals
- Options for Reform
- Role of the Scheme Advisory Board
- Funding and Investments
- Role of advisors and key persons
- Role and responsibilities of the Administering Authority

Agenda Item 5

- What is an actuary?
- What is the actuary's role in the LGPS?
- Why and how do we do valuations?
- Some current issues - benchmarking
- Outlook for 2016 valuation

Joint Training Day with Cornwall Council - October 2015

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

Training Session – November 2015

- Long Term Performance
- 2016 Actuarial Valuation

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

3. Training Plan 2016-17

- 3.1. The 2016/17 Training Plan is attached at Appendix 1 and sets out the training to be provided over the year in order to ensure that both the Investment and Pension Fund Committee and the Pension Board have the knowledge and skills required in accordance with the CIPFA Code. The first event outlined took place on 27th May.
- 3.2. The plan includes an event in Spring 2017. The timing of this may need to be considered given that 2017 is a County Council election year and there may be changes to the Committee following the election. However, non-County Council members of the Committee and Pension Board are unaffected by the election. It is also suggested that the 2017/18 Training Plan be brought forward for approval in February 2017 to include provision for induction of any new members following the election.
- 3.3. 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 2015-16 is shown at Appendix 2.

5. Conclusion

- 5.1. The Investment and Pension Fund Committee is asked to approve the Training Plan for 2016/17.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers - Nil

Contact for Enquiries: Dan Harris

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Devon Pension Fund Training Plan 2016/17



1 Introduction

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

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

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

2 Knowledge and Skills Framework

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

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

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

3 Pension Board Specific Requirements

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

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

4 Committee and Pension Board Training

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

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

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

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

Devon Pension Fund Training Day – 27th May 2016

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

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

Afternoon Training Session – 16th September 2016

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

Joint Training Day with Cornwall Pension Fund – Autumn 2016

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

Devon Pension Fund Training Day – Spring 2017

The day will focus further on the six areas of the Knowledge and Skills Framework with an emphasis on any gaps in knowledge that have been identified. This will include a session or sessions on the statutory statements that the Fund is required to have in place.

Other Training

In addition members will also be provided with access to "bite-size" tutorials on the six areas of knowledge and skills and other quality assured websites to help boost levels of understanding. Where gaps in individual members' knowledge have been identified

that will not be met by the core training described above, then additional training can be accessed to meet those needs. Specific training can be identified for the Chairman of the Investment and Pension Fund Committee and of the Pension Board to support them in their role if required.

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

5 Officer Training

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

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

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

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

1. **Governance** – Understanding the guidance and regulations in relation to local pension boards, and keeping up to date with how other Funds are working with their boards, in order that the Pension Board can be supported effectively and add value to the governance of the Fund.
2. **New Investment Arrangements** – Keeping up to date with the requirements of the Government's investment pooling agenda, understanding how the new pools will operate and the work that will be required. This will include looking at the different options in terms of structure and governance and understanding the potential requirements for regulation by the Financial Conduct Authority.
3. **New Investment Products** – Keeping up-to-date with what the market is offering, in order to assess the validity of new products for investment by the Devon Fund.
4. **Accounting Issues** – Keeping up to date with the latest CIPFA guidance on the format of the Pension Fund Statement of Accounts and the content of the Annual Report.

5. **Pensions Admin Regulations** – Understanding the latest guidance and interpretation of changes to LGPS Regulations and their impact on procedures.
6. **Pensions Admin Systems** - Keeping up to date with updates/new releases to our software system Altair, passing down training to all staff.
7. **Wider Pensions Issues** – Understanding the impact of wider Government reforms to pensions, such as “freedom and choice” on the LGPS.

6 Reporting and Compliance

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

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

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

PENSION FUND BUDGET 2016/17

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 notes the Pension Fund budget forecast for 2016/17.

