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Phil Norrey
Chief Executive

To: The Chair and Members of the Devon Pension Board

(See below)

County Hall
Topsham Road
Exeter
Devon
EX2 4QD

Your ref :
Our ref :

Date : 8 January 2020
Please ask for : Gerry Rufolo 01392382299

Email: gerry.rufolo@devon.gov.uk

DEVON PENSION BOARD

Thursday, 16th January, 2020

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

P NORREY
Chief Executive

A G E N D A

PART 1 - OPEN COMMITTEE

1 Apologies

2 Minutes (Pages 1 - 4)

Minutes of the meeting held on 21 October 2019, 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 Membership

County Treasurer to report on a vacancy for an Employer Representative

MATTERS FOR CONSIDERATION OR REVIEW

5 Review of Funding Strategy Statement (Pages 5 - 24)

Report of the County Treasurer (CT/20/09), attached.

6 Investment Strategy Statement (Pages 25 - 54)

Report of the County Treasurer (CT/20/10), attached

7 Pension Fund Risk Register (Pages 55 - 88)

Report of the County Treasurer (CT/20/11), attached.

8 Review of Attendance (Pages 89 - 90)

Report of the County Treasurer (CT/20/12), attached

MATTERS FOR INFORMATION

9 Investment and Pension Fund Committee (Pages 91 - 96)

Minutes of Investment & Pension Fund Committee held on 15 November 2019, attached.

10 Peninsula Pensions Performance (Pages 97 - 102)

Report of the County Treasurer (CT/20/13), attached.

11 TPR Code of Practice 14: Governance and Administration of Public Service Pension Schemes (Pages 103 - 104)

Report of the County Treasurer (CT/20/14), attached

12 Actuarial Valuation 2019 (Pages 105 - 110)

Report of the County Treasurer (CT/20/15), attached

13 Actions and Recommendation Trackers (Pages 111 - 122)

Report of the County Treasurer (CT/20/16), attached

14 Future Work Programme (Pages 123 - 124)

Report of the County Treasurer (CT/20/17), attached

15 Dates of Future Meetings

The Board will meet at 10.30am on the following dates:

Thursday, 16th April 2020
Monday, 13th July 2020
Monday, 19th October 2020
Friday, 22nd January 2021
Monday, 26th April 2021

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

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 C Slade (Chair) and S Randall-Johnson
Fund Employer Representatives
Carl Hearn (Tavistock Town Council) and Vacancy
Fund Member Representatives
Julia Bailey, Andy Bowman, Paul Phillips and Colin Shipp
Independent Member (non-voting)
William Nicholls

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 Gerry Rufolo 01392382299
Agenda and minutes of the Committee are published on the Council's Website and can also be accessed via the Modern.Gov app, available from the usual stores.
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Induction loop system available

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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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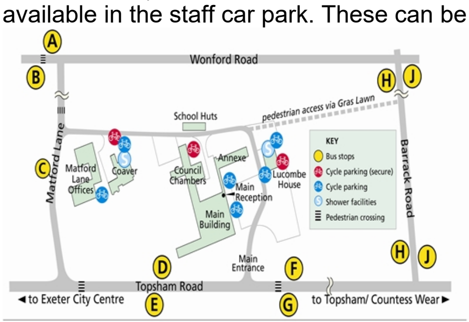

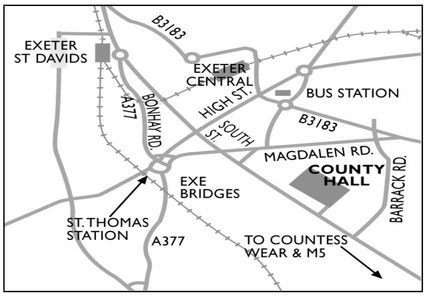

NB A J **Denotes bus stops**

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First Aid

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

DEVON PENSION BOARD

21 October 2019

Present

Councillors C Slade (Chair) and S Randall-Johnson

William Nicholls, Independent Member
Carl Hearn, Fund Employer Representative
Graham Smith, Fund Employer Representative
Julie Bailey, Fund Member Representative
Paul Phillips, Fund Member Representative
Andy Bowman, Fund Member Representative
Colin Shipp, Fund Member Representative

Attending in Accordance with Standing Order 25 (2) :-

Councillor R Bloxham

* **135** **Minutes**

RESOLVED that the Minutes of the meeting held on 15 July 2019 be signed as a correct record.

* **136** **Items Requiring Urgent Attention**

No item was raised as a matter of urgency.

* **137** **Review of the Communications Policy**

The Board considered the Report of the County Treasurer (CT/19/89) on a draft Communications Policy (full draft Policy attached to the Report) which set out the Fund's policies on the provision of information and publicity about the Scheme to Members and their representatives and Employing Authorities. This was last updated and considered by the Investment and Pension Fund Committee at its meeting in November 2018. The draft Policy was now updated to include sections on Complaint Handling and Communications with key Governance Partners as well as streamlined sections on the Investment and Pension Committee and the Pension Board to avoid repetition of the Governance Policy.

Members referred to minor drafting errors (which would be amended) and suggested that reference was made to the Board Members acting as observers at meetings of the Brunel Oversight Board (pages 10/11 of the draft Policy) and a correction to show that this Board met 4 times per year (page 13 of the draft policy).

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

RESOLVED that, subject to the comments above, the updated Communications Policy be endorsed for consideration by the Investment and Pension Fund Committee.

* **138** **Pension Administration Strategy Review**

The Board considered the Report of the County Treasurer (CT/19/90) on a review of the administration strategy (a draft Pension Administration Strategy was attached to the Report) and timetable for implementation following a period of consultation with Employers and implementation in April 2020 following approval by the Investment and Pension Fund Committee.

The Strategy provided a mechanism to formulate a service level agreement between the administering authority and the scheme employers. It covered a number of areas including procedures for liaison and communication and set out the performance standards and expectations for employers and the administering authority. The Strategy also aided governance arrangements, which ensured that scheme employers and Peninsula Pensions worked together to comply with The Pension Regulators Code of Practice.

Members' discussion points/comments with Officers included the suggestion that the Employers should be named in the breaches log (page 5 of the draft Strategy referred), and the wording in regard to the Communication tool should be consistent with the wording in the Communications policy (page 6 of the draft Strategy referred).

The County Treasurer also reported on positive data relating to the level of 'sign up' on to the on-line Members' Self Service (MSS) site and that consideration was being given to an 'Open Day' for employers/members. The Board suggested the targeting and support for individual employers where take-up of the MSS was low, which could also be addressed at any Open Day event.

It was **MOVED** by Councillor Slade, **SECONDED** by Randall-Johnson and

RESOLVED that subject to the above observations, the revised Pension Administration Strategy be endorsed and commended to the Investment and Pension Fund Committee.

* 139 Pension Fund Risk Register

(Councillor Bloxham attended in accordance with Standing Order 25 (2) and spoke to this item referring to actions authorised by the Investment and Pension Fund Committee relating to benchmarking work to be commissioned by the Brunel Partnership in regard to the 'carbon footprint' of the Fund).

The Board considered the Report of the County Treasurer (CT/19/91) on the Risk Register (attached at Appendix 1 to this Report) which was last considered by the Board at its meeting on 15th July 2019. There were no additional risks identified however further actions were planned to provide a greater level of assurance, and these were detailed together with the planned timescales. The level of risk would be reviewed once these additional actions were implemented. A new on-line Register was also being developed which would assist with updates as necessary.

Members discussion points included:

- the need for Officers to reference climate change and associated risks;
- in regard to F16 'outcome of the McCloud and Sergeant cases', inclusion of mitigating controls and other information;
- the need for further mitigation information relating to the three Red risks identified; and
- reference was also made to the implications of changing longevity/death rates.

It was **MOVED** by Councillor Slade, **SECONDED** by Councillor Randall Johnson and

RESOLVED that, subject to the above observations, the Pension Fund Risk Register and the additional actions proposed to mitigate risk be noted.

* 140 Review of Attendance

The Board noted the Report of the County Treasurer (CT/19/92) on a log of attendance at the Board meetings and training events. The training of both Board and the Committee's Members would be reviewed further once new pending guidance was available from the Scheme Advisory Board and which was also expected to include advice on the support provided by the Section 151 Officer.

Members commended the powerful training tool provided by the Pension Regulator.

* 141 Investment and Pension Fund Committee

The Board received the Minutes of the Investment and Pension Fund Committee held on 13 September 2019.

* 142 Peninsula Pensions Performance Report

The Board received the Report of the County Treasurer (CT/19/93) on Peninsula Pensions' internal service standard target and performance against the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, which set out the minimum requirements regarding the disclosure of pension information. This additional reporting element had been introduced in 1st January 2019.

Performance targets were monitored on a monthly basis via a task management system and reporting tool within the pension database and the Report detailed the Team's performance over 2018/19 and recent quarter. The Board noted that the total number of cases outstanding continued to reduce and the general trajectory was encouraging.

Members' points/comments and suggestions in discussions with the Officers included:

- the ongoing extensive training programme across the teams and streamlining of processes;
- if practicable, to report the breakdown of the backlog across low, mid and high priority tasks;
- the encouraging decrease in staff turnover;
- a new data initiative with Employers with monthly signing off of submissions to improve accuracy and productivity; and
- adding more forecast information for consideration by Officers.

* 143 Devon Pension Board: Budget Monitoring 2019/20

The Board noted the Report of the County Treasurer (CT/19/94) on the Board's direct costs and projections for 2019-20.

The budget monitoring statement for month 6 (as at the 30th September 2019) was set out in the Report and the projected outturn remained on target. Members questioned the allocation for travel and members expenses which should be reviewed by Officers in view of the low actual figure at month 6.

* 144 Actions and Recommendation Tracker

The Board noted the Report of the County Treasurer (CT/19/95) on an audit action log which tracked progress and completion of audit actions and recommendations. In addition, officers had also produced a log of actions and requests raised by the Pension Board.

Members discussed the need for Members' (non-councillor members) contact details (email addresses only) on the County Council's website (democracy papers) noting that this information (private non-secure email addresses) was available on the Peninsula webpages.

Officers would investigate the matter further for report.

* 145 External Audit Findings Report 2018/19

The Board received the Report of the County Treasurer (CT/19/96) on the findings arising from the statutory audit of the Devon Pension Fund and the preparation of the Pension Fund's financial statements for the year ending 31st March 2019. A copy of the Audit Findings report for the Devon Pension Fund was attached at Appendix 1. It described the work the external auditors had undertaken to address the risks identified in the audit plan, which was presented to the Audit Committee in February 2019. The Report had been presented to the Audit Committee on 29th July 2019 and to the Investment and Pension Fund Committee on 13th September 2019.

The Independent Audit opinion was that the financial statements gave a true and fair view for the year ended 31 March 2019 and had been prepared properly in accordance with the Code of Practice and legal requirements.

* 146 Future Work Programme

The Board considered the Report of the County Treasurer (CT/19/97) on the proposed work programme which included the standing items and proposed business for the January, April and July meetings.

Members noted that presentations were given at the training events and could also be made at meetings as and when required in terms of the agenda items and topical issues.

It was **MOVED** by Mr Bowman, **SECONDED** by Councillor Randall Johnson and

RESOLVED that the future work programme as outlined in the Report be approved.

* 147 Dates of Future Meetings

Thursday, 16th January 2020; Thursday, 16th April 2020; Monday, 13th July 2020; Monday, 19th October 2020; Friday, 22nd January 2021; and Monday, 26th April 2021

* 148 Exclusion of the Press and Public

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

* 149 Governance Review

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

The Board noted the Report of the County Treasurer (CT/19/98) on the Pensions Regulator's annual governance and administration surveys where they had noted that improvements made across the LGPS nationally had slowed down. Subsequently an engagement exercise with 10 unnamed LGPS funds selected at random had taken place between October 2018 and July 2019 which had included the Devon fund.

The Report detailed their findings with a request to senior management to review and consider their observations concerning relatively minor issues for discussion before the engagement was concluded.

The Board commended the positive findings arising from the thorough independent review and congratulated the senior officers and staff involved.

The Meeting started at 10.30 am and finished at 11.40 am

CT/20/09
Devon Pension Board
16 January 2020

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 Board notes the revised Funding Strategy Statement set out in Appendix 1 to this report, and submits any comments to the Investment and Pension Fund for consideration.

1. Introduction

1.1. The Local Government Pension Scheme (LGPS) Regulations 2013 require all LGPS 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 2019 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 cost of the benefits provided under the Local Government Pension Scheme are met though 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 2019 Actuarial Valuation. This includes updating the assumed inflation rates, the discount rate used, the demographic assumptions and the maximum recovery period.

2.3. The other main changes in the revised FSS are set out below:

- Reference to the McCloud/Sargeant case judgement and its potential impact on future liabilities. This is described under section 7 on valuation assumptions and in section 14 on risks.
- Reference to the Guaranteed Minimum Pension (GMP) provisions, within section 7. This relates to the impact of the Government’s restructuring of the state pension provision and the impact on the LGPS as a result of the previous contracting out arrangements in relation to the second state pension.

- The inclusion in section 8 of the option of employers receiving a discount for up-front payment of their secondary (or deficit) contributions, as agreed at the last meeting of the Committee.
- More details in section 9 on pooling arrangements for smaller employers, including a table setting out the pools currently in place, and the approach to employers with risk sharing arrangements.
- A new section 10 on the arrangements for new employers joining the Fund.
- A new section 12 covering the arrangements for bulk transfers.
- Reference to other potential regulatory changes such as the proposed change to valuation cycles (in sections 14 and 15) and the proposal to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England and Wales to offer membership of the LGPS to their non-teaching staff (section 14).

3. Conclusion

3.1. The Board is asked to review the draft Funding Strategy Statement and consider whether it complies with the regulations, and provides an effective and efficient strategy to meet the Fund's liabilities and achieve full funding. In addition to comments from the Pension Board, the draft FSS will also be sent out for consultation to Fund employers through Pensions Line, the quarterly e-zine for Devon and Somerset LGPS employers.

3.2. Any comments from the Pension Board or Fund employers will be brought to the attention of the Investment and Pension Fund Committee and will be taken into consideration in the final version to be approved by the Committee.

Mary Davis

Electoral Divisions: All
Local Government Act 1972
List of Background Papers - Nil
Contact for Enquiries: Mark Gayler / Martyn Williams
Tel No: (01392) 383621 Room G97/99

Devon County Council Pension Fund Funding Strategy Statement

Draft Revision Presented to the Devon Pension Board
16 January 2020

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) 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 defined in Regulation 62(5) of the Regulations) as possible;
- 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 and invest 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; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme so far as relating to the pension fund. The review also looks at compliance and consistency of the actuarial valuations.

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 in accordance with the LGPS Regulations;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement (ISS);
- 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 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;
- 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 Ministry of Housing, Communities and Local Government (MHCLG).

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 2019. 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.

For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits expected to be accrued after the valuation date (future service). These are evaluated as follows:

- 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 adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given further below.

The approach to the primary rate will depend on specific employer circumstances and in particular, may depend on 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 total contribution rate.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. 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 only.

For closed employers, the actuarial 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.

The approach by employer may vary to reflect an employer's specific circumstance, however, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example councils, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering authority holds details of the open or closed status of each employer.

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 demographic (or statistical) assumptions which are essentially estimates of the likelihood or timing 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, as measured by the Retail Price Index (RPI). This is derived using the 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20 year point on the curve is taken as 20 years is consistent with the average duration of an LGPS Fund. The RPI assumption adopted as at 31 March 2019 was 3.6% 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 inflation exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2019 was CPI plus 1.0% p.a. which includes allowance 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 1.0% p.a. is therefore made to the RPI assumption to derive the CPI assumption. The CPI assumption adopted as at 31 March 2019 was 2.6% 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 2019 valuation was 5.1% 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 does 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. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities.

The Fund's assets are notionally allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received and benefits paid).

Demographic (Statistical) assumptions

The demographic assumptions incorporated into the valuation, such as future mortality rates, are based on Fund-specific experience and 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.

2019 valuation results

As at 31 March 2019, as calculated at the 2019 valuation, the Fund was 91% funded, corresponding to a deficit of £399m.

The primary rate required to cover the employer cost of future benefit accrual was 16.9% of payroll p.a.

McCloud/Sargeant judgements

The McCloud/Sargeant judgements were in relation to two employment tribunal cases which were brought against the government in relation to possible age and gender discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. These judgements were not directly in relation to the LGPS, however, do have implications for the LGPS.

In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounted to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

Further details of this can be found below in the Regulatory risks section.

At the time of drafting this FSS, it is still unclear how the McCloud/Sargeant judgements will affect current and future LGPS benefits. As part of the Fund's 2019 valuation, in order to mitigate the risk of member benefits being uplifted and becoming more expensive, the potential impact of McCloud was covered by the prudence allowance included in the discount rate assumption. As the remedy is still to be agreed the cost cannot be calculated with any certainty, however, the Fund Actuary expects it is likely to be less than the impact of reducing the discount rate assumption by 0.05%.

Guaranteed Minimum Pension (GMP) indexation and equalisation

As part of the restructuring of the state pension provision, the government needs to consider how public service pension payments should be increased in future for members who accrued a Guaranteed Minimum Pension (GMP) from their public service pension scheme and expect to reach State Pension Age (SPA) post-December 2018. In addition, a resulting potential inequality in the payment of public service pensions between men and women needs to be addressed. Information on the current method of indexation and equalisation of public service pension schemes can be found at: https://www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes/consultation-on-indexation-and-equalisation-of-gmp-in-public-service-pension-schemes.

On 22 January 2018, the government published the outcome to its Indexation and equalisation of GMP in public service pension schemes consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching SPA before 6 April 2021. HMT published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and the Ministerial Direction can be found at: https://www.gov.uk/government/publications/indexation-of-public-service-pensions.

The 2019 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, it is assumed that the Fund will be required to pay the entire inflationary increase.

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. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.

Where the actuarial valuation for an employer discloses a significant surplus or deficit then the level of required employer contribution will include an adjustment to either amortise the surplus or fund the deficit over a period of years. The adjustment may be set either as a percentage of payroll or as a fixed monetary amount.

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 and gain agreement from the Administering Authority before making one-off payments. The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2019 valuation report.

The employers must pay contributions in line with the Rates and Adjustment Certificate but they may be able to alter the timing of contributions payable and/or pay in additional contributions with agreement from the Administering Authority. The Administering Authority has agreed to allow a discount to employers who pay their deficit contributions up front, as long as the payment is received by the end of April in a particular Scheme year (i.e. the discount for the 2020/21 contributions would only apply if the lump sum payment was made by 30 April 2020). The discounts are 1.5% for an annual payment in advance or 4.5% for paying three years of contributions in advance. Employers should discuss with and gain agreement from the Administering Authority before making up front payments at the discounted rate.

The maximum recovery period across the Fund at the 2019 valuation was 21 years. This represents a reduction of three years from the maximum 24 year recovery period set at the 2016 valuation. The ultimate aim is to reach 100% funding, and a reduction of three years in the recovery period since the 2016 valuation demonstrates that the Fund is progressing towards that goal. Please note that recovery periods varied between individual employers.

Where the valuation for an employer discloses a surplus then the level of required employer contribution may include an adjustment to amortise the surplus over a period to be agreed with the Administering Authority and the Fund Actuary.

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.

Forming/disbanding a funding pool

Where the Fund identifies a group of employers with similar characteristics and potential merits for pooling, it is possible to form a pool for these employers. Advice will be sought from the Fund Actuary to consider the appropriateness and practicalities of forming the funding pool.

Conversely, the Fund may consider it no longer appropriate to pool a group of employers. This could be due to divergence of previously similar characteristics or an employer becoming a dominant party in the pool (such that the results of the pool are largely driven by that dominant employer). Where this scenario arises, advice will be sought from the Fund Actuary.

Funding pools will be monitored on a regular basis, at least at each actuarial valuation, in order to ensure the pooling arrangement remains appropriate.

The funding pools adopted for the Fund at the 2019 valuation are summarised in the table below:

Pool	Type of pooling	Notes
Police	Past and future service pooling	Devon and Cornwall Police and the Police and Crime Commissioner pay the same primary contribution rate (Devon and Cornwall Police pays an additional secondary rate) and both have the same funding level
North Devon	Past and future service pooling	North Devon District Council and North Devon Joint Crematorium pay the same same total contribution rate and have the same funding level
Small scheduled bodies	Past and future service pooling	All town and parish councils in the pool pay the same total contribution rate and have the same funding level
Academies	Past and future service pooling	All academies in the pool pay the same total contribution rate and have the same funding level
ISS contracts	Past and future service pooling	All employers in the pool pay the same total contribution rate and have the same funding level
Compass contracts	Past and future service pooling	All employers in the pool pay the same total contribution rate and have the same funding level

Risk-sharing

There are employers that participate in the Fund with a risk-sharing arrangement in place with another employer in the Fund.

For example, there are employers participating in the Fund with pass-through provisions: under this arrangement the pass-through employer does not take on the risk of underfunding as this risk remains with the letting authority or relevant guaranteeing employer. When the pass-through employer ceases participation in the Fund, it is not responsible for making any exit payment, nor receiving any exit credit, as any deficit or surplus ultimately falls to the letting authority or relevant guaranteeing employer.

At the 2019 valuation, risk-sharing arrangements were allowed for by allocating any deficit/liabilities covered by the risk-sharing arrangement to the relevant responsible employer.

10. New employers joining the Fund

When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

Admission bodies

New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

Funding at start of contract

Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

Contribution rate

The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

Security

To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

New academies

When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

Funding at start

On conversion to academy status, the new academy will become part of the Academies funding pool and will be allocated assets based on the funding level of the pool at the conversion date.

Contribution rate

The contribution rate payable when a new academy joins the Fund will be in line with the contribution rate certified for the Academies funding pool at the 2019 valuation.

Where an academy joins an existing multi-academy trust in the Fund, additional contributions will be certified for the multi-academy trust in respect of the academy.

11. 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.