1. Introduction

- 1.1 Local authorities are legally obliged to set a budget for the forthcoming financial year. However, there is no legal requirement for a Local Government Pension Scheme administering authority to set a budget for the pension fund. Local authorities need to set a budget in order to set council tax for the year, whereas contributions to the Pension Fund are set by the triennial actuarial valuation. Therefore, the Devon Pension Fund has not in the past put in place a budget. However a number of other funds now do set a budget, and it is increasingly being seen as best practice to do so. The budget should be seen as a forecast for planning purposes and with the exception of internal management expenses not as a budget to control spend.
- 1.2 There are a number of difficulties in setting a budget for the Pension Fund, principally the difficulty in forecasting investment returns over a one year horizon, and the fact that the majority of items of income and expenditure could not be managed to achieve a budget target. However, there are some areas, for example in relation to management costs and support for the Investment and Pension Fund Committee and the Pension Board, where costs can be managed. In addition there are advantages in forecasting contributions income and benefits payments in order to plan cashflow for the year. In consequence of this, and to meet best practice, a budget forecast for 2016/17 is attached at Appendix 1.
- 1.3 The analysis shown at Appendix 1 shows the actual position for 2015/16 and the forecast for 2016/17. The analysis is broken down into three areas:
 - Contributions and benefit payments;
 - Investment income; and
 - Management expenses.

2. Dealings with members, employers and others directly involved in the fund

- 2.1 It is forecast that the level of contributions payments in 2016/17 will be broadly similar to the two preceding years. Employer contribution rates for the years 2014/15, 2015/16 and 2016/17 were set at the 2013 Actuarial Valuation, and are therefore relatively stable across that period.
- 2.2 The cost of pensions in payment has been increasing steadily, as a result of increases in the number of pensioners. Each year more people retire and come

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into receipt of their pensions than the number of pensions in payment that cease. There will be no inflationary uplift in pensions for the 2016/17 financial year, as the Consumer Price Index at September 2015 was negative. This has the effect of mitigating the increase in the cost of pensions. Other pension costs, such as lump sum payments, are anticipated to remain at around the same level.

- 2.3 Transfer payments, both in and out of the Fund are difficult to predict and a forecast has been included based on experience of the last three years, excluding one-off group transfers that have taken place.

3. Investment Income

- 3.1 Levels of investment income will vary to some extent year on year as a result of the ability of companies to pay out dividends and variations in distributions from infrastructure and property. However, such variances tend to be within a reasonable tolerance. The major factor that contributes to a reduction in the level of income between the actual achieved in 2015/16 and the forecast for 2016/17 is the transfer of investments from Wellington's segregated mandate into Wellington's pooled funds, which has resulted in a reduction in the level of income forecast. The pooled funds do not pay out income, but instead accumulate and reinvest the income such that the Fund will see the benefit in the change in the capital value of the pooled fund, rather than accounting for the income separately.

4. Management Expenses

- 4.1 Management expenses are broken down into three areas:
- Pension administration costs.
 - Investment management expenses.
 - Oversight and governance costs.
- 4.2 Under investment management expenses a one-off revised fee arrangement linked to performance that was agreed with one manager resulted in a significant fee saving in 2015/16, albeit as a result of underperformance. The forecast external manager fees in 2016/17 assume that the latter saving will not continue. Custody costs are forecast to reduce as a consequence of the increased allocation to pooled funds as opposed to segregated funds (see 3.1 above).
- 4.3 The forecast for investment oversight and accounting costs for 2016/17 has increased from the level of expenditure in 2015/16, partly as a consequence of additional work required on IAS19 valuations for Fund employers, but also as a consequence of the cost of the investment pooling project work.
- 4.4 Committee and Pension Board costs include the cost of secretarial support and advisory support, and overheads attaching to the arranging of meetings and training. The budget for 2016/17 should provide sufficient resource to fund the training and other support requirements of both the Investment and Pension Fund Committee and the Pension Board.
- 4.5 Actuarial costs will be higher in 2016/17 as the triennial actuarial valuation will be undertaken during the year.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers – Nil

Contact for Enquiries: Mark Gayler

Tel No: (01392) 383621 Room G97

Devon County Council Pension Fund Budget / Forecast 2016/17		
	Actual 2015/16 £'000	Forecast 2016/17 £'000
Contributions		
Employers	(117,079)	(117,000)
Members	(36,201)	(36,000)
Transfers in from other pension funds:	(4,766)	(3,000)
	<u>(158,046)</u>	<u>(156,000)</u>
Benefits		
Pensions	132,435	135,000
Commutation and lump sum retirement benefits	30,035	32,000
Lump sum death benefits	3,777	4,000
Payments to and on account of leavers	443	200
Payments for members joining state scheme	6,986	6,000
	<u>173,676</u>	<u>177,200</u>
Net Withdrawals from dealings with fund members	15,630	21,200
Investment Income		
Received as Cash	(19,021)	(19,100)
Reinvested by Fund Manager	(16,722)	(14,300)
	<u>(35,743)</u>	<u>(33,400)</u>
Administrative costs		
Peninsula Pensions	1,523	1,713
	<u>1,523</u>	<u>1,713</u>
Investment management expenses		
External investment management fees - invoiced	5,242	5,950
External investment management fees - not invoiced	2,994	3,000
Custody fees	140	115
Transaction costs	3,508	3,510
Stock lending income & commission recapture	(94)	(85)
Other investment management expenses	50	25
	<u>11,840</u>	<u>12,515</u>
Oversight and governance costs		
Investment & Pension Fund Committee Support	85	92
Pension Board	21	24
Investment Oversight and Accounting	288	336
Legal Support	43	43
Actuarial Services	41	60
Investment Performance Measurement	24	42
Subscriptions	38	41
Internal Audit fees	13	14
External Audit fees	29	29
	<u>582</u>	<u>681</u>
Total Management Expenses	13,945	14,909

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 2015/16 Treasury Management Strategy

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 2016**.

Fund Value and Asset Allocation

	Fund Value as at 31.3.16	Target allocation	Fund asset allocation at 31.3.16	Variation from Target
	£m	%	%	%
Fixed Interest				
Bonds	399.9	14.0	12.0	
Cash	47.4	2.0	1.4	
	447.3	16.0	13.4	-2.6
Equities				
Passive Equities	1,425.6	40.0	42.7	
Active Equities	470.6	15.0	14.1	
	1,896.2	55.0	56.8	+1.8
Diversified Growth Funds	486.1	15.0	14.6	-0.4
Alternatives				
Property	366.6	10.0	11.0	
Infrastructure	139.7	4.0	4.2	
	506.3	14.0	15.2	+1.2
Total Fund	3,335.9	100.0	100.0	

- The Fund value as at 31st March 2016 stood at £3,335.9 million, an increase of £26m over the quarter. However the fund value is still £38m (just over 1%) lower than at 31st March 2015.

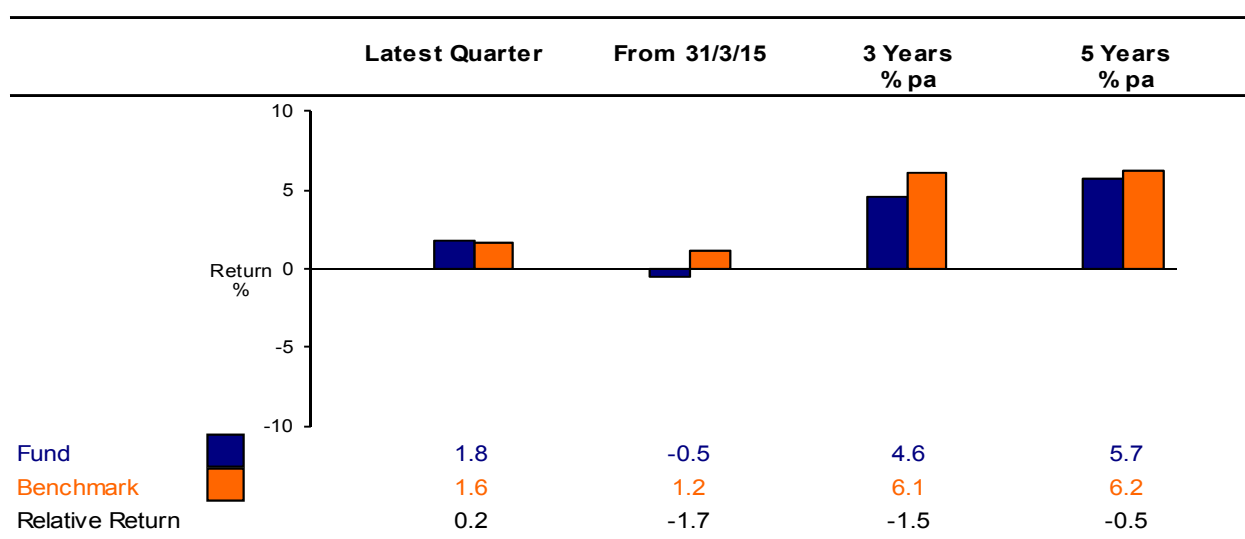
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- The Fixed Income allocation is being maintained below the target level for the time being, as agreed by the Committee at the meeting on 16th May 2014.
- All other asset classes are within 2% of the strategic asset allocation targets.