The Local Government Pension Scheme (LGPS) (Amendment) Regulations 2018 were introduced in May 2018 which allow administering authorities to make an exit credit payment to exiting employers. This will be reviewed on a case by case basis before any payment is made. Considerations will be based on any previous agreements made and discussions between the Administering Authority, the Exiting Employer and the guaranteeing employer (if relevant).

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.

Regulatory factors

At the date of drafting this FSS, the government is currently consulting on potential changes to the Regulations, some of which may affect the regulations surrounding an employer's exit from the Fund. This is set out in the Local government pension scheme: changes to the local valuation cycle and the management of employer risk consultation document.

Further details of this can be found in the Regulatory risks section below.

12. Bulk transfers

Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

13. Links with the Investment Strategy Statement (ISS)

The main link between the Funding Strategy Statement (FSS) and the ISS 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.

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.

14. 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 Brunel Pension Partnership Ltd. and other 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 p.a.

However, the Investment and Pension Fund Committee regularly monitors the investment returns achieved by Brunel and the other fund managers and receives advice from the independent advisers and officers on investment strategy. The Fund's strategic asset allocation is reviewed on a regular basis.

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 increase the liabilities by approximately 4%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review. For the past two funding valuations, the Fund has commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

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.

Maturity risk

The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meets its benefit payments. The Fund regularly monitors its cashflow forecasts, and will at least once every three years commission the Fund Actuary to provide a forward looking cashflow forecast for the next 20-25 years to inform its investment strategy.

The government has published a consultation (Local government pension scheme: changes to the local valuation cycle and management of employer risk) which may affect the Fund's exposure to maturity risk. More information on this can be found in the Regulatory risks section below.

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.

There are a number of general risks to the Fund and the LGPS, including:

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.
- The potential effects of GMP equalisation between males and females, if implemented, are not yet known.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.

At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgements, the cost cap mechanism and the timing of future funding valuations consultation. These are discussed in the sections below.

McCloud/Sargeant judgements and cost cap

The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the Scheme Advisory Board (SAB) in place and HMT allowed SAB to put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost cap. These benefit changes were due to be consulted on with all stakeholders and implemented from 1 April 2019.

However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

At the time of drafting this FSS, it is not yet known what the effect on the current and future LGPS benefits will be.

Consultation: Local government pension scheme: changes to the local valuation cycle and management of employer risk

On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

The consultation is currently ongoing: the consultation was closed to responses on 31 July 2019 and an outcome is now awaited. This FSS will be revisited once the outcome is known and reviewed where appropriate.

Timing of future actuarial valuations

LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. This results of the national Scheme valuation are used to test the cost control cap mechanism and HMT believed that all public sector scheme should have the cost cap test happen at the same time with the next quadrennial valuation in 2020 and then 2024.

Managing employer exits from the Fund

The consultation covers:

- Proposals for flexibility on exit payments. This includes:

  - Formally introducing into the Regulations the ability for the administering authority to allow an exiting employer to spread the required exit payment over a fixed period.
  - Allowing employers with no active employers to defer payment of an exit payment in return for an ongoing commitment to meeting their existing liabilities (deferred employer status).
- Proposals for further policy changes to exit credits. The proposed change would require the exiting employer's exposure to risk to be taken into account in calculating any exit credit due (for example a pass through employer who is not responsible for any pensions risk would likely not be due an exit credit if the amendments are made to the Regulations).

Changes to employers required to offer LGPS membership

At the time of drafting this FSS, under the current Regulations further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. Given the significance of these types of employers in the Fund, this could impact on the level of maturity of the Fund and the cashflow profile. For example, increased risk of contribution income being insufficient to meet benefit outgo, if not in the short term then in the long term as the payroll in respect of these types of employers decreases with fewer and fewer active members participating in the Fund.

This also brings an increased risk to the Fund in relation to these employers becoming exiting employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

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, as part of each actuarial valuation 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.

15. Monitoring and review

This FSS is reviewed formally, in consultation with the key parties, at least as part of each actuarial valuation process.

The most recent valuation was carried out as at 31 March 2019, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2020 to 31 March 2023.

The timing of the next funding valuation is due to be confirmed as part of the government's Local government pension scheme: changes to the local valuation cycle and management of employer risk consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2022 but the period for which contributions will be certified remains unconfirmed.

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

CT/20/10
Devon Pension Board
16 January 2020

INVESTMENT STRATEGY STATEMENT

Report of the County Treasurer

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

Recommendation: **That the Board endorses the revised Investment Strategy Statement set out in Appendix 1 to this report, and submits any comments to the Investment and Pension Fund for consideration.**

1. Introduction

1.1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require each LGPS administering authority to have in place an Investment Strategy Statement. The guidance requires that the Investment Strategy Statement should be revised at least every three years, and when any significant changes are made to the Fund's investment strategy.

1.2. The Investment Strategy Statement required by the regulations must include:-

(a) A requirement to invest money in a wide variety of investments;

(b) The authority's assessment of the suitability of particular investments and types of investments;

(c) The authority's approach to risk, including the ways in which risks are to be measured and managed;

(d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;

(e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

(f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

1.3. Following the review of investment strategy undertaken by Mercer in early 2019, a revised Investment Strategy Statement (ISS) was put together to reflect the outcome of the review, and was approved by the Investment and Pension Fund Committee in February 2019. It is not, therefore proposed to undertake a further major review in 2020. However, there are updates to the asset allocation table in section 2 that reflect progress in the phased implementation of the Mercer review recommendations. It is also proposed to update the social, environmental and corporate governance (ESG) policy set out in section 4, plus other minor amendments. These changes are set out in more detail in the following sections of this report. A revised draft Investment Strategy Statement is attached as Appendix 1.

2. Strategic Asset Allocation

2.1. The latest actuarial valuation of the Fund, as at 31 March 2019, has been undertaken over the last few months. The outcome of an actuarial valuation is often seen as a trigger for a review of investment strategy. This is because an improvement in funding level could be the trigger for the opportunity to reduce risk, or the assessment of liabilities could provide an updated view of cashflow requirements from investment income which may require a change in strategy.

2.2. However, the Mercer review conducted last year, already acknowledged an improved funding level of around 92%, based on investment returns and a roll forward of the previous valuation. Therefore, the outcome of the valuation, and its conclusion of a 91% funding level, does not suggest a radical change of strategy. The discount rate applied by Barnett Waddingham in assessing the Fund's liabilities was based on the existing medium/long term investment strategy set out in the Mercer review, so the existing strategy is therefore consistent with the valuation outcome.

2.3. Mercer set out a number of changes that were proposed to be phased in over a period of time, in part to tie in with the launch of new portfolios by the Brunel Pension Partnership and the transition of assets to them. It is therefore proposed to update the target 2019/20 allocations for 2020/21, and also the medium term target allocations. To some extent this reflects decisions already taken by the Investment and Pension Fund Committee, but will require further consideration at their meeting on 28th February.

2.4. The changes to the target allocations within equities are as follows:

- Transfer of the specialist funds to the Brunel global small cap fund when available. This results in a 5% target allocation for global small cap in 2020/21 and a corresponding decrease in global active from 10% to 5%, as the specialist funds have been part of this allocation.
- Addition of a 3% target allocation to sustainable equities in 2020/21, with a medium term target of 5%. An allocation to sustainable equities was proposed by Mercer as part of their review, with an initial allocation to be made when Brunel launched their sustainable equities portfolio, as part of a phased investment. This would be funded by reducing the passive equities allocation.
- Increased target allocation to low volatility equities of 7% for 2020/21, with a medium term target of 9%. This represents the next stages of the phased investment proposed by Mercer. This would also be funded by reducing the passive equities allocation.
- This results in a reduction in the passive allocation to 33% in 2020/21, with a medium term target of 29%. Mercer recommended that the fund should aim for a 50/50 split of its equity allocation between active and passive. The revised medium term target allocations would achieve that balance.

2.5. There are no proposed changes within the Fixed Interest allocations shown in the table. The changes within the Alternatives/Other section are as follows:

- It is proposed to increase the allocations to the private markets allocations. This reflects the new commitments to infrastructure, private debt and private equity agreed at the last meeting of the Investment and Pension Fund Committee. The private markets investments have a cycle, whereby commitments are made and then drawn down over a period that may stretch for several months or years. Therefore, it is difficult to know how quickly the commitments made will result in increased investment. The target allocation for infrastructure is therefore proposed to be a range from 5-8% rather than an exact percentage. Given that the increased investment in private markets is to come from the diversified growth fund (DGF) allocation, this is also shown as a range.

- The property allocation has been split between UK property and International Property. This follows the transition of management of the property mandate to Brunel, who have set up two separate portfolios. The split reflects the provision in the original investment management agreement with Aviva/La Salle that up to 20% of the property mandate could be invested outside the UK.

2.6. The investment strategy will be subject to continuous review by the Investment and Pension Fund Committee, the Fund's officers and the Independent Investment Advisor, with the option of further review by investment consultants if appropriate. While the Mercer review set out a long term strategy to be achieved over a 5 year period, the recommendations made by Mercer will be kept under review, particularly where economic circumstances suggest a different approach.

3. Social, Environmental and Corporate Governance (ESG) Policy

3.1. The approach to ESG issues is set out in section 5 of the ISS. Following recent Committee consideration of climate change issues, this section has been updated. The previous policy has been put under a heading of "overarching principles", and some minor changes have been made to the text. A separate section has then been added focusing on climate change. This is followed by a paragraph on accountability, which refers to the Pension Board's role in reviewing the ISS, and also the provision made for consulting the wider membership of the Fund through the Annual Consultative Meeting.

3.2. Brunel are due to launch a climate change policy within the next few weeks, and the Investment and Pension Fund Committee will also need to consider that policy at their meeting in February in conjunction with the Devon Fund's ISS.

3.3. It is anticipated that further guidance will be received during 2020 requiring LGPS funds to set out their investment policies in relation to climate change. This amendment therefore anticipates that requirement. Once the guidance is issued then this section of the ISS will be reviewed against the guidance to assess whether further changes need to be made.

3.4. The policy with respect to governance issues is further expanded upon in section 6 of the ISS, dealing with stewardship, voting and engagement. These were thoroughly reviewed last year, with the result that the Fund was accredited as a level 1 signatory to the UK Stewardship Code. The Financial Reporting Council issued a revised and strengthened version of the UK Stewardship Code during Autumn 2019. This will need to be reviewed and further changes to the Devon Fund policy will be required to maintain our level 1 status. A further report will be brought to the Pension Board and the Investment and Pension Fund Committee later in the year.

4. Other Changes

4.1. Annex 2 has been amended to remove details of the managers who have had their contracts terminated following the transition of assets to Brunel. The link to Aberdeen Standard Investments' voting and stewardship policies has also been removed.

5. Conclusion

5.1. The Pension Board is asked to endorse the revised Investment Strategy Statement set out in Appendix 1 to this report, and consider whether there are any issues that they wish to raise for the Investment and Pension Fund to consider.

Agenda Item 6

Mary Davis

Electoral Divisions: All
<u>Local Government Act 1972</u>
<u>List of Background Papers - Nil</u>
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Devon County Council

Devon County Council Pension Fund Investment Strategy Statement

Draft Revision presented to the Devon Pension Board
16th January 2020

1. Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State. The administering authority must invest, in accordance with its investment strategy, any Fund money that is not needed immediately to make payments from the Fund.

The regulations provide a new prudential framework, within which administering authorities are responsible for setting their policy on asset allocation, risk and diversity. The Investment Strategy Statement will therefore be an important governance tool for the Devon Fund as well as providing transparency in relation to how Fund investments are managed.

The Devon Pension Fund's primary purpose is to provide pension benefits for its members. The Fund's investments will be managed to achieve a return that will ensure the solvency of the Fund and provide for members' benefits in a way that achieves long term cost efficiency and effectively manages risk. The Investment Strategy Statement therefore sets out a strategy that is designed to achieve an investment return consistent with the objectives and assumptions set out in the Fund's Funding Strategy Statement.

We are long term investors: we implement our strategies through investments in productive assets that contribute to economic activity, such as equities, bonds and real assets. We diversify our investments between a variety of different types of assets in order to manage risk.

The Investment Strategy Statement will set out in more detail:

(a) The Devon Fund's assessment of the suitability of particular types of investments, and the balance between asset classes.
(b) The Devon Fund's approach to risk and how risks will be measured and managed, consistent with achieving the required investment return.
(c) The Devon Fund's approach to pooling and its relationship with the Brunel Pension Partnership.
(d) The Devon Fund's policy on how social, environmental or corporate governance considerations are taken into account in its investment strategy, including its stewardship responsibilities as a shareholder and asset owner.

Under the previous regulations the Fund was required to comment on how it complied with the Myners Principles. These were developed following a review of institutional investment by Lord Myners in 2000, and were updated following a review by the National Association of Pension Funds in 2008. While a statement on compliance with the Myners Principles is no longer required by regulation, the Devon Pension Fund considers the Myners Principles to be a standard for Pension Fund investment management. A statement on compliance is included at Annex 1.

This statement will be reviewed by the Investment and Pension Fund Committee at least triennially, or more frequently should any significant change occur.

2. Investment strategy and the process for ensuring suitability of investments

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death before or after retirement for their dependants, in accordance with LGPS Regulations.

The Funding Strategy and Investment Strategy are intrinsically linked and together aim to deliver stable contribution rates for employers and a reduced reliance on employer contributions over time. The Funding Strategy Statement can be found on the Fund's website at:

https://www.peninsulapensions.org.uk/pension-fund-investments/devon-county-council-investments/devon-fund-key-documents/

The investment objective is therefore to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers, and minimising the long term cost of the Fund. Having a thorough understanding of the risks facing the Fund is crucial and these are covered later in this statement

The Fund has the following investment beliefs which help to inform the investment strategy derived from the decision making process.

- Funding, investment strategy and contribution rates are linked.
- The strategic asset allocation is the key factor in determining the risk and return profile of the Fund's investments.
- Investing over the long term provides opportunities to improve returns.
- Diversification across asset classes can help to mitigate against adverse market conditions and assist the Fund to produce a smoother return profile due to returns coming from a range of different sources.
- Managing risk is a multi-dimensional and complex task but the overriding principle is to avoid taking more risk than is necessary to achieve the Fund's objectives.
- Environmental, Social and Governance are important factors for the sustainability of investment returns over the long term. More detail on this is provided in Section 5.
- Value for money from investments is important, not just absolute costs. Asset pooling is expected to help reduce costs over the long-term, whilst providing more choice of investments, and therefore be additive to Fund returns.
- Active management can add value to returns, albeit with higher short-term volatility.

The Fund's current investment strategy, along with an overview of the role each asset plays is set out in the table below:

Asset Class	Target 2020/2021	Medium-Term Target	Role(s) within the Strategy
Equities	**58%**	**58%**	
Global Passive	33%	29%	Generate returns through capital gains and income through exposure to the shares of domestic and overseas companies; indirect links to inflation. The Fund invests in a range of actively and passively managed equity strategies to gain diversified exposure to global markets, using active managers and non-market cap indexation where appropriate and in the expectation that these will add value. Within this allocation are holdings in a number of specialist equity funds to gain exposure to a diverse range of return drivers (including small cap equities, sustainable equities and focussed, activism funds).
Global Active	5%	5%	
Emerging Markets Active	5%	5%	
Low Volatility	7%	9%	
Global Small Cap	5%	5%	
Sustainable	3%	5%	
Fixed Interest	**13%**	**13%**	
Global Bonds	6%	-	The Fund invests in a number of global bond investments, to provide diversified exposure to sovereign and corporate bond markets. These are expected to generate less volatile returns than equities, but also to generate returns above those available on domestic sovereign bonds ("gilts"). Within these holdings, the Fund uses active management, and permits its fund managers a degree of flexibility to switch between asset classes and credit qualities to enhance expected returns.
Sterling Bonds including corporate and inflation-linked	-	6%	
Multi-Sector Credit	6%	6%	
Cash	1%	1%	

Asset Class	Target 2020/2021	Medium-Term Target	Role(s) within the Strategy
Alternatives/Other	**29%**	**29%**	
DGF	7-10%	3%	Deliver returns in excess of inflation, with a reasonably low correlation to traditional equity markets and providing a degree of downside protection in periods of equity market stress; opportunity for dynamic asset allocation.
UK Property	8%	8%	Generate inflation linked returns through income and capital appreciation via investment in global property markets, whilst providing some diversification away from equities and bonds.
International Property	2%	2%	
Infrastructure	5-8%	10%	The Fund invests in a diversified portfolio of infrastructure investments, to gain exposure to attractive returns and investments with a degree of inflation linkage in the income stream generated. In the medium to long term, the Fund intends to increase exposure to private markets (equity and credit) to benefit from diversified sources of return (including illiquidity and complexity premia).
Private Debt	3%	3%	
Private Equity	1%	3%	
TOTAL	**100%**	**100%**	

Full details of the current investment managers and their respective performance benchmarks are included in Annex 2.

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

The Investment and Pension Fund Committee is responsible for the Fund's asset allocation which is determined via strategy reviews undertaken as part of the valuation process. The last review of the investment strategy was in 2018/2019 and was both qualitative and quantitative in nature, and was undertaken by the Committee in conjunction with officers and independent advisers. The review considered:

- The required level of return that will mean the Fund can meet its future benefit obligations as they fall due.
- An analysis of the order of magnitude of the various risks facing the Fund, including consideration of different economic and market scenarios.
- The requirement to meet future benefit cash flows.
- The desire for diversification across asset class, region, sector, and type of security.

Following the latest investment strategy review, the Committee agreed to a number of revisions to the long term investment strategy. These changes include increasing diversification within the equity and fixed income holdings, and also implementing an allocation to private market investments in order to generate returns in excess of inflation, through exposure to companies that are not publicly traded and which therefore provide an “illiquidity premium” whilst providing some diversification away from listed equities and bonds.

The review set out a long-term plan, with a phased implementation over a 3-5 year period, with interim steps. The phased approach:

- Is designed to ensure that significant changes are not made at the wrong time in the economic cycle, with negative implications for investment returns.
- Is linked with the transition timetable to Brunel and the availability of Brunel portfolios.
- Recognises the commitment and drawdown cycle within private markets that means that commitments made are only drawn down over an elongated timeframe.

Details of allocations for 2020/21 are shown in the table above, together with the agreed medium-term target allocations, as per the long-term plan. It should be noted that progress in reaching the targets for infrastructure, private debt and private equity, and the consequent decrease in the allocation to DGFs will be dependent upon the progress of the Brunel Pension Partnership in identifying suitable commitments, and on the pace of the subsequent draw down of commitments. It is difficult to forecast how quickly this will be achieved. Therefore the 2020/21 allocations shown to infrastructure and DGFs are shown as a range.

The long-term plan will be regularly reviewed by the Committee in conjunction with officers and the Fund’s Independent Investment Advisor

In accordance with the requirements of the LGPS (Management and Investment of Funds) Regulations 2016, the Investment Strategy will not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with the Authority within the meaning given by applicable legislation.

3. Risk measurement and management

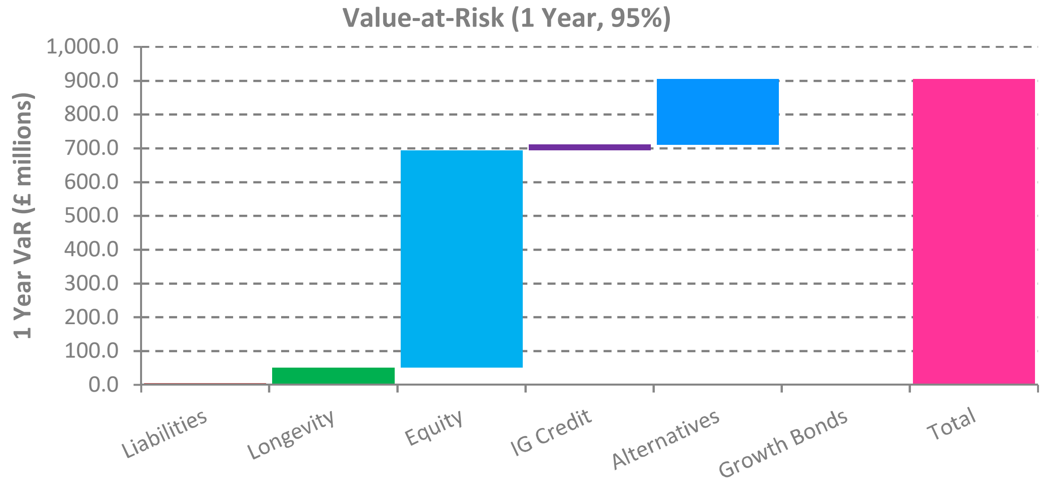
Successful investment involves taking considered risks, acknowledging that the returns achieved will to a large extent reflect the risks taken. There are short-term risks of loss arising from default by brokers, banks or custodians but the Fund is careful only to deal with reputable counter-parties to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

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

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

In addition to targeting an acceptable overall level of investment risk, the Committee seeks to spread risks across a range of different sources, believing that diversification limits the impact of any single risk. The Committee aims to take on those risks for which a reward, in the form of excess returns, is expected over time.

The graph below provides an indication of the main sources of investment risk (estimated by Mercer) to the funding position, as measured using a 1 year Value at Risk measure at the 5% level.



Note: “IG Credit” risk represents investment grade credit risks within Fund’s fixed income mandates.

The key investment risks that the Fund is exposed to are:

- The risk that the Fund’s growth assets in particular do not generate the returns expected as part of the funding plan in absolute terms.
- The risk that the Fund’s assets do not generate the returns above inflation assumed in the funding plan, i.e. that pay and price inflation are significantly more than anticipated and assets do not keep up.
- That there are insufficient funds to meet liabilities as they fall due.
- That active managers underperform their performance objectives.

At Fund level, these risks are managed through:

- Diversification of investments by individual holding, asset class and by investment managers.
- Explicit mandates governing the activity of investment managers.
- The appointment of an Independent Investment Advisor.

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

The Fund is also exposed to operational risk; this is mitigated through:

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

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

The Fund also recognises the following (predominantly non-investment) risks:

Longevity risk: this is the risk that the members of the Fund live longer than expected under the Actuarial Valuation assumptions. This risk is captured within the Actuarial Valuation report which is conducted at least triennially and monitored by the Committee, but any increase in longevity will only be realised over the long term.