2) FUND PERFORMANCE

The performance of the Total Fund over the last quarter, the financial year to date, 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, but the three year and five year figures shown combine gross performance up to 31 March 2014 and net of fees performance from 1 April 2014 onwards.

The year to 31 March 2016 has seen a negative absolute return of -0.5%. This is below the Fund benchmark of +1.2%. The return for the year is just below the average local authority pension fund return, and represents a 60th percentile ranking against the LGPS universe (i.e. 60% of funds performed better than the Devon fund and 40% had lower returns).

The below benchmark return for the year has also had an impact on the longer term figures. The rolling 3 year return is now 1.5% below benchmark, while the rolling 5 year return is below benchmark by 0.5%.

A breakdown of the performance of the Total Fund for the year to 31 March 2016 and the comparative Index returns are shown in the table below:

Performance for the nine months to 31 March 2016

Sector	Fund Return	Benchmark	Benchmark Description
	%	%	
Global Fixed Interest	1.5	2.3	BarCap Global Bonds
Cash (inc Foreign Currency)	0.4	0.3	GBP 7 Day LIBID
Passive Equities	-2.3	-2.5	Devon Bespoke Passive Index
Active Equities	-4.1	0.0	FTSE World
Diversified Growth Funds	-2.0	4.3	Devon Multi Asset Benchmark
Infrastructure	8.8	0.3	GBP 7 Day LIBID
Property	11.5	10.6	IPD UK PPF All Balanced Funds
Total Fund	-0.5	1.2	Devon Bespoke Index

Key issues over the year include:

- The negative absolute return largely reflects wider market conditions. Equity markets were broadly flat or slightly negative for the year. After a relatively positive April and May, equity markets lost considerable value between June and September, firstly as a result of the Greek debt crisis, and then concerns about the health of the Chinese economy. Although markets bounced back between October and December, it was not enough to make up the lost ground in the previous two quarters. The quarter to March also saw significant volatility at the beginning of the period, before moving back into positive territory. Negative returns on the Fund's assets will have an impact on our funding level.
- The diversified growth funds (DGFs) have underperformed their cash plus benchmarks over the period, and this contributed over half of the total fund underperformance. The DGFs will find it more difficult to achieve positive returns in negative markets, the key issue in relation to their performance is that they should preserve capital to a greater extent than the equity markets.
- Active equities have delivered a below benchmark return during the year (-4.1% against the FTSE World market return of 0.0%). Emerging markets continued to underperform developed markets, which detracted from returns, and the Fund's main global equities mandate continued to underperform. The specialist funds in combination were below benchmark, as a result of the allocation to emerging markets.
- The impact on the Passive Equities return of the active currency hedging strategy in relation to the overseas element of the investment has been positive against the US Dollar and the Japanese Yen, but negative against the Euro. The allocation to alternative indexation performed better than global market cap benchmarks.
- Global Fixed Interest was also below benchmark over the year, with the allocation to multi-sector credit not helping the position during a period where risk assets delivered negative returns.
- Property and infrastructure delivered a significant positive return over the period. Property continues to benefit from growth in UK GDP.

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3) CASHFLOW AND CASH MANAGEMENT

- (a) The table below shows the balance between contributions received and due and the pension benefits paid out for the year to 31 March 2016, together with retained investment income and administrative and investment management costs. The retained investment income figure includes income from property, infrastructure and cash, but excludes all other investment income which is currently reinvested. The investment management costs only include manager fees where they are invoiced to the fund, and exclude fees which are deducted from the value of pooled funds as these do not involve a cash flow movement. The total figures for 2014/15 are shown for comparison.

Cashflow 2014/15 and 2015/16

	Income & Expenditure 2014/15	Income & Expenditure 2015/16
	£m	£m
Contributions Received/Due	150.9	153.3
Benefits Paid	(158.5)	(166.2)
Transfers In/Out *	0.3	(2.7)
Net New Money	(7.3)	(15.6)
Retained Investment Income	15.6	19.0
Management Expenses	(9.8)	(8.8)
Net Surplus Cash	(1.5)	(5.4)

* The transfers figure for 2014/15 excludes the £63.1m transfer to the Greater Manchester Pension Fund

- (b) The table shows a continuing picture of the benefits being paid exceeding the current contributions received. The gap is growing, but is still manageable within the current strategy.

4) TREASURY MANAGEMENT STEWARDSHIP 2015/16

- (a) At the February 2015 Committee, members approved a Treasury Management and Investment Strategy for 2015/16. This section of the report provides a review of the unallocated cash managed by the Investment Manager and his team during 2015/16.
- (b) Interest rates continue to be very low and the Bank of England base rate remained at 0.5% throughout the financial year. 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 very 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 2016 the unallocated cash on deposit amounted to **£21.3m**. 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. Between August and February term deposits totalling £15m were made for periods of between 3 and 6 months pending drawdown of cash for the

Fund's remaining infrastructure investments. Much of this was drawn down in January, and at year end all cash was held in call accounts.

Cash on Deposit

Type of Deposit	Maturity period	Actual as at 31/03/15	Average Interest Rate	Current as at 31/03/16	Average Interest Rate
		£m	%	£m	%
Call and Notice Accounts	Immediate	30.3	0.50	21.3	0.41
Term Deposits	<30 Days	0.0		0.0	
	>30 Days	0.0		0.0	0.00
TOTAL (at 31st January 2016)		30.3	0.50	21.3	0.41

- (e) The weighted average rate being earned on cash deposits, as at 31 March 2016, was **0.41%**. 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 2015/16.

Mary Davis

Local Government Act 1972

List of Background Papers Nil

Contact for Enquiries: Mark Gayler

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DEVON PENSION BOARD

14 April 2016

Present:-

Councillors Greenslade (In the Chair) and Brook

Fund Employer Representatives

Mr Hearn and Mr Smith

Fund Member Representatives

Mr Bowman, Ms Keightley and Mr Shipp

Independent Member

Mr Nicholls

Apologies:-

Ms Lewis (Fund Member)

1 Chairman

RESOLVED that the Vice-Chairman take the Chair for this meeting and an appointment be made at the next meeting for the ensuing year.

2 Minutes

RESOLVED that the Minutes of the Board held on 22 October 2015 be signed as a correct record.

3 Items Requiring Urgent Attention

There was no item raised as a matter of urgency.

4 Membership

The County Treasurer reported that following the resignation of Mr Henshaw, nominations for a replacement Fund Member representative on the Board had been sought in the usual way. Following an open competition, and 4 eligible candidates having been interviewed, a Mr Colin Shipp (HR Director at Plymouth University) had been appointed to the Board with immediate effect.

Members welcomed Mr Shipp to his first meeting.

MATTERS FOR CONSIDERATION AND REVIEW

5 Devon Pension Board - One Year On

The Board considered the Joint Report of the County Solicitor and County Treasurer (CS/16/17) reviewing the operation of the Board in its first year and providing an opportunity for Members to discuss and raise any issues about the role and responsibilities of the Board or any operational or procedural matters including frequency of meetings, budgetary issues, conflicts of interest, access to information, training and development and public liability insurance (as set out more fully in the Report).

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2

DEVON PENSION BOARD

14/04/16

The matter having been debated and the options and/or alternatives and other relevant factors (e.g. financial, sustainability, carbon impact, risk management, equality and legal considerations and Public Health impact) set out in the Report and/or referred to above having been considered:

It was **MOVED** by Councillor Greenslade, **SECONDED** by Mr Bowman, and

RESOLVED

(a) that the Report be noted;

(b) that, recognising the need for Members of the Board to maintain and demonstrate their impartiality at all times and notwithstanding the existing guidance on conflicts of interest the Board endorse the following principles which are already well established in a number of local authority quasi-judicial, regulatory committees namely that:

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

(c) that the Investment & Pension Fund Committee be invited to adopt a similar stance to its proceedings to preserve its status as an impartial decision maker and to ensure the impartiality and integrity of its Members is not called into question through any third party seeking to influence any decision of that Committee.

6 Statutory Statements: Governance Policy & Compliance Statement

The Board considered the Report of the County Treasurer (CT/16/40) together with the Governance Policy & Compliance Statement approved by the Investment & Pension Fund Committee on 27 February 2016 which set out the governance arrangements of the Pension Fund including the composition of the County Council's Investment & Pension Fund Committee and this Board and the scheme of delegation for the aforementioned Committee, the Scheme Manager and the County Council's Officers.