Sponsor Covenant risk: the financial capacity and willingness of the sponsoring employers to support the Fund is a key consideration of the Committee and is reviewed on a regular basis.

Liquidity risk: the Committee recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long term investment horizon, the Committee believes that a degree of liquidity risk is acceptable, given the potential return. The majority of the Fund's assets are realisable at short notice.

Regulatory and political risk: across all of the Fund's investments, there is the potential for adverse regulatory or political change. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes. The Committee will attempt to invest in a manner which seeks to minimise the impact of any such regulatory or political change should such a change occur.

Exchange rate risk: this risk arises from unhedged investment overseas. The Fund has a currency hedging policy in place, hedging between 50% and 100% of its exposure to currency risk on passive equity holdings. For other asset classes, currency hedging is reviewed on a case-by-case basis.

Cashflow risk: the Fund is cashflow negative, in that income and disinvestments are required from the Fund's investments to meet benefit outgoes. Over time, it is expected that the size of pensioner cashflows will increase as the Fund matures and greater consideration will need to be given to raising capital to meet outgoings. The Committee recognises that this can present additional risks, particularly if there is a requirement to sell assets at inopportune times, and so looks to mitigate this by taking income from investments where possible.

Governance: members of the Committee and Local Pension Board participate in regular training delivered through a formal programme. Both the Committee and Local Pension Board are aware that poor governance and in particular high turnover of members may prove detrimental to the investment strategy, fund administration, liability management and corporate governance and seeks to minimise turnover where possible.

4. Approach to asset pooling

The Devon Pension Fund participates with nine other administering authorities to pool investment assets through the Brunel Pension Partnership Ltd. At the centre of the partnership is Brunel Pension Partnership Limited (Brunel), a company established specifically to manage the assets within the pool.

The Devon Pension Fund, through the Investment and Pension Fund Committee, retains the responsibility for setting the detailed Strategic Asset Allocation for the Fund and allocating investment assets to the portfolios provided by Brunel.

The Brunel Pension Partnership Ltd, established in July 2017, is a company wholly owned by the Administering Authorities (in equal shares) that participate in the pool. The company is authorised by the Financial Conduct Authority (FCA). It is responsible for implementing the detailed Strategic Asset Allocations of the participating funds by investing Funds' assets within defined outcome focused investment portfolios. In particular, it researches and selects the external managers or pooled funds needed to meet the investment objective of each portfolio. Brunel will create collective investment vehicles for quoted assets such as equities and bonds; for private market investments it will create and manage an investment programme with a defined investment cycle for each asset class.

As a client of Brunel, the Devon fund has the right to expect certain standards and quality of service. The Service Agreement between Brunel and its clients sets out in detail the duties and responsibilities of Brunel, and the rights of the Devon Fund as a client. It includes a duty of care of Brunel to act in its clients' interests.

The governance arrangements for the pool have been established. The Brunel Oversight Board is comprised of representatives from each of the Administering Authorities and two fund member observers, with an agreed constitution and terms of reference. Acting for the Administering Authorities, it has ultimate responsibility for ensuring that Brunel delivers the services required to achieve investment pooling and deliver each Fund's investment strategy. Therefore, it has a monitoring and oversight function. Subject to its terms of reference it will consider relevant matters on behalf of the Administering Authorities, but does not have delegated powers to take decisions requiring shareholder approval. These will be remitted back to each Administering Authority individually. As shareholders of Brunel, the administering authorities' shareholder rights are set out in the Shareholders Agreement and other constitutional documents.

The Oversight Board will be supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Administering Authorities but will also draw on Administering Authorities finance and legal officers from time to time. It has a primary role in reviewing the implementation of pooling by Brunel, including the plan for transitioning assets to the portfolios. It provides a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It is responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function. Once the assets are managed within the Brunel portfolios, the Client Group will monitor Brunel's performance and service delivery. The Devon Investment and Pension Fund Committee will receive regular reports covering portfolio and Fund performance and Brunel's service delivery.

The proposed arrangements for asset pooling for the Brunel pool were formulated to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance. Regular reports have been made to Government on progress, and the Minister for Local Government has confirmed on a number of occasions that the pool should proceed as set out in the proposals made.

Devon County Council approved the full business case for the Brunel Pension Partnership in 2017. The process of transitioning the Fund’s assets to the portfolios managed by Brunel started in April 2018 (the passive equity assets transitioned in July 2018) and is expected to be completed (except for legacy private market assets) during 2021. A transition timetable agreed between the clients and Brunel is regularly monitored by the Client Group. Until such time as transitions take place, the Devon Pension Fund will continue to maintain the relationship with its current investment managers and oversee their investment performance, working in partnership with Brunel. where appropriate.

Following the completion of the transition plan, it is intended that all of the Devon Pension Fund’s assets will be invested through Brunel portfolios. However, the Fund has certain commitments to long term illiquid investment funds which will take longer to transition across to the Brunel portfolios. These assets will be managed in partnership with Brunel until such time as they are liquidated, and capital is returned.

5. Social, environmental and corporate governance policy

Overarching Principles

The Devon Pension Fund has a fiduciary duty to seek to obtain the best financial return that it can for its members. This is a fundamental principle, and all other considerations are secondary. However, the Devon Pension Fund is also mindful of its responsibilities as a long term shareholder, and the Investment and Pension Fund Committee has considered the extent to which it wishes to take into account social, environmental or ethical issues in its investment policies. The Devon Fund's policy is to support engagement with companies to effect change, rather than disinvestment.

In the light of that overarching approach the following principles have been adopted:-

(a) The Devon Fund seeks to be a long term responsible investor. The Fund believes that in the long term it will generate better financial returns by investing in companies and assets that demonstrate they contribute to the long term sustainable success of the global economy and society.

(b) Social, environmental and ethical concerns will not inhibit the delivery of the Devon Fund's investment strategy and will not impose any restrictions on the type, nature of companies/assets held within the portfolios that the Devon Fund invests in. However, the identification and management of ESG risks that may be financially material is consistent with our fiduciary duty to members.

(c) The Devon Pension Fund will seek to engage (through the Brunel Pension Partnership, its asset managers or other resources) with companies to ensure they can deliver sustainable financial returns over the long-term as part of comprehensive risk analysis. In the example of fossil fuels, this will mean engaging with oil companies on how they are assessing and diversifying their business strategy and capital expenditure plans to adapt to changes in cost base and regulation that will ensure the continued delivery of shareholder returns in the medium to long term. Engagement with companies is more likely to be successful if the Fund continues to be a shareholder.

(d) Where social, environmental and ethical issues arise on the agendas of company Annual General Meetings, the Brunel Pension Partnership, and its external investment managers are expected to vote in alignment with the Fund's interest on investment grounds. Some issues may be incorporated into generally accepted Corporate Governance Best Practice (e.g. the inclusion of an Environmental Statement in the Annual Report and Accounts). In this case the Council will instruct its external investment managers to vote against the adoption of the Annual Report, if no such statement is included.

(e) The Devon Pension Fund recognises the risks associated with social, environmental and governance (ESG) issues, and the potential impact on the financial returns if those risks are not managed effectively. The Fund therefore expects its external fund managers to monitor and manage the associated risks. The Devon Fund will work with its partners in the Brunel pool and the Brunel Pension Partnership Limited company to ensure that robust systems are in place for monitoring ESG risk, both at a portfolio and a total fund level, and that the associated risks are effectively managed.

Climate Change

The Devon Pension Fund believes climate change poses significant risks to global financial stability and could thereby create climate-related financial risks to the Fund's investments, unless action is taken to mitigate these risks.

(a) We recognise that climate change will have impacts across our portfolios. This means we look to the Brunel Pension Partnership and all our asset managers to identify and manage climate-related financial risks as part of day-to-day fund management. The way those risks and opportunities present themselves varies, particularly in evaluating what a portfolio aligned to the Paris Agreement looks like.

(b) The Devon Fund does not consider a top-down approach to disinvestment to be an appropriate strategy. By integrating climate change into risk management process, using carbon footprinting, assessing fossil fuel exposure and challenging managers on physical risks, we seek to reduce unrewarded climate and carbon risk. Where investee companies fail to engage with climate change issues, selective disinvestment may be appropriate based on investment risk.

(c) We are committed to working with Brunel to decarbonise our investments in listed portfolios. Decarbonisation is achieved by being selective in the allocation of capital, particularly to carbon intense companies. This process is informed by using a variety of tools in combination with industry and corporate engagement. For example, engagement with electric utility companies about their future strategy on energy sources informs the investment decisions relating to those companies and indeed the relative attractiveness of the sector over time.

(d) We are committed to being transparent about the carbon intensity of our investments through the publication of the Fund's carbon footprint on an annual basis.

(e) Within the Fund's infrastructure investments, we would expect a significant proportion to be invested in renewable energy assets.

Accountability

The Pension Board regularly reviews all the Fund's statutory statements. Their views will be taken into account in setting the Devon Fund's environmental, social and governance policies. The Fund also holds an annual consultative meeting with fund members which provides the opportunity for discussion of investment strategy and consideration of non-financial factors.

6. Policy of the exercise of rights (including voting rights) attaching to investments

The Devon Pension Fund is fully supportive of the UK Stewardship Code, published in July 2010, and the Committee accepts the rights and responsibilities that attach to being a shareholder and will play an active role in overseeing the management of the companies in which it invests. On the basis of our stewardship activities, the Financial Reporting Council has assessed the Devon Pension Fund as complying with the requirements to be designated as tier 1 signatories to the code. As part of the Brunel Pension Partnership (BPP) we are actively exploring opportunities to enhance our stewardship activities further. More information is on the BPP website:

https://www.brunelpensionpartnership.org/

The following section sets out the Fund's policy in relation to the seven principles of the UK Stewardship Code, including its policy on the exercise of rights, including voting rights, attached to investments:

(a) Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Devon Pension Fund aims to be a supportive, long term shareholder. It believes that by discharging stewardship responsibilities it can enhance and protect the value of the Fund in the best interests of pension fund members and other stakeholders.

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

The Devon Fund appoints external managers to manage its investments. In the future it will make its investments via the Brunel Pension Partnership. As a result the Fund's policy is to apply the Stewardship Code through its arrangements with its asset managers and through membership of the Local Authority Pension Fund Forum (LAPFF).

The Fund will expect its external investment managers to:

(i) Vote at all UK company meetings and all overseas company meetings where practical to do so.
(ii) Seek to develop a long-term relationship and an understanding of mutual objectives and concerns with the companies in which we invest.
(iii) Meet regularly with those companies to discuss corporate strategy and objectives, and to make an assessment of management performance.
(iv) Have processes in place to ensure access to accurate information regarding companies in which we invest, including the approach to corporate governance adopted by the company.
(v) Intervene when a company fails to meet expectations in terms of traditional governance inputs (such as board structures) but also the outputs of governance such as acquisitions and operational performance.

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

The Fund will actively monitor how each of its external investment managers is carrying out stewardship responsibilities over the Fund's assets. This will include:

(i) Quarterly reporting from each of the Fund's equity managers on their stewardship activity, including details of the votes cast at company meetings, and where they have voted against company recommendations.
(ii) Meetings between Fund representatives and the external managers to review performance, including stewardship activity.
(iii) Quarterly reporting to the Investment and Pension Fund Committee on external investment managers' stewardship activity.
(iv) Raising of issues of concern with external investment managers, for example where committee members have a clear view on an issue being proposed at a company meeting, or where LAPFF notify the fund of a significant proposal at a company meeting. The Fund may encourage the external investment manager to vote in a particular way, and will require the external investment manager to report back on how it intends to vote or has voted.

Seven of the Fund's eight main external investment managers as at 31 December 2017 are Tier 1 signatories to the UK Stewardship Code, the other is a Tier 2 signatory. In addition, the fund has smaller investments in four funds managed by other external investment managers, of whom two are Tier 1 signatories, one is a Tier 2 signatory and one is not a signatory to the UK Stewardship Code.

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

Devon County Council has a robust Code of Conduct and Conflicts of Interest policy, which all members of the Investment and Pension Fund Committee (whether Devon County Councillors or not) are required to adhere to. The policies can be found at:

http://democracy.devon.gov.uk/ieListDocuments.aspx?CId=416&MId=2487&Ver=4&info=1

Investment and Pension Fund Committee members are required to make declarations of interest prior to committee meetings in line with the Council's code of conduct and interest rules. This would ensure that if committee members had any personal interests in any company that the Fund invests in that may have an impact on stewardship activity then those interests would be declared and managed.

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

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

The Fund has reviewed the position of all the external investment managers who manage equity holdings on its behalf. Each has an appropriate conflicts of interest policy in place. The Fund will regularly review the position of its external investment managers and the Brunel Pension Partnership to make sure that their conflicts of interest policies are kept up-to-date.

(c) Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing the Fund's assets is delegated to external investment managers, and the Fund expects them to monitor the companies they invest in, intervene where necessary, and report back regularly on activity undertaken.

The Fund will expect its external investment managers to

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

The Fund will engage with its investment managers at regular quarterly meetings, and via phone calls and email correspondence. Each of the Fund's main investment managers is expected to provide a summary of their stewardship activity for inclusion in the Fund's Annual Report. Once the Brunel Pension Partnership becomes operational the Fund will expect Brunel to assess the effectiveness of engagement via an external benchmarking service.

In addition the Fund receives an 'Alerts service' from LAPFF which highlights corporate governance issues of concern at investee companies. These alerts are shared with the relevant asset managers, who are then expected to report back on how they intend to vote / have voted. The Fund reviews Quarterly engagement reports provided by LAPFF at Pension Committee meetings.

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

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. The Fund will expect its external investment managers to escalate activities if a company fails to meet expectations. The most important issues for us are:

- Strategy - including acquisitions and the deployment of capital
- Operational performance
- Quality and diversity of the Board
- Succession planning
- Management of environmental / climate change risk
- Health & Safety
- Risk management
- Remuneration
- Corporate social responsibility

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

Escalation by the Fund's managers may include:

(i) Additional meetings with management.
(ii) Intervening jointly with other institutions – e.g. Fund managers have shown support for LAPFF alerts by publishing their voting intention online prior to AGMs.
(iii) Writing a letter to the board or meeting the board.
(iv) Submitting resolutions at general meetings and actively attending to vote.

Actions by managers are considered and undertaken on the basis of protecting and enhancing client value. Individual manager guidelines for such activities are disclosed in their own statement of adherence to the Stewardship Code. Each of the Fund's external investment managers provide a summary of their engagement activity, including examples of where they have intervened, that is published in the Devon Pension Fund's Annual Report.

On occasion, the Fund may itself choose to escalate activity, principally through engagement activity coordinated by the Local Authority Pension Fund Forum.

(e) <u>Institutional investors should be willing to act collectively with other investors where appropriate.</u>

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

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

Representatives of the Committee and Fund officers are able to attend LAPFF's quarterly management meetings and the Annual Conference, which provides them with the opportunity to input to the priority areas for LAPFF to engage with companies on. Details of the Fund's holdings are provided to LAPFF on a regular basis, which enables LAPFF to assess the quantum of member funds' holdings when they are seeking to engage with companies.

LAPFF focuses its collaborative engagement on the following areas:

(i) Leadership on key campaigns, such as Board diversity.
(ii) Promotion of good governance.
(iii) Management of environmental risk.
(iv) Social and reputational risks such as employment standards.

As part of the LGPS pooling initiative, the Fund will also expect the Brunel Pension Partnership to foster collaboration with its client LGPS Funds on voting and engagement which should improve transparency of voting and embed best practice.

(f) Institutional investors should have a clear policy on voting and disclosure of voting activity.

Responsibility for the exercise of voting rights has been delegated to the Fund's appointed investment managers who adopt their own voting guidelines. The Fund requires its managers to exercise all votes attached to its UK equity holdings, and to seek to vote where practical in overseas markets. This includes consideration of company explanations of compliance with the Corporate Governance Code. The Fund believes that the investment managers are best placed and have the necessary insight to vote in the best interests of its clients and align voting to the investment decision. Regular reports are received from asset managers on how votes have been cast.

While it is not practical to publish each individual vote on every stock held, the Fund will publish summary information, and will monitor activity on key governance themes, and how the external investment managers have cast their votes in comparison to other shareholders and LAPFF recommendations.

Information on voting policies and voting records can also be found on the extermal investment managers' websites.

Details of Managers' voting policies and vote reporting:

Manager	Link
Brunel Pension Partnership	https://www.brunelpensionpartnership.org/stewardship/
Montanaro	http://www.montanaro.co.uk/about-us/ethical-and-esg-investing
Other Specialist Fund Managers (RWC / BMO / SSgA)	Voting records are not published on their websites, but details of votes cast and engagement undertaken are made available to the Devon Fund

The Fund permits holdings in its segregated portfolios to be lent out to market participants. The Fund retains the right to recall loaned stock or block stock from being loaned from its segregated portfolios should the Fund wish to not lend the stock for any reason. The stock lending policy on pooled Funds is determined by the individual investment managers.

(g) Institutional investors should report periodically on their stewardship and voting activities.

The Investment and Pension Fund Committee will monitor the fund managers' engagement with the companies they have invested in, through the regular reporting arrangements in place. The managers' voting records will be reported to Committee on a quarterly basis. The engagement activity undertaken by LAPFF will also be reported to Committee on a quarterly basis, together with a record of voting alerts issued by LAPFF, how the Fund's investment managers have voted on the proposals concerned and the outcome of the votes.

The external investment managers produce an annual summary of their engagement activity for inclusion within the Devon Pension Fund Annual Report. From 2017/18 the Annual Report will include a report focusing on stewardship and voting activity. This will include details of investment manager activity, voting analysis, LAPFF alert analysis, engagement, case studies and collaboration

As part of its annual review of the Internal Control Reports of its managers, the Fund has identified the voting process as an area which is tested within the controls environment. All of the Fund's managers are independently verified by an external auditor, details of which are found in their ISAE 3402 made available by request or publicly on their websites. Where there are exceptions the Fund seeks clarification from managers.

7. Advice Taken

This Investment Strategy Statement has been put together by Devon County Council's professional investment officers, supported by the Fund's Independent Investment Advisor, and with advice from Mercer LLC investment advisors, who have conducted a review of the Fund's investment strategy and asset allocation. Mercer were selected to undertake the investment review following a procurement exercise through the South West LGPS Framework for the Supply of Actuarial, Benefits and Investment Advisory Services, administered by the Environment Agency.

The Devon Fund has committed to pooling investments through the Brunel Pension Partnership Limited (BPP Ltd.), and advice from the Brunel Client Officer Group project team has also been taken into account in shaping the Devon response to the pooling initiative and building an investment strategy that can be implemented via BPP Ltd. once it becomes operational.

The key people who have been consulted and who have provided advice in drawing up the Investment Strategy Statement are:

The Investment and Pension Fund Committee

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

- decides the Investment Principles;
- determines the fund management structure;
- reviews investment performance;

The Devon Pension Board

While not a decision making body, the Pension Board has been set up to assist the Administering Authority in securing compliance with legislation and regulation and the effective and efficient governance of the Fund. Members of the Pension Board were included in a consultation workshop on the investment strategy, and regularly review the Fund's statutory statements.

County Treasurer: Mary Davis BA (Hons), CPFA

The County Treasurer advises the Committee and ensures that it is informed of regulatory changes and new developments in the investment field and implements the Committee's decisions. Mary Davis is a CIPFA qualified accountant and has been the County Treasurer and Section 151 Officer for Devon County Council since 2008. Mary has responsibility for Devon County Council's finances, including responsibility for the Devon Pension Fund. Mary has a BA (Hons) degree in Economics.

Assistant County Treasurer Investments: Mark Gayler ACMA, IMC

Mark Gayler has been Assistant County Treasurer, Investments and Treasury Management at Devon County Council since 2013. Mark heads up the investment team responsible for overseeing the Devon Pension Fund, as well as undertaking treasury management for the council. Mark is a CIMA qualified accountant and holds the CFA Level 4 Certificate in Investment Management. Mark has 30 years of experience within local government, and first moved to the Investment Team in 2010, initially as Deputy Investment Manager.

Investment Manager: Charlotte Thompson APMI

Charlotte Thompson has worked as Investment Manager in the Investment Team since June 2018, being seconded from her role as Head of Peninsula Pensions. She has over 22 years' experience in the Pensions Industry. Prior to joining Devon County Council, Charlotte worked for Friends Provident, managing a portfolio of defined benefit schemes. She is an associate of the Pensions Management Institute, and is also currently studying for the Investment Management Certificate.

Independent Investment Advisor: Anthony Fletcher, MJ Hudson Allenbridge

Anthony is the independent adviser to the Devon County Council Investment and Pension Fund Committee. He also acts as advisor to the Derbyshire, Surrey and Wiltshire pension funds. He has over 30 years' investment experience, and has had FCA Approved Person status throughout career: - currently FCA CF30 Investment Advice. His last full-time role was with Aberdeen Asset Management, where he was a Fixed Income Portfolio Manager, where he was responsible for twenty four pan-European and global fixed income institutional client portfolios. This included insurance company assets and charitable foundations; UK corporate and local authority DB and DC pension funds and sovereign wealth funds, with a combined AUM of £3.6 billion, and four pooled funds with assets of a further £460 million.

Mercer LLC Investment Consultants:

Tessa Page, Principal

Tess is a Partner at Mercer and an LGPS strategy specialist, with over 15 years' pensions and investments experience. Tess joined Mercer in 2011, having previously worked at JLT (formerly HSBC Actuaries and Consultants). She has a Masters in Biochemistry from the University of Oxford and is a Fellow of the Institute and Faculty of Actuaries.

Sandy Dickson, Associate

Sandy is an Associate within Mercer's investment business, with over 5 years' experience working with predominantly public sector pension schemes on all aspects of investment strategy, implementation and monitoring. Sandy has a Masters in Chemistry from the University of Durham and is a CFA Charterholder.