Members acknowledged that the Compliance Statement did not currently contain any direct reference to the Pension Board which it was anticipated would be rectified within the forthcoming revised guidance from the Department for Communities and Local Government.

Members noted that this was one of four statutory statements the Fund was required to have in place which the Board was required to scrutinise and comment upon to the Council's Investment & Pension Fund Committee.

Members recognised the need for the Board to be satisfied that the anticipated outcomes of the Policy & Compliance Statement reflected the manner in which the Fund was managed and that consequently the Board might wish or need to examine specific elements of the Policy in more detail.

It was **MOVED** by Councillor Greenslade, **SECONDED** by Councillor Brook, and

RESOLVED

(a) that subject to the Statement being amended to acknowledge the Board meets '*at least twice yearly*', the Governance Policy & Compliance Statement be endorsed;

(b) that, in submitting future statements, the County Treasurer be asked to include a simple comparison with previous statements so that the Board may be satisfied that progression has been made where necessary, enabling it to deliver upon one of its key roles.

7

Statutory Statements: Investment Principles

The Board considered the Report of the County Treasurer (CT/16/41) together with the current Statement of Investment Principles most recently updated and approved by the Investment & Pension Fund Committee on 12 June 2015 which explained how the Fund's assets were managed, the existing investment strategy, how risk and return issues were managed and identifying all other relevant factors taken into account in so doing.

Members noted that this was one of four statutory statements the Fund was required to have in place which the Board was required to scrutinise and comment upon to the Council's Investment & Pension Fund Committee.

In commenting upon the timing of the Board's consideration of this and future Statements (i.e. either before or after the Investment & Pension Fund Committee) the Board acknowledged that this particular Statutory Statement was due to be replaced with a new Investment Strategy Statement upon which guidance was awaited from the Department for Communities & Local Government.

It was **MOVED** by Councillor Greenslade, **SECONDED** by Councillor Brook, and

RESOLVED that notwithstanding the Board's view that the Investment Principles Statement might be enhanced by including reference to the new proposed pooling arrangements, the Statement as now submitted be endorsed.

8

Annual Internal Audit Report for 2015/16 and proposed Plan for 2016/17

The Board considered the Report of the County Treasurer (CT/16/42) together with the Internal Audit Report for 2015/16 and the proposed Plan for 2016/17 which had been prepared by the Head of the Devon Audit Partnership for the County Council's Investment & Pension Fund Committee as a means of providing assurance to the Council that there were no significant weaknesses or areas of concern in existing systems of control.

The Head of the Devon Audit Partnership acknowledged the need for greater clarity in future Reports in indicating more clearly which organisation had commissioned individual pieces of work and Officers also undertook to brief Members on the process followed previously in appointing an Independent Advisor (Minute 6/2 July 2015 refers) and performance monitoring thereof.

It was **MOVED** by Councillor Greenslade, **SECONDED** by Councillor Brook, and

RESOLVED that subject to the foregoing the Internal Audit Report for 2015/16 and Plan for 2016/17 be endorsed.

9

Devon Pension Fund Risk Register

The Board considered the Report of the County Treasurer (CT/16/43) together with the current Pension Fund Risk Register delineating any required actions identified to mitigate risk.

It was **MOVED** by Councillor Greenslade, **SECONDED** by Councillor Brook, and

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DEVON PENSION BOARD
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RESOLVED that while the Pension Board is content to endorse the Pension Fund Risk Register as submitted, the Investment & Pension Fund Committee nonetheless be invited to consider a number of minor variations for the future, namely:

Risk F2, G1 (and elsewhere, as appropriate): to include references to the Devon Brunel Pooling Arrangements

Risk I1: to include more general reference to staffing issues (sickness), where relevant.

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

The Board considered the Report of the County Treasurer (CT/16/38) on the Board's proposed budget for 2016/17 for administrative support, accommodation, training and legal, technical and other professional support predicated on the knowledge and experience gained over the first months of operation. The budget was, in the view of the County Treasurer/Scheme Manager, a sound and achievable financial plan based on a reasonable assessment of current workloads which would necessarily be monitored during the year.

It was **MOVED** by Councillor Brook, **SECONDED** by Mr Hearn and

RESOLVED that the Devon Pension Board's budget for 2016/17 be approved, subject to regular monitoring.

11 **Training Review 2015/16 and Training Plan for 2016/17**

The Board considered the Report of the County Treasurer (CT/16/39) reviewing the training and development opportunities provided for Members of the County Council's Investment & Pension Fund Committee and the Board in 2015/16 and outlining a proposed plan for 2016/17, to satisfy the requirements of the Pensions Act 2004, the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills and to comply with best practice.

The importance of Members of the Board and of the Investment & Pension Fund Committee attending such events in order to make a full contribution to the work of both those bodies was acknowledged.

It was **MOVED** by Councillor Greenslade, **SECONDED** by Councillor Brook, and

RESOLVED

(a) that subject to the amendment of the programme of the November event outlined at the meeting and the inclusion in a future session of a briefing on the content and methodology for construction of those Statutory Statements required to be submitted to the Board (Minutes 6 and 7 above refer, for example) the Training and Development Plan for 2016/17 be endorsed;

(b) that, additionally, the Investment & Pension Fund Committee be asked - as a means of ensuring an appropriate level of knowledge by all Members of that Committee - to accept that, as a matter of principle, full and named substitute Members of that Committee should similarly be expected to undertake appropriate, regular, training before exercising the responsibilities of that Committee.

MATTERS FOR INFORMATION

12 **LGPS Pooling of Investments**

The Board received, for information, a Report by the County Treasurer (CT/16/36) on progress with the establishment of the proposed 'pooling' arrangement for South West LGPS schemes, under the aegis of *Project Brunel*, and on the Government's initial response to the proposals upon which further work was being carried out.

Members noted that since the initial proposals had been approved by the County Council, Buckinghamshire and Oxfordshire had also agreed to enter the Brunel Pool increasing the total assets of Member Funds to approximately £23billion, which enhanced the viability of the pooling arrangements notwithstanding the governance arrangements that might finally be determined.

The County Treasurer undertook to provide Members with copies of the PriceWaterhouseCooper Reports referred to in Report CT/16/40 now submitted and to also clarify the application of the investment strategy/principle referred to at Minute 7 under any proposed pooling arrangements (when that was clearer), notwithstanding the overarching objective of any Fund under any arrangements to maximise the return on investment.

Moreover and while recognising the need to satisfy themselves that any proposed pooling arrangements were right for the Fund, Board Members recognised that the ability and flexibility of the County Council and others not to pursue pooling arrangements was extremely limited.

13 Actuarial Valuation 2016

The Board received the Report of the County Treasurer (CT/16/37) outlining the planned approach to the 2016 triennial valuation of the Pension Fund.

LGPS Regulations required administering authorities to complete an actuarial valuation of their Pension Fund on a three yearly cycle. The next valuation was due at 31 March 2016, the results of which had to be published by 31 March 2017. The 2016 valuation would set employer contribution levels for the 2017/18 - 2019/20.

The Report summarised the plan for the forthcoming valuation which had been discussed with the scheme actuary, Barnett Waddingham and which had been previously outlined to the Board by the Actuary at a training session in November of 2015.

14 Peninsula Pensions Administration Performance Statistics

The Board considered the Report of the County Treasurer (CT/16/44), requested previously (Minute 19/22 October 2015 refers), on the performance of Peninsula Pensions administration across the Peninsula and the action being taken to ensure compliance with accepted norms and best practice.

Members acknowledged and welcomed the work being done to reduce previous backlogs.

The Board also recognised the difficulties and practicability of Peninsula Pensions being asked to provide discreet or disaggregated data for the Devon Fund or area alone but the County Treasurer and Head of Peninsula Pensions undertook to provide Board Members with relevant budget data (including if possible the cost per head of the various schemes administered) to allow Members to make a judgement as to the adequacy or otherwise of administrative costs for the Devon Fund as highlighted previously.

The Head of Peninsula Pensions also confirmed that when specific performance targets had not been met these were kept under review and monitored to ensure action was taken within an acceptable period. She also outlined arrangements for obtaining customer feedback including the use of specific, targeted surveys and confirmed that a summary of such feedback and of any disputes logged or complaints received would be provided to Members in due course and that future performance management reports would, as requested, provide more qualitative information as far as was practicable.