Brunel Pension Partnership

The Brunel Pension Partnership is now operational and in the process of launching investment portfolios to meet the requirements of its clients. Brunel has provided details of its proposed timetable for procurement of investment managers and launch of portfolios, in order that the Devon Fund and other clients can plan their investment strategy around the timing of transitions of assets to the Brunel pool.

Brunel Client Officer Group

The Brunel Client Officer Group has provided support with regard to the impact on strategy of the investment pooling proposals. The group comprises the investment officers from the Avon Pension Fund (Bath and NE Somerset Council), Buckinghamshire CC, Cornwall Council, Devon CC, Dorset CC, Gloucestershire CC, Oxfordshire CC, Somerset CC, Wiltshire Council and the Environment Agency.

Annex 1 – Compliance with the Myners Principles

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

1. Effective Decision Making

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

2. Clear Objectives

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

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

3. Risk and Liabilities

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

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

4. Performance Assessment

In the award of mandates to individual investment managers the Investment and Pension Fund Committee has set benchmarks for each asset class, as set out in Annex 2. The total fund is measured against a bespoke benchmark based on the Fund's strategic asset allocation.

The Fund uses the services of its custodian bank to provide an independent measurement of investment returns. These are used for comparison purposes against specific and peer group benchmarks.

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

5. Responsible Ownership

Section 6 of this document, on the Policy of the exercise of rights (including voting rights) attaching to investments, sets out the Fund's commitment to responsible ownership. The management agreements with the Fund's investment managers include provision for them to engage with companies in compliance with the terms of the Combined Code and the Council's voting policy as set out in this document. The Fund is also a member of the Local Authority

Pension Fund Forum (LAPFF).The Fund has investments in specialist pooled funds that are specifically designed to be activist. This document sets out the Council's policy on voting.

6. Transparency and Reporting

This Investment Strategy Statement is available to any interested party on request. The latest version is available on the Peninsula Pensions website.

In accordance with LGPS (Administration) Regulations 2008, the Devon Pension Fund has published a Communications Policy Statement, which can be viewed at: https://www.peninsulapensions.org.uk/wp-content/uploads/2013/08/Devon-Pension-Fund-Communications-Policy.pdf,

which describes the Fund's policy on:

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

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

Annex 2 – Current Managers and Mandates

Manager	**Mandate**	**Target**
Brunel Pension Partnership	Passive UK Equities	Performance in line with the FTSE All Share TR Index
	Passive Global Developed Equities	Performance in line with the FTSE World Developed TR Index
	Passive Smart Beta Equities	Performance in line with the SciBeta Multifactor Composite Index
	Global High Alpha Equities	Outperform MSCI World TR Index by 2-3% per annum over a rolling 3-5 year period
	Emerging Markets Equities	Outperform MSCI Emerging Markets TR Index by 2-3% per annum over a rolling 3-5 year period
Lazard Asset Management LLC	Global Fixed Interest	Outperform Barclays Capital Global Aggregate Bond Index by 1% per annum
Wellington Management International Ltd	Multi Sector Credit	Outperform composite of 1/3 Bank of America Merrill Lynch Global High Yield Constrained Index, 1/3 JP Morgan Emerging Markets Bond Index Plus, and 1/3 CS Leveraged Loan Index
Baillie Gifford and Co.	Diversified Growth Fund	Outperform Bank of England Base Rate by 3.5% per annum net of fees
Barings Asset Management Ltd	Diversified Growth Fund	Outperform LIBOR by 4% per annum
La Salle Investment Management	Property	Outperform the IPD UK PPF All Balanced Funds Index
Bluebay Asset Management	Private Debt	Outperform GBP 7 Day LIBID + 5%
Golub Capital Partners	Private Debt	Outperform GBP 7 Day LIBID + 5%
DCC Investment Team	Specialist Equity Funds	Outperform FTSE World Index
DCC Investment Team	Infrastructure Funds	Outperform GBP 7 Day LIBID + 5%
DCC Investment Team	Cash	Outperform GBP 7 Day LIBID

Devon County Council Pension Fund
Investment Strategy Statement

CT/20/11
Devon Pension Board
16th January 2020

PENSION FUND RISK REGISTER

Report of the County Treasurer

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

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

1. Introduction

1.1. Effective risk management is an essential part of any governance framework as it identifies risks and the actions required to mitigate their potential impact. For a pension fund, those risks will come from a range of sources including the funding position, investment performance, membership changes, benefits administration, costs, communications and financial systems. Good information is important to help ensure the complete and effective identification of significant risks and the ability to monitor those risks. The risks that have been identified are incorporated into the Fund's Risk Register.

1.2. The Pension Board monitors the Risk Register as part of its scrutiny role in relation to risk and compliance, and will raise any specific concerns to the Investment and Pension Fund Committee, as necessary. The Board previously considered the Risk Register at its meeting on 21st October 2019.

1.3. The Risk Register is attached at Appendix 1 to this report. It highlights the key risks in relation to the Pension Fund, the current processes in place to mitigate the risk, and the planned improvements in place to provide further assurance. This incorporates the risk register of both the Investments Team and Peninsula Pensions.

1.4. The Investment and Pension Fund Committee is the ultimate risk owner for the Pension Fund and the Risk Register is presented to the Committee on an annual basis.

2. Assessment of Risk

2.1. Risks are assessed in terms of the potential impact of the risk event should it occur, and in terms of the likelihood of it occurring. These are then combined to produce an overall risk score. Each risk is scored assuming no mitigation, and then on the basis of the mitigation in place.

2.2. In addition to the current mitigation in place, further actions are planned to provide a greater level of assurance, and these are detailed together with the planned timescale for the action to take place. The level of risk will be reviewed once these additional actions have been implemented.

2.3. Further risks are likely to arise from future decisions taken by the Investment and Pension Fund Committee, and from changes in legislation and regulations. Where such new risks arise, they will be added to the risk register, assessed, and mitigation actions identified.

3. Revisions to the Risk Register

3.1. Further to the last Pension Board meeting, risk F17 has been added to reflect the climate change risk on the fund's investments. F16 regarding the McCloud judgement, the mitigating controls have been updated to reflect the approach to the 2019 valuation where some prudence was included to take account of potential benefit structure changes to the scheme.

3.2. There are now 45 risks recorded in the Risk Register. The following table summarises the number of risks assigned to low, medium and high-risk scores, before and after mitigation.

Risk Category	Number of Inherent Risks Identified	Number of Risks following mitigating action
High	15	5
Medium	19	8
Low	11	32

3.3. Action taken to mitigate risks has reduced the number of high risks from 15 to 5. The remaining high risks are in respect of;

- Market Crash leading to a failure to reduce the deficit
- No deal Brexit
- Investment strategy not providing sufficient returns longer term
- Failure of the Pensions Administration system
- Cost implications of the McCloud judgement

4. Conclusion

4.1. The Board are asked to note the Pension Fund Risk Register, and the additional actions proposed to mitigate risk.

Mary Davis

Electoral Divisions: All
Local Government Act 1972
List of Background Papers - Nil
Contact for Enquiries: Charlotte Thompson
Tel No: (01392) 381933 Room G99

Risks: Pensions

Risk status (score)	Overdue (0 - 0)	Low (1 - 9)	Medium (10 - 14)	High (15 - 23)	Very high (24 - 30)
Mitigating controls	Not started	Green	Amber	Red	Completed

Risk details	Status and Risk owner	Mitigating controls
A1: Accounting Cause: Lack of training/awareness around pension fund accounting regulations. Event: Non compliance with accounting regulations and fin Regs. Impact: Reputational damage. Qualified accounts. Notes 13/08/2019 - Risk wording updated and category added. 29/08/2019 - Risk wording updated	Inherent status : 12 Medium Current status : 9 Low Risk owner: Mark Gayler Accountable officer: Angela Stirland Category: Compliance Last review: 31 Jul 2019 Latest review details Risk added to system	Green Staff are kept up to date with changes to legislative requirements via network meetings, professional press, training and internal communication procedures. Green Pension Fund financial management and administration processes are maintained in accordance with the CIPFA Code of Practice, International Financial Reporting Standards (IFRS), and the DCC Financial Regulations. Green Regular reconciliations are carried out between in-house records and those maintained by the custodian and investment managers. Green Internal Audits are carried out on an annual basis. Green External Audit review the Pension Fund's accounts annually.

Risk details	Status and Risk owner	Mitigating controls
B1: Brunel Pension Partnership Cause: The Devon Pension Fund has insufficient resources available to deliver the pooling proposal within the required timescale, without impacting the day-to-day management of the fund. Event: The management of the Pension Fund is adversely affected due to existing resources concentrating on the pooling proposal. Impact: Underperformance and failure to meet statutory obligations. Notes 13/08/2019 - Risk wording updated and category added.	Inherent status : 16 High Current status : 12 Medium Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Operational Last review: 31 Jul 2019 Latest review details Risk added to system.	Completed The Brunel Pension Parnership is now established as an FCA regulated company, fully staffed to meet the business case as approved by the 10 client LGPS funds. Completed Governance arrangements are in place with an Oversight Board of elected members and a Client Group of fund officers from each of the LGPS client funds to oversee the service provided by Brunel and ensure that Brunel are delivering on their key objectives. Green Regular update meetings are held between the County Treasurer and Assistant County Treasurer, as well as update meetings within the Devon Investment Services team, to review progress, workloads in order to identify and address any areas of concern.

Risk details ▲▼	Status and Risk owner ▲▼	Mitigating controls ▲▼
B2: Brunel Pension Partnership Cause: There is a Failure to control operational risks and transaction costs during the transition process Event: Asset transition costs are greater than forecast. Impact: An increase in the initial set-up costs forecast by the pooling proposal.	Inherent status : 16 High Current status : 12 Medium Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Operational Last review: 31 Jul 2019 Latest review details Risk added to system.	Completed Two asset transition management companies have analysed the costs of transitioning our current assets into the pool, under a variety of scenarios. The results of these analyses have been used as a basis for calculating the initial set-up costs of the Brunel Pension Partnership. Amber The transition process includes selling securities from one portfolio and buying securities in another while systematically controlling operational risks and transaction costs. There may also be the opportunity to transfer securities in 'specie', that is to transfer a security directly from an existing portfolio into the new portfolio. The timing of sales and purchases is also critical. Green A transition management service will be used by Brunel to ensure assets are transitioned efficiently, with the objective of preserving asset values, managing risk and project managing the transition process to ensure that costs are monitored and controlled. A transition advisor will also be used to ensure that the transition process for each portfolio has been carried out in an efficient and effective manner
Notes 13/08/2019 - Risk wording updated and category added.		

Risk details	Status and Risk owner	Mitigating controls
Cm1: Communication Cause: Inadequate communications plan and/or insufficient resource to action. Event: Insufficient communication and engagement with pension fund stakeholders. Impact: Damage to reputation. Uniformed policy decisions. Non compliance with legislation/best practice. Notes 13/08/2019 - Risk wording updated and category added.	Inherent status : 12 Medium Current status : 9 Low Risk owner: Mark Gayler Accountable officer: Daniel Harris Category: Operational Last review: 31 Jul 2019 Latest review details Risk added to system	Completed A communications strategy is in place and was last reviewed and updated in November 2018. Green The Devon Investment Services and Peninsula Pensions websites are kept up to date. Green Fund Performance is reported to the Investment & Pension Fund Committee on a regular basis. Green Meetings are held regularly with the Fund's Employing Authorities. Green Benefit illustrations are sent annually to contributing and deferred Fund members. Green The contact list for employers is updated regularly. Green Annual forums are held for employers and scheme members. Green The annual report and accounts are published on the Peninsula Pensions website.
Cu1: Custody Cause: Changing economic climate, fraud or changing financial position of the Custodian. Event: Failure of Pensions custodian. Impact: Financial loss. Failure to decrease deficit. Adverse media interest/damage to reputation. Notes 13/08/2019 - Risk wording updated and category added. 29/08/2019 - Risk wording updated.	Inherent status : 12 Medium Current status : 9 Low Risk owner: Mark Gayler Accountable officer: Charlotte. Thompson Category: Operational Last review: 31 Jul 2019 Latest review details Risk added to system.	Green The custodian contract is subject to regular review and periodic re-tendering by the Brunel Pension Partnership. Completed Following the formation of the Brunel Pension Partnership, State Street were appointed as Third Party Administrator, and will provide a custody service to each of the Brunel client funds. The procurement process included an assessment of their financial standing. Green The custodian must adhere to FCA and PRA financial regulations. Green Fund assets are protected in the event of insolvency of the custodian

Risk details	Status and Risk owner	Mitigating controls
D1: Data Protection Cause: Failure to secure and maintain pension fund systems. Event: Loss of sensitive data. Impact: Reputation risk. Financial loss arising from legal action. Notes 13/08/2019 - Risk wording updated and category added. 29/08/2019 - Risk wording updated.	Inherent status : 9 Low Current status : 6 Low Risk owner: Mark Gayler Accountable officer: Daniel Harris Category: Operational Last review: 31 Jul 2019 Latest review details Risk added to system	Completed It is a mandatory requirement for all DCC employees to undertake Data Protection training and to adhere to DCC's data protection policy.

Risk details	Status and Risk owner	Mitigating controls
F 1: Funding and Investments Cause: The committee Members and Investment Officers have insufficient knowledge of financial markets and inadequate investment and actuarial advice received. Event: The committee Members and Investment officers make inappropriate decisions. Impact: Poor fund performance/financial loss. Increased employer contribution costs.	Inherent status : 16 High Current status : 12 Medium Risk owner: Mark Gayler Accountable officer: Charlotte. Thompson Category: Financial Last review: 31 Jul 2019 Latest review details Risk added to register.	Green The Investment Strategy is set in accordance with LGPS investment regulations. Green The Investment Strategy is reviewed, approved and documented by the Investment and Pension Fund Committee. Green The Investment Strategy takes into account the Fund's liabilities. Green DCC employ an external investment advisor who provides specialist guidance to the Investment and Pension Fund Committee regarding the investment strategy. Green An Annual Training Plan has been agreed for 2019/20.Training programmes are available for Committee Members and Investment Staff. Green Members and Officers are encouraged to challenge advice and guidance received when necessary. Amber Following discussion at the Pension Board in April 2019, officers will look at the possibility of producing a handbook/manual for Board and Committee members BY 31 DECEMBER 2019
Notes 13/08/2019 - Wording of risk updated and category added.		

F 2: Funding and Investments Cause: The Pension Fund's investment strategy and /or Fund Managers fail to produce the required returns. Event: The Pension Fund has insufficient assets to meet its long term liabilities. Organisational changes / manager departures at a Fund Manager damage performance. Impact: Financial loss. Insufficient funds available to meet future obligations. Notes 13/08/2019 - Wording of risk updated and category added.	Inherent status : 20 High Current status : Overdue (15 - High) Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Financial Last review: 10 Oct 2019 Latest review details Mitigations remain in place	Green Triennial actuarial valuations provide periodic indications of the growth in assets against liabilities. Employer contribution rates are set in response to this. The 2016 actuarial valuation includes provision for the fund to achieve full funding over 22 years. Green The funding level is updated on a quarterly basis, based on roll forward of the Triennial valuation data and subsequent investment returns, pension and salary increases and reported to the Committee. Green The investment strategy is reviewed annually by the Pension Fund Committee with advice from the External Investment Advisor to determine whether any action needs to be taken to amend the fund's asset allocation strategy. Green The Fund's investments are diversified across a range of different types of assets to minimise the impact of losses in individual markets. Green Fund-specific benchmarks and targets are set. Green Fund assets are kept under regular review as part of the Fund's performance management framework. Green Fund managers have been thoroughly vetted prior to appointment and performance is reviewed regularly against the benchmark and performance objectives, and this is reported to Committee. Appropriate action may be taken if it is considered that an Investment Manager is underperforming. Completed The depth of expertise in the fund managers' teams have been assessed as part of the appointment process. Green Performance targets are agreed by the Investment and Pension Fund Committee and are based upon recommendations provided by the DCC in-house Investment Team and our external investment advisor.

Risk details	Status and Risk owner	Mitigating controls
		Green The Investment and Pension Fund Committee have the power to terminate a fund manager's contract if it is deemed that the manager has not performed as expected, or there are concerns about future performance due to organisational change / manager departures. Completed External review of the Fund's investment strategy is commissioned on a regular basis. Mercers undertook an investment strategy review in 2016, which was then refreshed in February 2019. The 2019 report and recommendations were presented to the Investment and Pension Fund Committee in February 2019. Green From April 2018, responsibility for new fund manager appointments and monitoring of the new managers appointed will transfer to the Brunel Pension Partnership. The Devon Fund will still have incumbent managers to monitor for a transition period of around 2 years, and will then need to focus on monitoring of Brunel's performance.

Risk details	Status and Risk owner	Mitigating controls
F 3: Funding and Investments Cause: Investment arrangements are structured poorly. Event: The fund is exposed to unnecessary risks and avoidable costs. Impact: Financial loss. Notes 13/08/2019 - Risk wording updated and category added.	Inherent status : 10 Medium Current status : 8 Low Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Operational Last review: 31 Jul 2019 Latest review details Risk added to system.	Green The Fund's investments are diversified across a range of different types of assets to minimise the impact of losses in individual markets. Green IMA disclosure tables are reviewed to ensure best execution by managers. Green The new cost transparency initiative should ensure full transparency of costs Green Specialist services (e.g. transitions, currency transfers) are considered where appropriate in order to reduce costs. Green Banking and custodian arrangements are reviewed and re-tendered when appropriate. Green The Brunel Pension Partnership has been set up as part of the investment pooling requirements of Government. The future investment arrangements under Brunel should provide for improved risk management and better risk adjusted investment returns

Risk details	Status and Risk owner	Mitigating controls
F 4: Funding and Investments Cause: Inadequate risk management policies on Environmental, Social and Governance Issues. Lack of awareness/training. Event: The fund fails to manage environmental, social and governance risks. Impact: Financial loss. Damage to reputation. Notes 13/08/2019 - Risk wording updated and category added. 29/08/2019 - Risk wording updated	Inherent status : 15 High Current status : 8 Low Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Operational Last review: 31 Jul 2019 Latest review details Risk added to system.	Green The Fund expects its fund managers (including the Brunel Pension Partnership) to monitor and manage the risks associated with ESG issues, and will review with managers on a regular basis how they are managing those risks. Green The Fund will engage (through Brunel, its asset managers, the Local Authority Pension Fund Forum or other resources) with investee companies to ensure they can deliver sustainable financial returns over the long term. Green The Fund holds annual meetings for both employers and scheme members to provide the opportunity for discussion of investment strategy and consideration of non-financial factors.

Risk details ▲▼	Status and Risk owner ▲▼	Mitigating controls ▲▼
F 5: Funding and Investments Cause: Collapse of a fund manager. Fraudulent activity (Internal/external). Event: Negligent or wilful loss of pension funds. Impact: Inability to meet financial obligations.	Inherent status : 12 Medium Current status : 9 Low Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Financial Last review: 31 Jul 2019 Latest review details Risk added to system.	Green The Fund has considered the financial stability of managers during the appointment process and the situation is kept under review. In future when Brunel is selecting managers we would expect Brunel to consider financial stability of those managers, and will work with other Brunel clients to ensure that Brunel has in place robust procedures to do so. Completed DCC use a global custodian service to ensure that there exists a separation of investment management arrangements from custody of assets. Completed Legal requirements are in place for fund managers and are set out in the investment management agreements. Green Fund managers are required to be fully compliant with FCA, PRA and other regulatory requirements. Green The risk that a fund manager cannot provide a service during windup is mitigated by the availability of transition management arrangements put in place by the Brunel Pension Partnership.
Notes 13/08/2019 - Risk wording updated and category added.		

Risk details	Status and Risk owner	Mitigating controls
F 6: Funding and Investments Cause: Global financial crisis. Substantial political changes. Event: The market crashes, reducing the value of investments. Impact: The deficit increases, or there is a failure to reduce the deficit. Financial loss. Increased employer contribution costs. Notes 13/08/2019 - Risk wording updated and category added.	Inherent status : 20 High Current status : Overdue (16 - High) Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Financial Last review: 10 Oct 2019 Latest review details No immediate signs of an impending market crash, but some signals for a recession in the medium term.	Green The fund is well diversified and consists of a wide range of asset classes which aims to mitigate the impact of poor performance from an individual market segment. Amber Investment performance reporting and monitoring arrangements exist which provide the committee and investment officers with the flexibility to rebalance the portfolio in a timely manner. Green The long term nature of the liabilities provides some mitigation, in that markets tend to bounce back after crashes, such that the impact is significantly reduced.

Risk details	Status and Risk owner	Mitigating controls
F 7: Funding and Investments Cause: Substantial changes to UK or global economies. Event: Pay and price inflation are higher than anticipated. Impact: There is an increase in liabilities which exceeds the previous valuation estimate. Notes 13/08/2019 - Risk wording updated and category added.	Inherent status : 16 High Current status : 12 Medium Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Strategic Last review: 31 Jul 2019 Latest review details Risk added to system.	Green The triennial actuarial valuation review focuses on the real returns on assets, net price and pay increases. Green Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer serving employees. Green The Fund has investments in infrastructure funds with inflation linked returns, to act as a hedge against inflation increases. Green The Committee has received training on understanding liabilities and potential approaches to Liability Driven Investment. Completed Hymans Robertson were commissioned to produce a report which reviewed the strategy for the fixed interest and its role in managing inflation risk. The report was presented to the I&PFC in September 2015, and recommendations partly implemented. This issue was also addressed in the strategic review carried out by Mercer in 2016/17 and the refresh in 2018/19.
F 8: Funding and Investments Cause: Public services are cut and ill health increases. Event: There is an increase in the number of early retirements. Impact: There is an increase in liabilities which exceeds the previous valuation estimate. Notes 13/08/2019 - Risk wording changed and category added.	Inherent status : 12 Medium Current status : 6 Low Risk owner: Daniel Harris Accountable officer: Daniel Harris Category: Strategic Last review: 31 Jul 2019 Latest review details Risk added to system.	Green Employers are charged the extra capital cost of non ill health retirements following each individual decision. Green Employer ill health retirement experience is monitored.

Risk details	Status and Risk owner	Mitigating controls
F 9: Funding and Investments Cause: The average life expectancy of pensioners is greater than assumed. Event: The actuarial assumptions are incorrect. Impact: There is an increase in liabilities which exceeds the previous valuation estimate. Notes 13/08/2019 - Risk wording updated and category added.	Inherent status : 16 High Current status : 9 Low Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Strategic Last review: 31 Jul 2019 Latest review details Risk added to system.	Green Life expectancy assumptions are reviewed at each triennial valuation. Green Mortality assumptions include an allowance for future increases in life expectancy
F 10: Funding and Investments Cause: Inadequate training. Availability of staff. Event: Scheme employers' contributions to the Fund are not received, processed and recorded completely and accurately. Impact: There are increased costs across all remaining scheme employers. Notes 13/08/2019 - Risk wording updated and category added.	Inherent status : 12 Medium Current status : 6 Low Risk owner: Mark Gayler Accountable officer: Martyn Williams Category: Operational Last review: 31 Jul 2019 Latest review details Risk added to system.	Completed The team has procedures in place to monitor the receipt of contributions to the fund. Green The team communicates regularly with scheme employers to ensure that contributions are made in a timely manner and are recorded accurately. Green Details of any outstanding and overdue contributions are recorded and appropriate action is taken in order to recover payments.

Risk details	Status and Risk owner	Mitigating controls
F11: Funding and Investments Cause: An employer ceases to exist with insufficient funding available to settle any outstanding debts, or refuses to pay the cessation value. Event: Departing employer does not fully meet their liabilities. Impact: Increased costs across the remaining scheme employers. Notes 13/08/2019 - Risk wording updated and category added.	Inherent status : 12 Medium Current status : 6 Low Risk owner: Mark Gayler Accountable officer: Daniel Harris Category: Financial Last review: 31 Jul 2019 Latest review details Risk added to system	Green Vetting prospective employers before admission and ensuring that they fully understand their obligations. Applications for admission to the Fund are considered carefully and a bond or guarantee is put into place if required. Green The Actuary has an objective of keeping contributions as stable as possible whilst ensuring the long term solvency of the Fund. Green Outstanding liabilities will be assessed and recovered from any successor bodies or spread amongst remaining employers. Green The actuarial valuation attempts to balance recovery period with risk of withdrawal. Green If necessary, appropriate legal action will be taken. Completed An Employer Covenant Risk Assessment is undertaken by the Fund Actuary, Barnett Waddingham, in conjunction with the triennial valuations of the Fund.
F12: Funding and Investments Cause: The Government's 'Freedom and Choice' legislation. Event: A significant number of LGPS members transfer their pension pots to other pensions providers. Impact: Significant cashflow out of the Fund. Reduction in assets greater than reduction in the Fund's liabilities. Notes 13/08/2019 - Risk wording updated and category updated.	Inherent status : 9 Low Current status : 6 Low Risk owner: Mark Gayler Accountable officer: Daniel Harris Category: Financial Last review: 31 Jul 2019 Latest review details Risk added to system.	Green Effective communication of the benefits of remaining in the LGPS. Green Actuarial calculation of transfer value should ensure transfer value does not exceed reduction in liability.

Risk details	Status and Risk owner	Mitigating controls
F13: Funding and Investments Cause: Significant economic instability and slowdown as a result of the decision to leave the European Union, Event: Lower investment returns. Impact: Financial loss, and/or failure to meet return expectations. Increased employer contribution costs. Notes 13/08/2019 - Risk wording updated and category added. 29/08/2019 - Risk wording updated.	Inherent status : 20 High Current status : Overdue (16 - High) Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Financial Last review: 10 Oct 2019 Latest review details Likelihood of "no-deal" looking higher	Amber The long term nature of the Fund's liabilities provides some mitigation, as the impact of "Brexit" will reduce over time. Green Diversification of the Fund's investments across the world, including economies where the impact of "Brexit" is likely to be smaller.
F14: Funding and Investments Cause: UK Leaving the EU. Event: Updated Legislative and regulatory requirements. Impact: Additional work to ensure compliance. Fines for noncompliance. Damage to reputation. Loss of members. Notes 13/08/2019 - Risk wording updated and category added.	Inherent status : 12 Medium Current status : 8 Low Risk owner: Mark Gayler Accountable officer: Daniel Harris Category: Compliance Last review: 31 Jul 2019 Latest review details Risk added to system.	Amber The Government is likely to ensure that much of current EU regulation is enshrined in UK law. Green Officers receive regular briefing material on regulatory changes and attend training seminars and conferences, in order to ensure that any regulatory changes are implemented in the management of the Fund.

Risk details	Status and Risk owner	Mitigating controls
F15: Funding and Investments Cause: There is a failure to meet the requirements of the Markets in Financial Instruments Directive II. Event: The Devon fund is downgraded to retail client status. Impact: Assets are sold at less than fair value . The Fund is unable to access a range of investment opportunities. Failure to meet return expectations. Reduction in diversification. Notes 13/08/2019 - Risk wording updated and category added.	Inherent status : 12 Medium Current status : 6 Low Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Strategic Last review: 31 Jul 2019 Latest review details Risk added to system	Completed All the Fund's current fund managers and financial counterparties have accepted Devon's application for elective professional client status. Green Robust training plan to ensure committee and officers have required knowledge and experience to meet the qualitative criteria to opt up. Completed Availability of LGA template to enable the Fund to make multiple applications to financial institutions to opt back up to professional client status, should any new applications or amendments be required.
F16: Funding and Investments Cause: Remedies resulting from McCloud and Sargeant legal cases. Event: Significant additional pension liabilities for the Fund. Impact: Increased employer contribution costs. Notes 13/08/2019 - Risk wording updated and category added. 29/08/2019 - Risk wording updated.	Inherent status : 16 High Current status : 15 High Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Strategic Last review: 07 Jan 2020 Latest review details Some allowance made within the 2019 Triennial Valuation.	Amber A level of prudence was incorporated into the 2019 Triennial Valuation to take account of the potential consequences of McCloud/Sargeant

Risk details	Status and Risk owner	Mitigating controls
F17: Funding and Investments Cause: Climate Change Event: Impact on investee companies of the consequences of climate change and the transition to a low carbon economy Impact: Financial loss and/or failure to meet return expectations Increases employer contribution costs	Inherent status : 16 High Current status : 12 Medium Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Last review: 03 Dec 2019 Latest review details Review mitigations	Completed 100% of Brunel's portfolios, across all asset classes, are carbon and climate aware. Consideration of climate change impacts is fully embedded into their manager selection process Green Brunel integrates climate change into their risk management process, using carbon footprinting, assessing fossil fuel exposure and challenging managers on physical risks, and seek to reduce unrewarded climate and carbon risk. Green The Devon Fund expects its non-Brunel investment managers to take climate change risks into account and to engage with companies over their approach to climate change issues Green The Devon Fund will undertake an annual assessment of the carbon footprint of its investments.

Risk details ▲▼	Status and Risk owner ▲▼	Mitigating controls ▲▼
G1: Governance Arrangements Cause: The Administering Authority fails to have appropriate governance arrangements, including the requirement for a Pension Board. Event: The administering authority is non compliant with legislation and/or best practice. Impact: There is an inability to determine policy. There is an inability to make effective decisions. There is an inability to deliver service. Negative impact on reputation. Notes 13/08/2019 - Wording of risk updated.	Inherent status : 12 Medium Current status : 8 Low Risk owner: Mark Gayler Accountable officer: Charlotte. Thompson Category: Strategic Last review: 25 Jul 2019 Latest review details Risk added to system.	Completed DCC has produced a Governance Policy and Compliance Statement, as required by regulation 31 of the LGPS Regulations 2008. Green The Governance Policy and Compliance Statement is reviewed and updated regularly and scheme employers are consulted to ensure that the policy remains appropriate. Completed The Statement is published on the Devon Pensions website: https://www.peninsulapensions.org.uk/pension-fund-investments/devon-county-council-investments/devon-fund-key-documents/ Green Pension fund stakeholders are made aware of the Statement. Completed DCC has appointed an Investment and Pension Fund Committee to discharge the duties of the Council as Administering Authority of the Pension Fund. Green The Committee review and approve the annual statement of accounts of the Devon Pension Fund, consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from any audit that need to be brought to the attention of the Council. Completed A Pension Board has been established as required by the Public Service Pension Act 2013. Green Support and training are being provided to ensure that the Board is equipped to undertake its role.

Risk details	Status and Risk owner	Mitigating controls
G2: Governance Arrangements Cause: Poor governance arrangements. Event: The Investment and Pension Fund Committee and Pension Board are unable to fulfil their responsibilities effectively. Impact: Non-compliance with legislation and/or best practice. There is an inability to determine policy, make effective decisions and/or deliver service. There is a risk to reputation. Possibility of fines/sanctions. Notes 13/08/2019 - Wording of risk updated and category added.	Inherent status : 12 Medium Current status : 9 Low Risk owner: Mark Gayler Accountable officer: Charlotte. Thompson Category: Operational Last review: 31 Jul 2019 Latest review details Risk added to register.	Green The Committee has adopted the CIPFA Code of Practice on Knowledge and Skills, and regular training is provided to ensure that members have the level of understanding required. Green An Annual Training Plan is agreed by the Committee and Pension Board on an annual basis. Green A training and induction programme is available for new Committee and Pension Board Members. Amber Committee and Pension Board members are asked to complete the Pension Regulator Trustee Toolkit. Green The Fund subscribes to relevant bodies (e.g. CIPFA, LAPFF, PLSA) and sends representatives to major conferences. Green DCC organises at least two training days per year for Investment and Pension Fund Committee and Pension Board members, with an additional engagement day being held with the Brunel Pension Partnership. Green Committee and Pension Board members are made aware of and adhere to the Governance Compliance Statement, and are encouraged to identify training requirements. Amber Following discussion at the Pension Board in April 2019, officers will look at the possibility of producing a handbook/manual for Board and Committee members BY 31 DECEMBER 2019

Risk details	Status and Risk owner	Mitigating controls
I1: Internal Cause: Concentration of knowledge in a small number of staff. Event: Loss of staff leading to a breakdown in internal processes and service delivery. Impact: Financial loss and potential risk to reputation. Notes 13/08/2019 - Risk wording updated and category added. 29/08/2019 - Risk wording updated.	Inherent status : 16 High Current status : 12 Medium Risk owner: Mark Gayler Accountable officer: Charlotte. Thompson Category: Strategic Last review: 31 Jul 2019 Latest review details Risk added to system.	Green The Investment Manager is able to cover in the absence of the Assistant County Treasurer. Green Secondment arrangements, whereby the Head of Peninsula Pensions and the Investment Manager have swapped roles for a period of 1-2 years will improve the sharing of knowledge and the resilience of the Fund. Green Knowledge of all tasks shared by at least two team members and can in addition be covered by senior staff. Green Training requirements are set out in job descriptions and reviewed annually with team members through the appraisal process. Green A formal training record for officers is maintained centrally. Green A procedure manual is in place which sets out work instructions for the majority of crucial tasks undertaken. Green The Devon Investment Services procedure manual will continue to be refined and updated on an ongoing basis. Green Ensure the review of CIPFA's knowledge and skills framework relating to officers results in key outcomes being delivered.

Risk details	Status and Risk owner	Mitigating controls
I2: Internal Cause: Inadequate treasury management practices. Event: Fraud, corruption or error. Impact: Risk of financial loss. Damage to reputation. Notes 13/08/2019 - Risk wording updated and category added.	Inherent status : 12 Medium Current status : 9 Low Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Operational Last review: 31 Jul 2019 Latest review details Risk added to system.	Green Counterparty transactions are authorised by senior staff outside of the investment team. Green All staff are covered by fidelity insurance up to £15 million Green Sufficient members in the team to cover absence and leave - a weekly planner is produced in order to review cover requirements. Green Appropriate separation of duties exists. Green Treasury Management Practices are reviewed and updated regularly. Green Up to date financial regulations and practices.
PP1 Annual Benefit Statments Cause/s Staffing Absences ICT Failures Poor data quality Event Annual Benefit statements are not sent to active and deferred members by 31st August. Impact Fines from the regulator Damage to reputation Increased complaints from Members Increased demand on resources to rectify the situation Creation of a backlog of other tasks due to diverted resource.	Inherent status : 8 Low Current status : 6 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 21 Mar 2019 Latest review details Initial entry of Current risk score	Green • Project management approach • Regular contact with employers to obtain data. • Monthly interfacing to reduce workload at year end • Statements to employers for 31/7/18 to allow time for distribution to staff prior to 31/8/18 Amber We are looking to increase employer take up of monthly interfaces and are exploring options to improve software processes.

Risk details	Status and Risk owner	Mitigating controls
PP10 - Data and System Security Cause Insecure pensions and administration data. Event Loss/disclosure of Sensitive Data/Information. Impact Financial costs from legal action. Fines from ICO.	Inherent status : 9 Low Current status : 6 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 01 Apr 2019 Latest review details Initial input of Current Risk Score	Green Access and security controls exist and the system is tested regularly by Heywoods and PP. Green The system is subject to regular checks by internal audit. Amber GDPR training was delivered to all team members throughout April and May 2018 to ensure that staff are fully aware of requirements under the new data protection legislation.
PP11 - Personal Member Data Cause Error when printing/sorting/compiling data. Poor internal processes. Event Information issued to the wrong person/organisation. Impact Financial Costs from legal action. Fines from ICO.	Inherent status : 9 Low Current status : 6 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 01 Apr 2019 Latest review details Inital input of Current Risk Score	Green It is a mandatory requirement for all DCC employees every 2 years to undertake Data Protection training and to adhere to DCC's data protection policy. Completed GDPR training was delivered to all team members throughout April and May 2018 to ensure that staff are fully aware of requirements under the new data protection legislation Completed Internal E-Learning training 'Sharing personal data' was also undertaken by whole office during March 2018 Amber Staff are fully aware of requirements under GDRP legislation. New Data Protection ELearning to be undertaken when available.

Risk details	Status and Risk owner	Mitigating controls
PP12 - Knowledge Management Cause Departure or non-availability of staff who hold key knowledge. Event Breakdown in internal processes and service delivery. Impact Financial Loss due to costs of obtaining resource, or delays/inefficiencies in existing processes. Reputation Damage.	Inherent status : 16 High Current status : 12 Medium Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Strategic Last review: 07 Oct 2019 Latest review details Risks and mitigating controls remain appropriate. Risks are reviewed quarterly by the Devon Pension Board and updated as necessary.	Green Knowledge of all tasks are shared by at least two team members and can in addition be covered by senior staff Green Training requirements are set out in job descriptions. Amber The Training and Technical are in the process of creating procedure notes for the team. These will help to ensure consistency across the teams and will assist with the training of new recruits.
PP13 - Scheme Memebership Data Cause Incorrect information from employers. Fraudulent provision of data. System errors Poor internal processes. Event Unauthorised or invalid payments. Impact Financial loss Reputational Damage	Inherent status : 9 Low Current status : 6 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 01 Apr 2019 Latest review details Input of initial Current Risk Score	Green Information and instructions are only accepted from authorised sources. Green Employers and scheme members are required to review and confirm membership records annually Green Benefit calculations are checked by senior colleagues and are subject to independent authorisation Green All transactions comply with DCC financial regulations and are subject to independent authorisation Green All staff are covered by fidelity insurance up to £15 million Green Members approaching 75 are separately identified monthly Green Data accuracy checks undertaken by the systems team including address / NINO checks Amber Employer Self Service being introduced to including a reporting element to assist Employers with checking their data annually and signing off as correct

Risk details	Status and Risk owner	Mitigating controls
PP14 - Compliance with Disclosure Regualtions Cause Requirement to issue information within a certain timescale after a request/event. Event Failure to comply with disclosure regulations and to process accurate pension benefit payments in a timely manner. Impact Complaints which take up time to resolve. Additional Time spent chasing data Regulator Fines Compensation costs for members	Inherent status : 9 Low Current status : 6 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 01 Apr 2019 Latest review details initial input of Current risk Score	Green Robust workflow management system in place. Green Payroll deadline procedures in place Green Item in Business Continuity/Disaster Recovery Plan Green Participate in National Fraud Initiative (NFI) Green Life Certificates exercise carried out /mortality checks Amber Full review of performance within PP being conducted to incorporate Employer performance and Admin strategies
PP15 - Fraud, Corruption & Error Cause Poorly designed or implemented management practices/processes. Staff deliberately updating or providing fraudulent data. Event Fraud, corruption or error. Impact Financial Loss Reputational Damage	Inherent status : 12 Medium Current status : 9 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 01 Apr 2019 Latest review details Initial Input of Current risk score	Green Transactions are authorised by senior staff Green All staff are covered by fidelity insurance up to £15 million Green Sufficient members in the team to cover absence and leave Green Heywoods Audit trace report Green Appropriate separation of duties exists Green Up to date regulations and practices Green Internal and external audit checks performed to ensure that appropriate and effective controls are in place

Risk details	Status and Risk owner	Mitigating controls
PP16 - Loss of Shared Service Partner Cause Shared service partner choosing to use a different pensions administrator. Event Peninsula pensions no longer operates on the same scale. Impact Reputational Damage. Loss of staff / redundancies.	Inherent status : 9 Low Current status : 9 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Strategic Last review: 01 Apr 2019 Latest review details Initial input of Current risk score	Green Constant assessment of Performance Green Quarterly Shared Service meetings with key Fund colleagues Green Regular meetings between Peninsula Pensions and Employers Green Employer Newsletters Amber Full review of performance within PP being conducted to incorporate Employer performance and Admin strategies
PP17 - Pensions System Failure Cause Connection issues. Supplier fault Cyber Attack. Event The hosted Altair pensions system fails. Impact • Loss of sensitive data. • Reputation risk. • Financial loss arising from legal action	Inherent status : 15 High Current status : Overdue (15 - High) Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 21 Oct 2019 Latest review details Risks and mitigating controls remain appropriate. Risks are reviewed quarterly by the Devon Pension Board and updated as necessary.	Green The system is backed-up daily. System is hosted by Heywoods Green A full disaster recovery plan and Business Continuity Plan is in place and tested/updated annually.

Risk details	Status and Risk owner	Mitigating controls
PP18 - Cyber Attack Cause Cyber-attack on the Pensions ICT systems and or host systems. Event Loss of system access. Theft of confidential/personal data. Impact Inability to make payments to members. Fines from the ICO. Financial loss. Loss of membership data. Disclosure of sensitive data.	Inherent status : 15 High Current status : 10 Medium Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 07 Oct 2019 Latest review details Risks and mitigating controls remain appropriate. Risks are reviewed quarterly by the Devon Pension Board and updated as necessary.	Green Ensure that the relevant people are suitably vetted and trained, that administrators and service providers have measures in place to avoid security breaches Green A full disaster recovery plan and Business Continuity Plan is in place and tested/updated annually Green Information from The Pensions Regulator: You can assess how secure your scheme is and find out more about protecting yourself on the government's Cyber Essentials website. And for more information about protecting against cyber threats, visit the National Cyber Security Centre's website.
PP19 - Member Self Service Cause Member Self Service access is compromised due to insecurity or lack of maintenance. Event Data is accessed and or obtained inappropriately. Impact Damage to reputation Loss of data Fines from ICO.	Inherent status : 9 Low Current status : 6 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 01 Apr 2019 Latest review details Initial input of Current risk score.	Green Information and Instructions are only accepted from authorised sources Green It is a mandatory requirement for all DCC employees to undertake Data Protection training and to adhere to DCC's Data Protection Policy Green Regular penetration testing Green Secure website (annual license renewal)

Risk details	Status and Risk owner	Mitigating controls
PP2 Failure to provide Basic information about the LGPS Cause/s Inability to access basic LGPS information via the website due to IT issues or non publication. Starter Packs not being sent and/or received by members. General scheme literature not being made available to members. LGPS Administration team not informed of new members. Event Failure to make available provide Basic information about the LGPS including: how benefits are worked out; how member and employer contributions are calculated. Impact Negative reporting by or fines from the Pension's regulator. Damage to reputation.	Inherent status : 10 Medium Current status : 8 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 01 Apr 2019 Latest review details Initial input of Current Risk Score	Green Reviews of documentation/letters Green Website regularly updated Green Links to Pension Funds investment information and LGPS included on website Completed A revised New Starter pack has been designed and is now provided to members Amber Our methods and content of communication will be reviewed to ensure that members and employers are provided with accurate and relevant information.
PP3 - Non-compliance with legislation and failure to correctly implement new legislation and regulations Cause Lack of structure/process to identify new legislation as it is released. Event Non-compliance with legislation/regulations. Impact Incorrect benefit payments. Damage to reputation. Fines from Regulators.	Inherent status : 12 Medium Current status : 6 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 01 Apr 2019 Latest review details Initial entry of Current risk score	Green LGA/External training Green Project work approach to implementation of legislative changes. Green In house training for all staff. • Use of Perspective and Bulletins Amber A Training and Technical team is now in place, following the Pension Review. The team has commenced delivering training across the teams.

Risk details ▲▼	Status and Risk owner ▲▼	Mitigating controls ▲▼
PP4 - Failure of employing authority to provide timely and accurate member data Cause Employing authorities not fulfilling their responsibilities. Event Delays in the provision of pensions member data. Inaccuracies in the pension member data. Impact Incorrect benefit calculations. Financial Loss due to compensation to members. Incorrect benefit payments Delays to payments Additional work to request and correct information	Inherent status : 12 Medium Current status : 9 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 01 Apr 2019 Latest review details Initial input of Current risk score	Green Administration Strategy in place since April 2015, employer duties clearly identified. Ability to fine employers is provided for in strategy and LGPS regulations. Green Employing authorities are contacted for outstanding information when it is identified that information is missing or contains errors. Green Outstanding data queries are passed to Employer and Communications Team to monitor Completed Guidance available on website Green Individual employer meetings include review of employer performance Amber An Employer and Communications team is now in place. The team will consider employer performance and take action to address any issues, as required.
PP6 - Communicaiton of Entitlements Cause Insufficient communication and engagement with LGPS scheme members/employers. Event Employers and or Members are not made aware of their entitlements within LGPS resulting in Non-compliance with legislation and/or best practice. Impact Inability to determine policy Employees not joining the scheme. Inability to make effective decisions and/or deliver service	Inherent status : 12 Medium Current status : 9 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 01 Apr 2019 Latest review details initial input of Current risk score	Green The Peninsula Pensions website is kept up to date Green Meetings between PP managers and Communications team on a regular basis, with a communications plan and strategy for the year ahead Green Meetings are held with the Funds Employing Authorities and on request for training Completed Benefit illustrations are sent annually to contributing and deferred Fund members Green The contact list for employers is updated regularly. Green Annual forums are held for employers and Trade Unions Green The annual report and accounts are published on the Peninsula Pensions website Amber The Peninsula Pensions Senior Management team are in the process of reviewing our communication strategy and requirements to take the service forward.