15 Investment and Pension Fund Committee

The Board received and noted the minutes of the Investment & Pension Fund held on 20 November 2015 and 2 and 26 February 2016.

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DEVON PENSION BOARD

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16 Future Work Programme

The Board considered the Report of the County Treasurer (CT/16/45) outlining the proposed future work programme and reviewed the suggestions therein and discussed at the meeting for inclusion in the Programme.

It was **MOVED** by Councillor Greenslade, **SECONDED** by Councillor Brook, and

RESOLVED

(a) that the proposed work programme be approved, subject to the addition of a report or briefing comparing internal and external Fund management costs etc. with other Authorities;

(b) that, in future, meetings be preceded by an informal briefing session to commence at 1000am to update Members with any information previously requested which had not been sent out in advance, by email or other means.

17 Future Meetings/Diary Dates

Dates of meetings of the Board and of the Investment & Pension Fund Committee are published on the County Council's Calendar of Meetings, which is available on the Council's website at: <http://democracy.devon.gov.uk/mgCalendarMonthView.aspx?GL=1&bcr=1>

The Meeting started at 10.30 am and finished at 12.37 pm

LGPS POOLING OF INVESTMENTS

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 endorses the joint submission from the Brunel Pension Partnership, including the Devon Pension Fund;**
- (b) that the Committee formally recommends the Council to agree, in principle, to the establishment of a Local Authority Company with the other Brunel founder funds, in which Devon County Council will own 10% of the shares.**
- (c) that, consequently, the County Treasurer be authorised to continue negotiating as necessary with other Fund Members on the detail of the proposition and, in consultation with the Chairman of the Investment & Pension Fund Committee, to agree the terms of any final agreement, reporting back to this Committee in the normal manner;**
- (d) that the County Solicitor be authorised to execute all necessary legal documents or formal agreements required to be agreed by the Council to give effect to the proposals concluded in line with the above.**

1. Introduction

- 1.1. Following the Government's announcement in the July 2015 budget statement that they intended to work with Local Government Pension Scheme (LGPS) administering authorities to ensure that they pool investments to significantly reduce costs, significant work has been undertaken to set up the Brunel Pension Partnership comprising ten LGPS Funds.
- 1.2. The Government required an initial response by 19th February 2016, and a joint submission with the other nine Brunel funds was agreed by the Committee at its special meeting on 2 February. A further more detailed response is required by 15th July 2016.
- 1.3. Members of the Investment and Pension Fund Committee received a presentation on the Brunel proposal and were given the opportunity to ask questions and provide input at the training/briefing event held on 27th May, also attended by members from Cornwall, Dorset and Somerset.
- 1.4. The original Government requirement for the July submission was that it should include both a joint submission from the pool and also an individual submission from each LGPS fund. However the Government has changed its requirement such that only the joint submission from the pool is now required. The Committee is therefore asked to approve the joint submission from the Brunel Pension Partnership, which will be forwarded separately.

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2. Key Points

- 2.1 A template for the submission has been put together by the Local Government Association in conjunction with the Department of Communities and Local Government and HM Treasury. The requirement is that the following issues should be addressed through the completion of the template:
- The LGPS Funds participating in the pool.
 - The governance structure of the pool. Feedback from the Secretary of State made it clear that the pool structure needs to be an entity regulated by the Financial Conduct Authority. To fulfil this requirement it is proposed to set up a company in which Devon County Council would be a shareholder. This will need Council approval.
 - The business model, including shared principles, accountability, decision making and reporting.
 - The timetable for establishing the pool and moving assets into the pool.
 - A detailed estimate of current investment costs, transition and implementation costs for the pool, and an estimate of savings over the next 15 years.
 - The ambition of the pool to increase investment in infrastructure. This can only be stated in terms of an ambition, it will remain up to the individual funds to determine their asset allocation.
- 2.2 A joint submission outlining the response to these issues is being prepared in consultation with other Brunel Fund authorities and will be circulated to Members under cover of a separate report as soon as it is available.

3. Conclusion

- 3.1 The Committee will be asked to approve the joint submission of the Brunel Pension Partnership and to recommend the County Council to approve in principle the establishment of a Local Authority Company with the other Brunel founder funds, in which Devon County Council will own 10% of the shares (i.e. each participating LGPS fund will own an equal share).

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers – Nil

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