Risk details	Status and Risk owner	Mitigating controls
PP7 - Non Payment of Pension Benefits Cause Systems Failures Lack of information from employers Poor internal processes Event Pension benefits are not paid. Impact Damage to Reputation. Financial loss arising from compensation claims.	Inherent status : 12 Medium Current status : 8 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 01 Apr 2019 Latest review details Input of Current risk score	Green The payroll system is set up to pay pensioners monthly. Green Disaster recovery plan in place with Heywoods which will restore data within 7 days in the event of system failure Green The payroll manual has been revised and updated following the introduction of RTI (Real Time Information) and new administration systems. Amber Fully updated Pensioner Payroll Manual is now in place. An online training resource outlining the key payroll processes will follow in 2018
PP8 - Payment to deceased pensiosners Cause LGPS Information is not updated as circumstances change. Poor internal processes. Event Pension benefits continue to be paid to deceased pensioners. Impact Damage to Reputation. Financial loss arising from overpayments. Additional resource to recover funds	Inherent status : 8 Low Current status : 6 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 01 Apr 2019 Latest review details Initial input of Current risk score	Green All pensioners are contacted annually. Green Pension suspended if post is returned Green Pensioners are incorporated into National Fraud Initiative Green Further targeted checks are conducted with credit reference agencies as appropriate Green Monthly mortality screening is undertaken and any positive matches are ceased immediately Green Western Union overseas existence service undertaken bi annually Amber Tell us once service is being rolled out to LGPS. IT assistance has been required - one person can now access but need to extend to others

Risk details	Status and Risk owner	Mitigating controls
PP9 - Pensions transferred to other providers Cause Take up of Freedom of Choice Legislation. Event LGPS members transfer their pension pots to other pensions providers. Impact Significant cashflow out of the Fund. Reduction in assets greater than reduction in the Fund's liabilities.	Inherent status : 9 Low Current status : 6 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 01 Apr 2019 Latest review details Initial input of Current risk score	Green Effective communication of the benefits of remaining in the LGPS. Green Actuarial calculation of transfer value should ensure current fair value and not be detrimental to the fund. Green CLG monitoring CETVs nationwide and reviewing accordingly (may introduce regulations amendments to prohibit if thought necessary)

CT/20/12
Devon Pension Board
16th January 2020

REVIEW OF ATTENDANCE

Report of the County Treasurer

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

Recommendation: that the Board review the attendance of members in line with the Pension Board's Terms of Reference

1. Introduction

1.1. The Devon Pension Board's Term of Reference currently states that the board will meet four times a year in addition to training events. Attendance at these meetings and training events is recorded and reported.

2. Attendance log

2.1. The Terms of Refence also states that the membership of any member who fails to attend for two consecutive meetings or two consecutive training events shall be reviewed by the Board and shall be terminated in the absence of mitigating factors.

2.2. A log showing the attendance of both board meeting and training events is attached in appendix 1 and should be reviewed by the board.

3. Conclusion

3.1. The Board is asked to review the attendance log in accordance with the Pension Board Terms of Reference.

Mary Davis

Electoral Divisions: All
Local Government Act 1972
List of Background Papers - Nil
Contact for Enquiries: Charlotte Thompson
Tel No: (01392) 381933 Room G99

Board Member Attendance 2019/20

	Board Meeting					Training			
	03/04/2019	15/07/2019	21/10/2019			30/10/2019	12/11/2019		
Fund Members									
Bowman	Y	Y	Y			Y	N		
Shipp	N	N	Y			Y	N		
Phillips	Y	Y	Y			Y	N		
Bailey	N/A	Y	Y			Y	Y		
Fund Employers									
Slade (DCC)	Y	Y	Y			Y	Y		
Smith (Police)	N	N	Y			Resigned	Resigned		
Hearn (Tavistock)	Y	N	Y			Y	Y		
Randall Johnson (DCC)	Y	Y	Y			Y	Y		
Independent member									
Nicholls	N	Y	Y			Y	Y		

INVESTMENT AND PENSION FUND COMMITTEE

15 November 2019

Present:-

Devon County Council
Councillors R Bloxham (Chair), Y Atkinson, R Edgell, R Hosking and A Saywell

Unitary and District Councils
Councillors J Pearce, L Parker-Delaz-Ajete and J O'Dwyer

Other Employers
D Healy

Unison and Retired Members: Non Voting Observers
R Franceschini, J Rimron and S Teague

Apologies:-
Councillor A Connett

Attending in Accordance with Standing Order 25
Councillor C Slade

* 141 Minutes

RESOLVED that the Minutes of the Meeting held on 13 September 2019 be signed as a correct record.

* 142 Items Requiring Urgent Attention

There was no item raised as a matter of urgency.

* 143 Pension Board

The Committee noted the Minutes of the Devon Pension Board meeting held on 21 October 2019.

The County Treasurer confirmed that matters raised by the Board relating to drafting changes (Minute *137) and reference to Climate Change in the Risk Register (Minute *139) would be actioned by Officers.

* 144 Brunel Oversight Board

The Committee noted the Minutes of the Meeting of the Board held on 25 July 2019.

* 145 Actuarial Valuation 2019

The Committee considered the Report of the County Treasurer (CT/19/107) on the actuarial valuation of the Devon Pension Fund conducted by the independent Actuary, Barnett Waddingham. The purpose of the valuation was to establish the Fund's liabilities in relation to its assets and determine the current funding level and set contribution rates for the Fund's employers for the next three years.

Following meetings with Officers the Actuary had now provided the Fund level results from the Valuation and this was summarised in the Report. The Report outlined factors that had been taken in account, overall results and effects on individual employers and conclusions.

The Officers would now work with the Actuary to revise the Funding Strategy Statement based on the Valuation and following consultation with Employers and the Pension Board the proposed Statement would be presented to this Committee for consideration.

The Committee also received a presentation from the Actuary which covered the results of the triennial review, assumptions made and how they related, risk factors, investment strategy review and the next steps including communication with Employers.

Members noted the positive progress made towards the long term objective of 100% solvency with the funding level increasing from 84% to 91% and the deficit recovery period reducing from 22 to 19 years and the potential benefits and risks associated with allowing discounts for employers who pay deficit contributions in advance.

It was **MOVED** by Councillor Bloxham, **SECONDED** by Councillor Hosking and

RESOLVED

(a) that the process carried out by the Fund Actuary as a basis for revision of the Funding Strategy Statement, be approved;

(b) that the proposed policy for allowing discounts to employers who pay their deficit contributions in advance be approved.

* 146 Pensions Administration Strategy

The Committee considered the Report of the County Treasurer (CT/19/108) on the proposed Pension Administration Strategy (PAS). Although not a legal requirement, the PAS provided a mechanism to formulate a service level agreement between the administering authority and the scheme employers. It covered a number of areas including procedures for liaison and communication and set out the performance standards and expectations for employers and the administering authority. A PAS also helped improve governance arrangements, ensuring that scheme employers and Peninsula Pensions worked together to ensure compliance with regulations.

The draft PAS had been presented to the Devon Pension Board at its meeting on 21st October 2019 and its recommendations were incorporated in this draft Statement (attached at Appendix 1 of the Report).

Members comments/points in discussion with the Officers included:

- the relatively very small number of Employers making late payments;
- the possible impact on administration dependent on the outcome of the Mcloud Case which was still awaited, and
- Peninsula Pensions officers would work with Employers to avoid and address breaches which would now be logged and following any persistent breaches, consideration would be given to report to the Regulator and the need for close working relations for the benefit of Fund Members.

It was **MOVED** by Councillor Bloxham, **SECONDED** by Councillor Hosking and

RESOLVED the revised Pension Administration Strategy be endorsed.

* 147 Statutory Statements - Communications Policy

The Committee considered the Report of the County Treasurer (CT/19/109) on the Communications Policy which set out the Fund's policies on the provision of information and publicity about the Scheme to Fund Members and their representatives and employing authorities. It set out the format, frequency and method of distributing such information or publicity to other key organisations.

The Policy was last updated and considered by the Investment and Pension Fund Committee in November 2018. Further changes had been made to the Policy as set out in the Report which had been discussed by the Pension Board at their meeting in October 2019, and their comments were also reflected in the revised Policy (Appendix 1 to the Report).

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

RESOLVED that the revised Communications Policy be approved.

* 148 Investment Management Report

The Committee considered the Report of the County Treasurer (CT/19/110) on the Fund value and asset allocation, performance against the benchmark, funding level, budget monitoring, cash management and engagement activity.

The Fund value at 30 September 2019 stood at £4,558.6m, an increase of £94m over the quarter.

Members noted a substantial payment by an Employer to eliminate their deficit.

It was **MOVED** by Councillor Saywell, **SECONDED** by Councillor Bloxham and

RESOLVED

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

(b) that compliance with the 2019/20 Treasury Management Strategy also be noted.

* 149 Private Markets Allocations

The Committee considered the Report of the County Treasurer (CT/19/111) on proposed private market investments in line with the Strategic Investment Review which had been conducted by Mercer Investment Consultants in 2017 relating to infrastructure, private debt and private equity. The Report also reviewed the direction of travel and proposed that additional commitments should be made to move towards the long-term target allocation.

The Committee's Independent Adviser fully supported the proposal.

It was **MOVED** by Councillor O'Dwyer, **SECONDED** by Councillor Parker Delaz-Ajete and

RESOLVED that the following further commitment in private markets be approved

(a) £250 million to the Brunel Infrastructure Portfolio;

(b) £100 million to the Brunel Private Debt Portfolio; and

(c) £125 million to the Brunel Private Equity Portfolio.

* 150 Global Investor Statement to Governments on Climate Change

The Committee considered the Report of the County Treasurer (CT/19/112) on a proposal by the Brunel Partnership for the County Council to sign up to the Global Investor Statement to Governments on Climate Change. This represented a call from investors to policy makers for the full and urgent implementation of the Paris Agreement, a quicker transition to a low carbon economy and greater climate-related financial reporting. The statement was attached as Appendix 1 to this Report.

It was **MOVED** by Councillor Bloxham, **SECONDED** by Councillor Saywell and

RESOLVED that the Devon County Council Pension Fund becomes a signatory to the Global Investor Statement to Governments on Climate Change.

* 151 Dates of Future Meetings

28 February 2020, 19 June 2020, 18 September 2020, 27 November 2020 and 26 February 2021 all at 10.30 am at County hall, Exeter,

* 152 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.

* 153 Brunel Pension Partnership - Transition of Assets and Reserved Matters

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

The Committee considered the Report of the County Treasurer (CT/19/113) on Brunel's progress in setting up the Property, Emerging Markets, Active High Alpha Global Equities and Diversified Growth portfolios and proposed actions required to transition from the current diversified growth fund investments. The Report also provided an update on the current position with regard to the remuneration terms of the vacant Brunel Chief Executive Officer post and current issues around Brunel's governance arrangements.

It was **MOVED** by Councillor Bloxham, **SECONDED** by Councillor Hosking and

RESOLVED

(a) that the County Treasurer be authorised to terminate the current investment in the diversified growth funds at the appropriate time and liaise with the Brunel Pension Partnership to arrange the transition of assets to the Brunel DGF Portfolio; and

(b) that the position with regard to the Brunel governance review be noted.

* 154 Devon Fund Governance Review

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

The Committee noted the Report of the County Treasurer (CT/19/114) on a review by the Pensions Regulator of the governance arrangements of 10 unnamed LGPS funds selected at random which had taken place between October 2018 and July 2019 and which had included the Devon Fund. Following the Regulator's work with the Devon Fund a letter detailing their observations had been received and reported to the Pension Board at its meeting on 21 October 2019. Officers reported that, whilst it had been a detailed and time consuming exercise, it had been a very useful review of all operations.

The Board had commended the positive findings arising from the thorough independent review and congratulated the senior officers and staff involved. This view was endorsed by the Committee.

The Pension Regulator had now published its report on the whole LGPS engagement exercise which can be found at:
https://www.thepensionsregulator.gov.uk/en/document-library/research-andanalysis/governance-and-administration-risks-in-public-service-pension-schemes-anengagement-report

None of the participating funds were named in the wider Report.

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

The Meeting started at 10.30 am and finished at 12.20 pm

CT/20/13
Devon Pension Board
16th January 2020

PENINSULA PENSIONS PERFORMANCE REPORT

Report of the County Treasurer

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

Recommendation: The Board notes the report.

1. Introduction

1.1. Peninsula Pensions' internal service standard target is to complete 90% of work within 10 working days from the date that all necessary information has been received.

1.2. In addition to the internal targets, Peninsula Pensions also monitors performance against the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, which set out the minimum requirements regarding the disclosure of pension information. This additional reporting element was introduced from 1st January 2019.

1.3. Performance targets are monitored on a monthly basis via a task management system and reporting tool within the pension database.

2. Team Performance

2.1. At the previous meeting of the Board, it was reported that the administration performance for the financial year for the first quarter of 2019/20 against internal targets was 90% (compared with 78% for 2018/19).

2.2. Performance for the most recent quarter, ending 30th September 2019, has dropped slightly to 88% against our internal targets, bringing the total performance for the financial year to date to 89%. Our performance against the Disclosure Regulations for the most recent quarter is 93%.

2.3. With continued training, streamlining of processes and improved communications with employers we are seeing a significant reduction in the number of outstanding cases. At the time of writing this report, the total number of Devon cases on the system stands at approximately 6,600 which is the lowest on record since the formation of Peninsula Pensions. To put this in perspective, there were over 11,000 cases on the system as at October 2018. This is particularly encouraging considering that the team was under-resourced for large periods of 2018/19, in addition to implementing new ways of working and recruiting and training new team members of the team.

2.4. Appendix 1 of the report provides a detailed breakdown of administration performance relating to the Devon Pension Fund only for the quarter ending 30th September 2019 against Peninsula Pensions' internal targets and against the Disclosure Regulations.

2.5. Appendix 2 of the report presents the longer-term performance of Peninsula Pensions (Devon Fund only) from 1st January 2018 to 30th September 2019. Members will note that the total number of cases outstanding continues to reduce.

3. Conclusion

3.1. The Board is asked to note the performance report.

Mary Davis

Electoral Divisions: All
<u>Local Government Act 1972</u>
<u>List of Background Papers - Nil</u>
Contact for Enquiries: Dan Harris
Tel No: (01392) 383000

Q2 Administration Performance – 01/07/2019 to 30/09/2019 (Devon Pension Fund)

Performance Summary

		Q2 2019		Year to date	
	Total Cases	Performance (Internal)	Performance (Disc Regs)	Performance (Internal)	Performance (Disc Regs)
High Priority Procedures	6,463	89%	90%	92%	93%
Medium Priority Procedures	8,761	89%	96%	89%	97%
Low Priority Procedures	2,287	81%	93%	83%	95%
TOTAL	**17,511**	**88%**	**93%**	**89%**	**95%**

High Priority Cases

		Q2 2019		Year to date	
	Total Cases	Performance (Internal)	Performance (Disc Regs)	Performance (Internal)	Performance (Disc Regs)
Changes	1,535	100%	100%	100%	100%
Complaints (Member)	19	100%	100%	100%	100%
Complaints (Employer)	-	-	-	-	-
Deaths	536	74%	80%	78%	85%
Payroll	1,540	97%	97%	98%	99%
Refunds	473	100%	100%	100%	100%
Retirements (Active)	987	69%	70%	76%	78%
Retirements (Deferred)	1,373	85%	86%	89%	90%
TOTAL	**6,463**	**89%**	**90%**	**92%**	**93%**

Medium Priority Cases

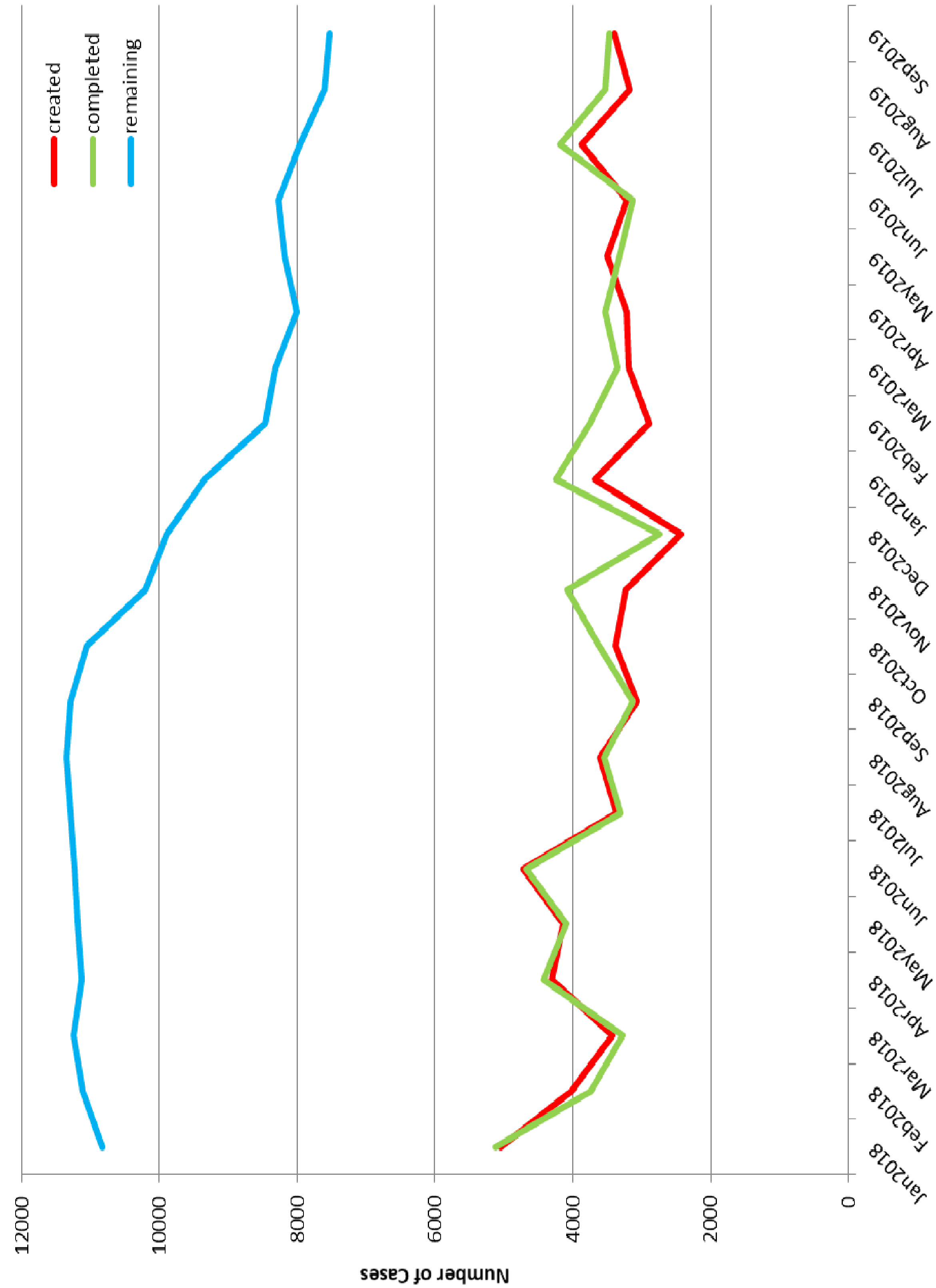
		Q2 2019		Year to date	
	Total Cases	Performance (Internal)	Performance (Disc Regs)	Performance (Internal)	Performance (Disc Regs)
Amalgamation of Records	1,267	64%	91%	66%	96%
Deferred Benefit Calculations	1,478	90%	93%	92%	96%
Divorce Calculations	134	100%	100%	99%	99%
Employer Queries	1,346	74%	89%	70%	89%
Estimates (Bulk)	295	-	-	100%	100%
Estimates (Employer)	127	100%	100%	100%	100%
Estimates (Member)	488	95%	96%	97%	98%
General	906	100%	100%	100%	100%
HMRC	45	100%	100%	91%	98%
Member Self-Service	2,675	100%	100%	100%	100%
TOTAL	**8,761**	**89%**	**96%**	**89%**	**97%**

Appendix 1

Low Priority Cases

		Q2 2019		Year to date	
	Total Cases	Performance (Internal)	Performance (Disc Regs)	Performance (Internal)	Performance (Disc Regs)
Estimates (Other)	113	86%	89%	84%	89%
GMP Queries	-	-	-	-	-
Interfund Transfers In	161	42%	87%	42%	91%
Interfund Transfers Out	120	51%	87%	43%	90%
Pension Top Ups	290	99%	99%	98%	100%
Frozen Refunds	687	95%	95%	97%	97%
New Starters	87	73%	73%	94%	94%
Pension Transfers In	554	77%	91%	73%	94%
Pension Transfers Out	275	93%	96%	91%	97%
TOTAL	**2,287**	**81%**	**93%**	**83%**	**95%**

Administration Performance – 01/01/2018 to 30/09/2019 (Devon Pension Fund)



CT/20/14
Devon Pension Board
16th January 2020

TPR Code of Practice 14: Governance and Administration of Public Service Pension Schemes

Report of the County Treasurer

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

Recommendation: **The Board notes the report and is invited to comment on the Code of Practice toolkit and compliancy ratings, which will be demonstrated during the meeting.**

1. Introduction

1.1. From the 1st April 2015, The Pensions Regulator assumed responsibility for the governance and administration of all public sector pension schemes. Code of Practice 14 was issued to assist schemes in complying with The Pensions Regulator's expectations and applies specifically to the governance and administration of public service pension schemes.

1.2. The Code is directed at scheme managers and the members of Pension Boards of public service pension schemes and connected schemes.

2. Code of Practice 14

2.1. The Code provides practical guidance in relation to the exercise of functions under pension scheme legislation and sets out the standards of conduct and practice expected from those who exercise these functions.

The Code can be viewed via the following link:

https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-14-public-service-pension-code-of-practice

2.2. Code of Practice 14 covers the governance and administration of the Fund over the following 4 areas:

- Governing your scheme
- Managing risks
- Administration
- Resolving issues

2.3. The Code is not a statement of the law and there is no penalty for failure to comply. It is not necessary for all the provisions of the Code to be followed in every circumstance.

2.4. During 2018/19, the Devon Pension Fund was selected by The Pensions Regulator for an engagement review. Prior to the review, officers carried out an in-depth assessment of the Fund's compliance against each area of the Code. To assist with the review, officers from Peninsula Pensions created a TPR Compliance Review toolkit.

2.5. The toolkit breaks down each area of the Code into individual elements, against which officers are able to provide links to evidence, provide comments and record any action plans in order to demonstrate compliance or to identify areas requiring action or improvement. A score is then assigned to each element of the code, to indicate full compliance, partial compliance or non-compliance.

2.6. The toolkit collates the scores assigned to each element of the Code and summarises the results in a user friendly report, allowing the user to easily assess the level of compliance.

2.7. Officers will provide a demonstration of this toolkit during the meeting, which will include an update on our latest compliancy score.

3. Conclusion

3.1. The Board is asked to note the report and is invited to comment on the toolkit and compliancy ratings, which will be demonstrated during the meeting.

Mary Davis

Electoral Divisions: All
Local Government Act 1972
List of Background Papers - Nil
Contact for Enquiries: Dan Harris
Tel No: (01392) 383000

CT/20/15
Devon Pension Board
16th January 2020

ACTUARIAL VALUATION 2019

Report of the County Treasurer

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

Recommendations: that the Board notes the approach and progress of the 2019 triennial valuation of the Pension Fund.

1. Introduction

1.1. Every three years Devon County Council (as the administering authority) is required to have an actuarial valuation of the Devon Pension Fund conducted by a qualified independent actuary. Barnett Waddingham are the Council's appointed Fund Actuaries.

1.2. The purpose of the valuation is to establish the Fund's liabilities in relation to its assets and determine the current funding level, and to set contribution rates for the Fund's employers for the next three years. The approach to the Valuation has to take into account Section 13 of the Public Sector Pensions Act 2013.

1.3. The Actuary met with officers in September to confirm the assumptions to be used for the valuation. The Actuary has now provided the Fund level results from the Valuation and this is summarised in this report. Melanie Durrant and Louise Lau from Barnett Waddingham attended and presented the results to the Committee and also the employers meeting in November.

2. Factors taken into consideration

2.1. The triennial actuarial valuation examines how the assumptions built into the previous valuation have fared and then considers future prospects for the Fund. The Actuary has to certify levels of contribution to secure the solvency of the Devon Fund, but also have regard to the desirability of maintaining as stable a contribution rate as possible.

2.2. The Actuary also has to take into account Section 13 of the Public Sector Pensions Act 2013. This provides for an independent review (by the Government Actuary's Department (GAD)) of the valuation and employer contribution rates to check that they are appropriate and requires remedial action to be taken where that review identifies a problem. The Actuary will therefore aim to ensure that the assumptions applied will lead to contribution rates that ensure the long term cost efficiency of the fund and achieve solvency over an appropriate period, and thereby seek to avoid any red flags when GAD carry out their review. Long term cost efficiency is now seen as a requirement while stability of contribution rates is only "desirable".

2.3. The following factors, outlined in paragraphs 2.4 to 2.6, have been considered by the Actuary and have been taken into account in the current valuation, and calculation of the level of deficit and future contribution levels.

2.4. ***Inter-valuation experience*** – The valuation will be impacted by what has happened over the three years since the last valuation, compared to the assumptions made by the actuary at the time. The experience of pay and pension increases and mortality rates against the assumptions made in 2016 have been marginal. However, investment returns have been above the expected level, 9.1% per year against the actuarial assumption of 5.5%, and this has had a positive effect in reducing the deficit position.

2.5. ***Revised assumptions*** – These include:

(a) Price Inflation – based on the Bank of England's 20 year inflation curve, average CPI estimated at 2.6% in projecting future liabilities. This compares with an estimate for CPI of 2.4% at the 2016 Valuation.

(b) Salary Increases – Assumed to be equivalent to CPI until 31 March 2020, and 3.9% thereafter. The level of pay increases takes into account the effect of increments and promotions for individual members of the Fund, not just the national pay awards.

(c) Statistical Assumptions – The key factor influencing pension liabilities is pensioner mortality, i.e. how long pensioners will be receiving their pension. The Actuary uses national statistical tables and then adjusts them based on an analysis of the Devon Pension Fund's membership. Improvements in longevity have slowed down at a national level, and this has resulted in reduced longevity assumptions, and therefore a reduced impact on the Fund's liabilities.

(d) Discount Rates – In determining the value of accrued liabilities and future contribution requirements it is necessary to discount future payments to and from the Fund. Barnett Waddingham's approach is to reflect the investment return expected to be achieved from the underlying investment strategy. The investment return going forward has been assumed to be 5.1%, which compares with an assumption of 5.5% at the last valuation. This is summarised in the following table:

Actuarial Valuation 2016 - Breakdown of Discount Rate

Asset Class	Percentage of Fund	Assumed Return	Real (relative to CPI)
Equities	58%	6.7%	4.1%
Bonds	15%	2.6%	0.0%
Property and Infrastructure	18%	6.1%	3.5%
Cash	1%	0.8%	-1.8%
Diversified Growth Funds	8%	4.8%	2.2%
Expenses (deduction)		-0.2%	
Neutral estimate of discount rate based on long-term investment strategy		**5.6%**	**3.0%**
Prudence allowance		-0.5%	
Discount rate assumption		**5.1%**	**2.5%**

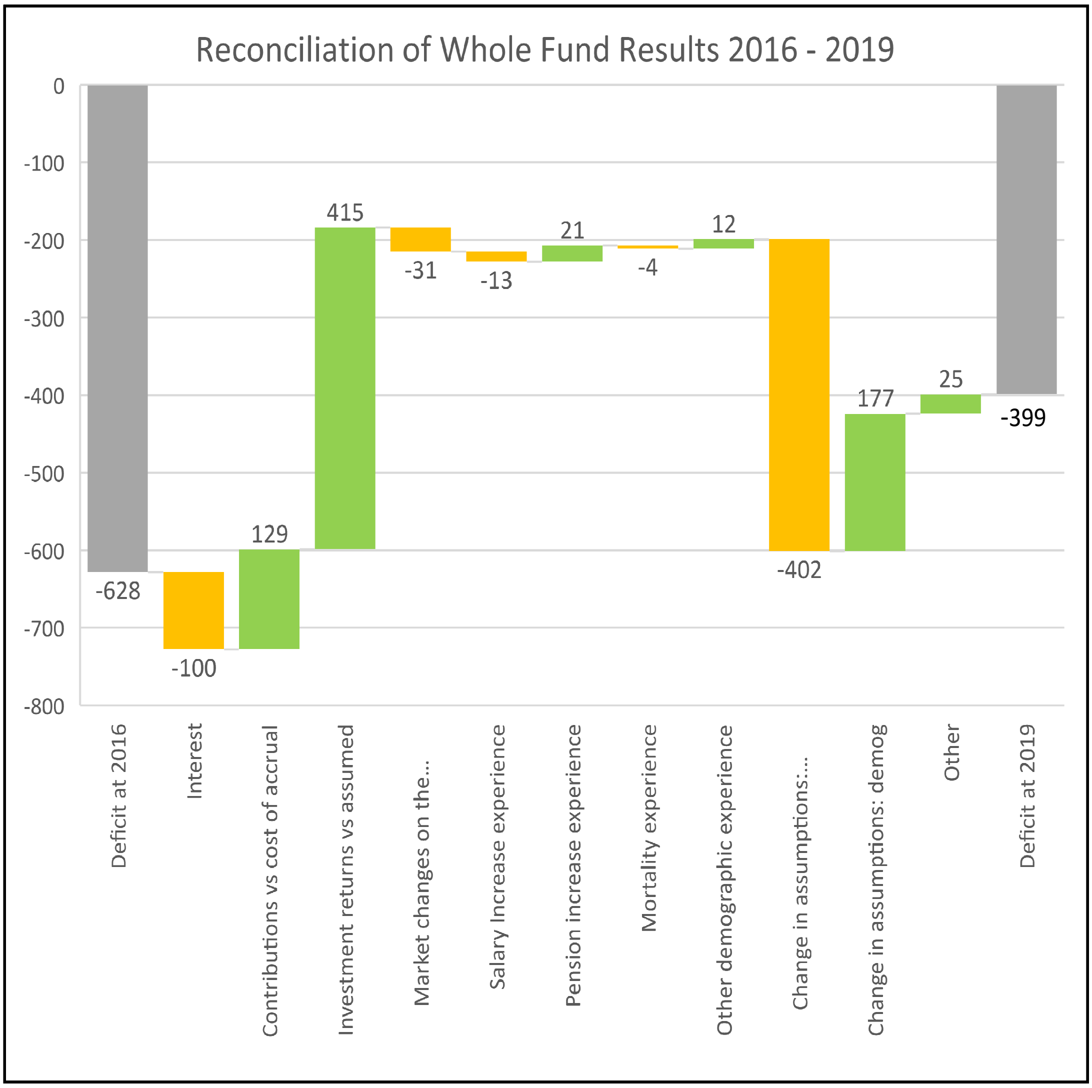
2.6. ***Deficit recovery period*** – At the last valuation the length of the recovery period was reduced from 25 to 22 years. At this valuation the Actuary has reduced the average recovery period to 19 years. There is some logic to this, in that the ultimate aim is to reach 100% funding, and as we are three years further on since the last valuation, a reduction of three years in the recovery period demonstrates that the Fund is progressing towards that goal. Reducing the recovery period will decrease the level of risk to the Fund and reduce the cost of meeting the deficit.

3. Overall results

3.1. The Actuary has determined that the Devon Fund has a funding level of 91%, up from 84% at the 2016 Valuation. The Fund's assets were valued at £4,273m against future pension liabilities assessed at £4,672m, giving a deficit for this valuation of £399m. This, along with the comparative figures for the previous valuation in 2016, is shown in the table below:

	2016 Results	***2019 Results***
Assets	£3,311m	£4,273m
Liabilities	£3,939m	£4,672m
Deficit	(£628m)	(£399m)
Funding Level (whole Fund)	84%	91%

3.2. The following table shows a reconciliation of the deficit as at 31 March 2016 with the deficit as at 31 March 2019:



3.3. The change in financial assumptions, i.e. the reduction in the discount rate, will result in higher primary rate contributions for employers. The primary rate is the rate payable for the additional pension liabilities accrued during the year. The average primary rate for employers will increase from 14.9% to 16.9% of pensionable pay. However the improved funding level will result in lower deficit contributions being required, which will offset the increased primary rate. This is summarised in the table below:

	2016 Results	***2019 Results***
Primary Rate	14.9%	16.9%
Deficit Contributions	£36.3m	£22.2m
Total Projected Contributions as % of Payroll	20.9%	20.5%

4. Effects on Individual Employers

4.1. The valuation results presented in this report represent the average for the Fund. The position of each employer will be different, based on the profile of their fund members and cashflows in and out of the Fund. As a result, some fund employers will see their overall contribution rates, including deficit payments, reduce, while others will see increases. However, the Actuary will aim to maintain stable contribution rates where possible. As in previous years deficit contributions will be quoted as cash amounts rather than as a percentage of pensionable pay.

4.2. In order to achieve as stable a rate as possible, groups of smaller employers have been put together in pools to even out their contribution rates. This reduces the level of volatility in their contributions. At the 2016 Valuation academies were pooled by Local Education Authority (LEA) area. However, as many multi-academy trusts now cross LEA boundaries, it is proposed to put all academy employers into a single pool.

4.3. It is recognised that where there are contribution increases, this will place extra pressure on employers following the long period of austerity, but as outlined in paragraph 2.2 above the Fund needs to ensure that sufficient contributions are being paid to ensure long term cost efficiency and achieve full funding over an appropriate period. This is a requirement of Section 13 of the Public Sector Pensions Act 2013, and will be reviewed by the Government Actuary’s Department once the Valuation is complete.

4.4. In order to assist employers seeking to reduce their costs some LGPS funds give a discount to employers who pay their contributions early. Where contributions are paid early, this provides the opportunity to invest them at an earlier stage and therefore provide a return to offset the impact on the Fund of the discount given. This can work well when the fund enjoys a positive return, but can be a risk if the contributions are paid just before a period of negative returns. That risk would fall upon the employer paying their contributions early, rather than on the Fund as a whole.

4.5. Assuming that the forecast investment return equates to the discount rate used by the Actuary in undertaking the Valuation, then the appropriate discount would be half the discount rate. However, some further allowance should also be made for prudence, recognising the risk to achieving the forecast investment return. It is therefore been agreed to allow employers a 1.5% discount on early payment of their set deficit contributions, where they are set cash amounts, on the proviso that the payment is received on or before the date on which their April contributions are paid. No discount would be applied to primary rate contributions. If an employer wishes to pay three years of deficit contributions in advance, then a discount of 4.5% will be applied.

5. Conclusion

5.1. The 2019 Valuation demonstrates that the Fund is making progress towards the long term objective of 100% solvency, with the funding level increasing from 84% to 91%, and the deficit recovery period reducing from 22 to 19 years. The reduction in the average recovery period will help to reduce the cost of pensions in the longer term.

5.2. The vast majority of fund employers were notified of their new employer rates by the end of December save for a handful of admitted bodies and some post 2019 new academies which are outstanding. The formal certification of the rates will not be until the end of March, in order to take into account any issues that are identified in the intervening period. However, it is unlikely that the results will change significantly from the provisional results.

Mary Davis

Electoral Divisions: All
Local Government Act 1972
List of Background Papers - Nil
Contact for Enquiries: Charlotte Thompson
Tel No: (01392) 381933 Room G97

CT/20/16
Devon Pension Board
16th January 2020

ACTIONS AND RECOMMENDATION TRACKERS

Report of the County Treasurer

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

Recommendation: that the Board notes funds progress on completing actions arising from internal audits and Pension Board member recommendations or requests.

1. Introduction

1.1. As part of an agreed actions from previous board meetings an Audit action log has been created to track progress and completion of audit actions and recommendations. In addition, officers have also produced a log of actions and requests raised by the Pension Board.

2. Trackers

2.1. The Audit Actions tracker allows Board Members to monitor responses, actions and progress against audit findings from internal audit reports. The programme of internal audits is agreed with fund officers on an annual basis and undertaken throughout the year. Trackers relating to previous years are attached where actions remain outstanding.

2.2. The Actions and Recommendations tracker compiles a list of actions, recommendations and requests raised by the Devon Pension Board. The attached list includes items dating back to April 2018. Previously completed actions have been removed

3. Conclusion

3.1. The Board is asked to note the attached action trackers.

Mary Davis

Electoral Divisions: All
Local Government Act 1972
List of Background Papers - Nil
Contact for Enquiries: Charlotte Thompson
Tel No: (01392) 381933 Room G99

Recommendations 2018/19	Priority	Management response and action plan including responsible officer	Follow up response	ACTIONED?
Peninsula Pensions (total days 45)			[redacted]	
Audit	**Days**	**Proposed Quarter**		
Communication with Stakeholders (joint audit, 16 days in total)	8	Q1*		
General Data Protection Regulations (GDPR) compliance	8	Late Q1/early Q2		
Death in service / Death of Pensioners	10	Q3		
Quality assurance/control area	8	Q4		
Planning, reporting and advice	5	Q1-4		
Contingency	6			
Communication with Stakeholders				
The planned revision to the Communications Policy should include reference to the General Data Protection Regulations which came into effect in May 2018. Should GDPR communications compliance activity be deemed by management to constitute a 'material change' in policy, it is recommended that the Communications Policy should be updated immediately to reflect this.	**High**	Agreed. GDPR will be considered in relation to the Communication Policy and revision due to take place this year, prior to the November 2018 IPFC meeting, and alongside item d) at recommendation 1.1.3 below regarding Data Protection. Devon Pension Fund - Assistant County Treasurer (Investments & Treasury Management) by 30/11/18)		1/2/19 confirmed by CT Investments Manager that Communications Policy was updated shortly after this audit and approved by Committee November 2018
The next scheduled review of the Communications Policy provides management with an opportunity to give consideration to the relevant provisions of the Pensions Regulator Code of Practice 14 'Governance and Administration of Public Service Pension Schemes', that relate to communication standards, and to update the Communications Policy accordingly, as required.	**Opportunity**	Agreed. Consideration will be given to this in relation to the Communication Policy revision due to take place this year, and alongside recommendation 1.1.4 where the Pension Regulator's Code makes reference to statutory provision of information requirements. Devon Pension Fund - Assistant County Treasurer (Investments & Treasury Management) (by 30/11/18)		1/2/19 confirmed by CT Investments Manager that Communications Policy was updated shortly after this audit and approved by Committee November 2018
The following examples of areas covered within other Pension Fund Communications Policies, are provided for management consideration in relation future revision of the Devon Pension Fund Communications Policy:		Agreed. Consideration will be given to these examples in relation to the Communication Policy revision due to take place this year. Devon Penison Fund - ACC (Investments & Treasury Management) by 30th November 2018		1/2/19 confirmed by CT Investments Manager that Communications Policy was updated shortly after this audit and approved by Committee November 2018
a) Annual review of the Fund's Communications Policy b) Reference to Pensions Helpline number / email within the Policy document				
c) Reference to improving Service Standards e.g. seeking stakeholder feedback and the means for this e.g. on-line/Smart phone feedback form, feedback form included alongside Annual Benefit statement, feedback sought at all engagement events.		Avon Pension Fund's communications activity is identified as a potential good practice example for peer comparison purposes, for which the Avon Pension Fund webpages http://www.avonpensionfund.org.uk/ and on-line customer survey http://www.avonpensionfund.org.uk/customer-survey refer		
d) Inclusion of a section on Data Protection e) Reference to Pensions Pooling arrangements and Brunel Pension Partnership Ltd	**Opportunity**			

The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 are applied by the service in relation to requests for information. Reference to these Regulations could be included within the Communications policy.	**Low**	Agreed. Consideration will be given to this in relation to the Communication Policy revision due to take place this year, and alongside recommendation 1.1.2. Devon Pension Fund - ACC (investments & treasury management) by 30th November 2018		1/2/19 confirmed by CT Investments Manager that Communications Policy was updated shortly after this audit and approved by Committee November 2018
It is recommended that management give consideration to CIPFA Guidance 'Delivering good governance in Local Government' in relation to effective engagement with stakeholders, and the West Midlands Pension Fund – good practice in stakeholder engagement case study included therein, in relation to possible application to future DPF Communication Policy revision.	**Opportunity**	Agreed. Consideration will be given to this in relation to the Communication Policy revision due to take place this year. Devon Pension Fund - ACC (Investments & Treasury Management) by 30th November 2018		1/2/19 confirmed by CT Investments Manager that Communications Policy was updated shortly after this audit and approved by Committee November 2018
It is recommended that consideration to be given to making clear reference within the Communications Policy to the availability of information in alternative formats, e.g. Braille or audio version, how this can be requested by stakeholders and how the service would facilitate this.	**Medium**	Agreed. Consideration will be given to this in relation to the Communication Policy revision due to take place this year. Devon Pension Fund - ACC (Investments & Treasury Management) by 30th November 2018		1/2/19 confirmed by CT Investments Manager that Communications Policy was updated shortly after this audit and approved by Committee November 2018
Quantitative measures for which the service could make provision to collect, measure and monitor include: i) satisfaction survey results relating to Communications and use/content of website; and ii) website usage figures, including in relation to the DPF Investments and LGPS webpages, and, should it be possible to do so, the number of 'hits' against the on-line Communications Policy document (when the updated document is communicated to stakeholders and published).		Agreed. Conversations are on-going between Peninsula Pensions management and the DCC Communications Team in regard to the collection and analysis of website usage figures (including in relation to 'new views', 'bounce back' etc) and discussion will take place internally regarding the appropriate timescale for consideration of implementation of additional customer feedback mechanisms regarding the Devon Pension Fund - Communication Policy and potentially additional Peninsula Pensions webpages. Customer feedback is also being sought from employers and via management client liaison.		Actioned -new website (ongoing)
It is recommended that the service progress monitoring and analysis of website usage figures, and consideration of an on-line website satisfaction survey, and that thought should also be given to monitoring satisfaction with communication outside of that provided on-line.	**Medium**	A review of website content is planned for this financial year and this recommendation will be considered alongside that review. Head of Peninsula Pensions		Actioned -new website (ongoing)
It is recommended that management consider resource availability to take forward the work of making the Communications strategy a living document following the internal restructure exercise.	**Opportunity**	Agreed - Head of Peninsula Pensions		Actioned
It is noted that there are Peninsula Pensions webpages, applicable to LGPS members and employers, which would benefit from updating. These include, at the time of audit, 'Member News', 'Member Newsletters' and 'Employer News'.		Agreed. This will be considered including within the website review and as per recommendation 2.2.1 above.		Have arranged regular meetings with DCC comms team to ensure pages are regularly reviewed and are kept up to date
Furthermore, other than the on-line 'Contact Us' form, there was no easily located customer feedback form or pop-up on-line survey found. It is noted that a survey for website users is something that is planned by Peninsula Pensions.		Head of Peninsula Pensions		Actioned - Customer feedback option added to contact us page

It is recommended that customer feedback mechanisms are reviewed and planned activity in this area be progressed. As per Risk 1, Avon Pension Fund on-line customer satisfaction / feedback mechanisms are proposed as a possible good practice example	**Medium**			
It is recommended that management establish a contract or Service Level Agreement with the DCC Communications Team for services to be provided in 2018/19 by DCC, in order to ensure that working arrangements are documented, including the cost to be paid by Peninsula Pensions and level of service to be provided by the DCC Communications Team.	**Medium**	Agreed. This is in-hand and is being taken forward as a high priority action by management. Head of Peninsula Pensions		In progress
General Data Protection Regulations (GDPR) compliance				
It is recommended that the GDPR Project Risk Register Risk be further populated including in relation to risk scoring, updated on an on-going basis and to form part of the internal management conversation on GDPR, and for links to be made as required to the published DPF/PP Risk Register as appropriate.	**Medium**	Agreed. Head of Peninsula Pensions, and Technical & Compliance Manager – by 31 March 2020.		In progress
Data Protection Impact Assessments should be undertaken, and a process established for this process to become 'business as usual' for the service, including in relation to written process notes to be prepared and communicated to relevant teams regarding the required process to be followed.	**Medium**	Agreed. Head of Peninsula Pensions, and Technical & Compliance Manager, in liaison with DCC Data Protection Officer – by 31 March 2019.	Use same procedure as Devon County Council - link on GDPR Project document	Yes - No further action required
Management should establish, and in liaison with DCC Data Protection Officer as required, whether there is further action that is required to be taken by the service regarding 'data' transferred out side of the European Economic Area (EEA) in relation to Western Union pension payments made to bank accounts outside of the UK and correspondence to members living abroad.	**Medium**	Agreed. Head of Peninsula Pensions, and Technical & Compliance Manager, in liaison with the DCC Data Protection Officer – by 31 March 2019.		Actioned
Management to identify and take forward any required action resulting from the output from GDPR compliance questionnaires issued to third parties outside of DCC procurement processes (these bodies are understood to be Heywoods, Stormpress, Hugh Symons, RNIB, Target).	**Medium**	Agreed. Head of Peninsula Pensions, and Technical & Compliance Manager, in liaison with the DCC Data Protection Officer – by 31 March 2019.	All third parties have Data processing agreements in place	Yes - No further action required
The project and service will need to allow adequate time and resource to addressing the 'historic' paper records held by Peninsula Pensions, which are understood to be located at various locations (including Great Moor House, County Hall and Larkbeare); and consideration of 'historic' data held on the Altair system, for all client areas (including previous client areas), in liaison with the system provider Heywoods.	**High**	Agreed. In view of developing a high level plan or strategy for addressing historic records. Head of Peninsula Pensions, and Technical & Compliance Manager. The review of historic records will be a longer term piece of work for which resource will need to be identified to aid completion.	Head of PP to liaise with County Hall to arrange removal / destroyal of historic papers held there. Need to consider re removal of data in line with retention policy going forwards (ALTAIR)	Head of PP contacted DCC facilities management to arrange disposal - in progress
It is recommended that management prepare an internal process notes document for data security and data breach procedures and for this to be communicated to all staff.	**High**	This has been completed. The process is documented within training material, which has been communicated to officers. The documentation is located within the Peninsula Pensions central repository on SharePoint, and this location has been communicated to officers.		Yes - No further action required

Management may wish to consider, for internal reference purposes, completion of the ICO data protection self-assessment toolkit.	**Opportunity**	Agreed. Technical & Compliance Manager, in liaison with the Head of Peninsula Pensions, to consider utilising the ICO toolkit, if deemed appropriate for the service. By 31 March 2020.		Agreed - to be actioned
Death in service / Death of Pensioners				
It is recommended that comprehensive written procedure notes be developed and maintained for use by Benefits team members involved in Death In Service / Death of Pensioner processes, for training and reference purposes.	**Medium**	Death in Service and Survivor procedure notes are now in place for use by the Benefits team. Management will ensure that all additional procedure notes, relating to 'death' processes are in place. Technical & Compliance Manager – by 31 March 2019.	Technical Manager (MG) to ensure in place on Pensioner Payroll team - to liaise with Pensioner Payroll Manager AT (11/1/19)	Actioned - procedure notes relating to 'death' processes in place (and have been since at least 2009 - on SharePoint)
It is recommended that all staff involved in the Death in Service / Death of Pensioners processes should be suitably trained, and their work monitored particularly in relation to the work of new or inexperienced team members, until the required level of competency is reached.	**Medium**	Agreed. Training in this area is on-going and will continue to be monitored by management. Head of Peninsula Pensions and Technical & Compliance Manager.	Form part of QA/QC arrangements	Ongoing
It is recommended that the Service review of internal Quality Check processes considers the initial audit advice, relating to the control environment, provided in 2017-18.	**Medium**	Agreed. Internal review of quality check processes is due to commence in Q4. This will include consideration of internal audit input and advice. Technical & Compliance Manager.		Arranged Feb 2019
In relation to purchasing of death certificates, it is recommended that only the named credit/debit card holder(s), in each case, procure required certificates and that, if necessary, Service working practices be updated to reflect this. Where there is a requirement for more than one person in the team to make purchases, the Service should consider what other options might be available, e.g. via issue of an additional card(s) or alternative means of purchasing.	**Medium**	This matter has been addressed. Additional cards have been issued to relevant team members. Head of Peninsula Pensions.		No further action required
It is recommended that management consider contingency arrangements in respect of Payroll death in service, death of member processes and in relation to review of team member access to information such as the General Register Office registers, the LGPS National Insurance Number database system, as part of these processes.	**Medium**	The support arrangements in place are considered to be sufficient. Workplace process videos are planned, making use of available technology, for training and continency purposes. Technical & Compliance Manager.	Pensioner Payroll manual in place - Technical Manager to liaise with Pensioner Payroll Manager and arrange consideration of video software - commencing with 'running of payroll'	In progress
The use of the National Insurance Database should be taken forward to ensure compliance with regulations.	**Low**	Management will give consideration to this. Technical & Compliance Manager – by 30 September 2019.		Actioned
It is recommended that the Service continues to undertake regular deceased person matching/screening processes, and that resource is maintained to promptly review and action the outputs from these processes where action is required by the Service to prevent pensions overpayment.	**Medium**	Agreed. Head of Peninsula Pensions and Technical & Compliance Manager.		No further action - ongoing procedure
For business continuity purposes, it is recommended that more than one staff member be given access to and training on use of Tell Us Once, for the purpose of receiving and actioning death of member/pensioner notification. Consideration should also be given to how on-line notification is received outside of DCC, including from Somerset, Torbay and Plymouth council areas.	**Medium**	Agreed in relation to team member access to and training on use of Tell Us Once. Technical & Compliance Manager – arrangements for this to be initiated by 31 March 2019. Not agreed in relation to notification from outside of DCC as this is outside of Peninsula Pension's remit and would require national initiative.	2 officers have access - EER & Comms Manager and Pensioner Payroll Manager - consider additional user login	Actioned
It is recommended that amounts owing, relating to death in service / death of member processes, continue to be monitored and regularly reported to management.	**Medium**	Agreed. Head of Peninsula Pensions and Technical & Compliance Manager.		No further action required - ongoing procedure (Finance team)

Recommendations 2019/20	Priority	Management response and action plan including responsible officer	Follow up response	ACTIONED?
			[redacted]	
Employer Contributions				
Management to consider implementing an annual review and testing of the Pensions Contributions Database. It is suggested that this should include •review of the standing data input for each financial year i.e. employer contrition rates and deficit values, to ensure that all Devon Pension employers and rates/values are accurately recorded on the database. •review of the use of Finest reporting, to ensure that all codes are included within the reports used, •review of the spreadsheets used for upload to the database are comprehensive, including the accurate use of formulas where applicable, •that information uploaded to the database is fully and accurately uploaded •and that database settings are accurately used in relation to reconciliation of contribution and deficit values received and values outstanding. Whilst the agreed audit days for the 2019-20 Employer Contributions audit review have now been fully utilised, Database integrity testing could be requested for inclusion in the 2020-21 internal audit plan, and/or in future years, if required.	Opportunity	Management may consider use of internal audit days to incorporate annual review and testing of the Pensions Contributions Database, whilst the database remains in its current form. However, this requirement would be considered by the Service alongside other risk areas and may not be a priority. Assistant County Treasurer –Investment and Treasury Management. DAP management post meeting note. It is anticipated that annual review and testingof the Pensions Contributions Database would require in the region of 5internal audit days(being the suggested minimum number of days for individual internal audit reviews, given QA and reporting requirements).We will make a note of the above to discuss with management as part ofthe Devon Pension Fund annual internal audit planning process.If internal audit days are not utilised for this purpose, it is suggested that annual testing couldbe undertaken 'in-house' by an independent officer, for example another member of the Investments Team.		
Management to again consider automation of manual input processes.		Automation of processes has previously been considered and will be re-visited by management. There is work on-goingwithin the authority in relation to 'change' programmes and implementation of new technologiesand applications, for example including in relation to the use of Power BI reporting. This may have implications for the Employer Contributions work stream and management would not wish to duplicate effort by considering alternatives to current processes where this is already being considered, for exampleby DCCprogramme teams. Any changes to current processes are likely to be longer-term in nature. And there would still be the need for internal checks and balances, for example to identify incorrect data input by employers contained within EAS5 return forms. It may be useful for a project approach to be taken,in relation to consideration to any changes to Employer Contributions work streams, and for this to involve consultation with relevantcolleagues, including the Devon Pension Fund Accountant. Assistant County Treasurer –Investment and Treasury Management. DAP managementpost meetingnote.Further to the question raised by the Head of Peninsula Pensions. DAP ICT auditors could provide advisory suggestionsin relation to automation of current processes. This could be considered within the 2020-21internal audit planning process, should management require internal audit days to be utilisedfor this purpose. However,it is noted that this suggestion may be superseded in the event of DCC 'change' programmeconsideration of Employer Contributions processes. DAPwill make a note of this accordingly.		
It is recommended that management review the approach taken to the monitoring and reporting of employer deficit funding contributions, to ensure that a consistent approach is being taken and that any reporting requirements (such as to the Pensions Regulator) are being appropriately met; and for this to include liaison with the Devon Pension Fund Accountant, as required. This review could include•a standard approach for all deficit payments where being paid outside of the monthly standing order e.g. via debtor invoice•and regular review of the Outstanding Shortfall invoices log to provide accurate overview of amounts outstanding for payment for pension reporting purposes•with resulting changes to current processes communicated to DPF employers where applicable	Medium	processes. A flexible approach has been taken by Devon Pension Fund, and it understood by other Pension Funds likewise,in relation to this and in respect of arrangements for employers who have an outsourced payroll provider (whereby the outsourced payroll provider will have no involvement in employer deficit payments). As to whether a separate EAS5 form should be completed by employers who use an outsourced Payroll provider, in relation to employer deficit payments, this could be considered. Alternatively, management could review whether monitoring by Investments Team colleagues provides sufficient information for Peninsula Pensions finance team colleagues to preclude the need for additional EAS5 forms to be completed.The management response at recommendation 1.1.2 also refersand applies here, in relation to the possibility of a project approach beingtaken, in relation to consideration to any changes to Employer Contributions processes, and for this to involve consultation with relevan colleagues, including the Devon Pension Fund Accountant. Assistant County Treasurer – Investment and Treasury Management . (By 31 May 2020)		
Whilst the processes relating to the monitoring and collection of employer contributions (refer to Risk 1) anddeficit funding contributions are well known and carried out by experienced Devon Pension Fund Investment Team officers, it is recommended for continuity purposes that these be documentedwithin maintained internal process note documents.	Low	Accepted. Assistant County Treasurer –Investment and Treasury Management.(By 31 August 2020)		

It is recommended that management considerthe potential streamlining of processes, as indicated above, where this may be of benefit to the services involved (Devon Pension Fund Investment Team and Peninsula Pensions Finance team).	**Opportunity**	Communications have improved within and between the teams, including in relation to the use of SharePoint and team channels. Thought may be given to further streamlining of processes, however this will be done in conjunction with any DCC 'change'programme review of Employer Contributions processes, and in consideration of the recent Peninsula Pension Finance team processes review, so as not to duplicateeffort within the organisation and to ensure a joined-up approach is taken. In the interim, the Investment Manager will investigate whether the Pensions Contributions Database could be made available to Peninsula Pensions Finance colleagues to view on SharePoint. Assistant County Treasurer –Investment and Treasury Management; and Head of Peninsula Pensions.		
Annual Reporting Compliance				
It is recommended that management ensure that comprehensive procedure notes are put in place covering all these processes.				
These should include adequate reference to internal sign-off requirements and confirmation of the timescales for the completion and submission of returns, and make reference to related processes and information that is required for completion of the task, including where the responsibility for interdependent processes or provision of information sits within other teams.	**Medium**	Agreed. Technical & Compliance Manager by 31 March 2020		
It is recommended that management consider implementing a requirement for checklists, which could be held electronically possibly using the service internal SharePoint site, to be completed by officers for annual reporting tasks; given that these tasks fall outside of Altair (Pensions Administration system) taskflows. The completion and retention of checklists, to include internal sign-off where applicable, would provide an audit trail for management that the required tasks have been completed as required.	**Opportunity**	Consideration will be given to this recommendation. Technical & Compliance Manager 31 March 2020.		
As detailed above, consideration should be given to the use of exception and other system reporting where now or in the future accuracy of data submitted is not subject to verification at the time of processing. Thought should also be given to how corrections will be made in the event of inaccuracies being identified retrospectively, including where this has an implication for annual reporting returns.	**Medium**	Consideration will be given to this recommendation. Technical & Compliance Manager 31 March 2020.		
Pensions Regulator Code of Practice 14 compliance				
Management should consider further populating the Data Improvement Plan and the Employers' Development Plan to include how progress can be regularly recorded and monitored. Monitoring results should be subsequently reported to management and the Devon Pension Board/Investment & Pension Committee, to ensure progress against the Plan remains on track.	**Medium**	Thought will be given to whether this will be possible and in conjunction with the new data scores reports when received.Technical & Compliance Manager; and Head of Peninsula Pensions. (By 31 May 2020).		
The Service should consider promoting wider use of the in-house tool, including in relation to possible income generation opportunities,should this be a tool that could be 'marketed' for other client (e.g. Police Constabulary and Fire & Rescue Service) use.	**Opportunity**	This will be considered, however,Fire and Police authorities retain responsibility for compliance as scheme managers.The self-assessment tool may be more applicable for other LGPS fund use. Technical & Compliance Manager; and Head of Peninsula Pensions.		
Management should consider incorporating a narrative describing the Service's approach to compliance with the Code,to be read in conjunction with the self-assessment document, explaining how the Service meets the required elements in addition to listing related evidence. This could be useful for continuity purposes, should another member of the team take forward the self-assessmentprocess,and also in support of reporting compliance with the Code to management and the Devon Pension Board/Investment & Pension Committee.	**Medium**	Agreed. Production of a supporting narrative will be explored. Technical & Compliance Manager; and Head of Peninsula Pensions. (By 31 May 2020).		

An update should be taken to the Devon Pension Board / Investment & Pension Fund Committee in relation to overall TPR compliance, and high-level self-assessment outcomes and action plan.	**Medium**	Accepted. This is already planned and noted in the Devon Pension Board future work programme for January 2020. Head of Peninsula Pensions; and InvestmentManager.		
It is noted that the Devon Pension Fund member training plan includes reference to members having, or being in the process of completing, the Pension Regulator Trustee Toolkit (on-line training). The above recommended update to the Board could potentially include reference to/link to further information for members on the requirements of the Code, this may be of particular benefit to any new Board members.	**Opportunity**	Confirmation of the TPR Code of Practice 14 requirements is already in-hand. A member handbook and training manual is currently being drafted, which includes reference to the Code of Practice 14, and the knowledge and understanding requirements of Pension Board members. Investment Manager.		

PENSION FUND AUDIT ACTIONS				APPENDIX 3
Recommendations 2018/19	**Priority**	**Management response and action plan including responsible officer**	**Follow up response**	**ACTIONED?**
Pension Fund 40 days				
Audit	**Days**	**Proposed Quarter**		
Communication with Stakeholders (joint audit, 16 days in total)	8	Q1*		
Effectiveness of the Pension Board	10	Late Q1/early Q2		
Custodian Arrangements	7	Q3		
Responsible Investments	7	Q4		
Planning, reporting and advice	5	Q1-4		
Contingency	3			
Effectiveness of the Pension Board				
It is recommended that the Devon Pension Fund, Pension Board, webpage is updated to include the most recent version of the Devon Pension Fund Governance Policy and Compliance Statement (the version currently in the Pension Board section is marked as approved in 2015). A later version (marked as approved in 2017) is located in the pension fund investments section of the website.	**Low**	Agreed. Investment Manager, in liaison with the Head of Peninsula Pensions (by 31 March 2019)	Revised Governance Policy dated November 2018 loaded onto both parts of the website	Completed
Management to consider the difference in approach regarding provision of Devon Pension Poard member contact details. If the reason is that DCC publish only DCC email addresses (Councillor email addresses being @devon.gov.uk; whereas other email addresses given as per the Peninsula Pensions webpages include external email addresses) consideration should be given to whether DCC email addresses should be provided/allocated to Devon Pension Board members. And in relation to Board member changes, it is recommended that any updates are made in both locations concurrently.	**Medium**	Agreed. It will be considered whether there is a way of referring users from the Democracy in Devon - Devon Pension Board member webpages to the Peninsula Pensions Devon Pension Board webpage for further information including contact details. Investment Manage / Assistant County Treasurer - Investments, in liaison with the Democracy team (31 March 2019). Management felt however that would not be appropriate for Devon Pension Board members who are not County Councillors or DCC employees to be provided with a devon.gov.uk email address	DCC email address issue has been explored but it is confirmed that this is not possible. Currently investigating updating the Democracy pages with links across to the Peninsula Pensions Pension Board page.	In progress
It is recommended that management continue to review Devon Pension Board member attendance at Board meetings and training events, and bring to the Board's attention accordingly consecutive non attendance at two meetings or two training events, inaccordance with the Devon Pension Board Terms of Reference.	**Medium**	Agreed. Considerations will be given to attaching the attendance log to Board reports. Investment Manager / Assistant County Treasurer - Investments. 31 March 2019	First report of attendance provided to the Board October 2018. On Future Work programme for every April and October board meetings	Completed
It isrecommended that all the on going actions agreed by management relating to recommendations within the 2017-18 Induction Process for New Board and Committee members audit continue to be progressed and completed in 2018-19.	**Medium**	Agreed	Completed though some committee and board members have yet to complete the TPR toolkit	Completed

The responses to the survey as shown in Appendic C should be reviewed and taken forward as appropriate by management	**Medium**	Agreed. The survey responses will be considered. Investment Manager / Assistant County Treasurer - Investments. 31 March 2019		Completed

PENSION FUND AUDIT LOG			
Recommendations 2019/20	**Priority**	**Management response and action plan including responsible officer**	**Follow up response**
Pension Fund 40 days			
Audit	**Days**	**Proposed Quarter**	
Admission and Departure of Employers to the Fund (joint audit, 10 days in total)	5	Q1	
Employer Contributions	8	Q2	
Effectiveness of the Devon Pension Board (2018/19 audit follow-up) and Effectiveness of the Investment & Pension Fund Committee	10	Q3	
Pensions Regulator Code of Practice 14 Compliance, including valida	6	Q3	
Actuarial Valuation (joint audit, 10 days in total)	5	Q4	
Audit Planning, Advice and Reporting, to include internal audit recor	6	Q4	
Admission and Departure of Employers			
It is recommended , for completeness, that all new employers joining the Devon Pension Fund should be reported to the Devon Pension Board and Investment and Pension Fund Committee. It is noted that at present that details of new Academies are not reported	Low		
It is recommended that all employers exiting the Devon Pension Fund are reported to the Devon Pension Board and Investment and Pension Fund Committee and given that there may be payments due to be paid from the Fund	Low	Exiting employers are now reported to the Investment & Pension Fund Committee and Pension Board with effect from Autumn 2019. Due to expected regulation changes regarding exit payments we will not be providing the actuary reports - review once regulations are provided.	
Employer Contributions			
Management to consider implementing an annual review and testing of the Pension Contribution database	Opportunity	Management may consider using internal audit days to incorporate annual review of database whilst it is in its current form. Audit estimate 5 days required. To be taken into consideration against other risks when compiling audit plan	
Management to again consider automation of manual input processing	Opportunity	Automation of processes has previously been considered and will be revisited by management. There is work ongoing in the authority in relation to the change programme and implimentation of new technologies/applications such as Power BI	Project launched December 2019 looking at alternatives to the database
Management review the approach taken to the monitoring and reporting of deficit contributions, to ensure that there is consistency of approach and that any reporting requirements are subsequently met.	Medium	There are reasons why deficit payments are collected outside of the EAS5 process so a flexible process needs to be taken. Management response above also applies here with the possibility of a project approach being taken with a view to any changes in the Employer contribution process	Project launched December 2019 looking at alternatives to the database
It is recommended that the processess of monitioring and collecting pension contributions is documented	Low	Accepted	Project launched December 2019 looking at alternatives to the database
Code of practice 14			
Update should be taken to the Pension board/Investment committee in relation to the overal TPR compliance	Medium	In the Pension Board work program for the January 2020 meeting	
The above recommendation could include furhter information on the requirements of the code	Opportunity	Detailed information will be included in the member training manual	

CT/20/17
Devon Pension Board
16th January 2020

FUTURE WORK PROGRAMME

Report of the County Treasurer

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

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

1. Introduction

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

2. Future Work Programme

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

Standing Items

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

April 2020

- Devon Pension Board Annual Report
- Internal Audit Report and annual plan
- Training review and training plan
- Budget Monitoring report

July 2020

- Governance Policy and Compliance Statement
- Pension board Terms of Reference
- Annual Review of Breaches log

October 2020

- Budget Monitoring Report
- External Audit Findings
- Communications Policy review

3. Conclusion

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

3.2. The Board is asked to review and approve the future work programme and make suggestions for other areas of consideration going forward.

Mary Davis

Electoral Divisions: All
Local Government Act 1972
List of Background Papers - Nil
Contact for Enquiries: Charlotte Thompson
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