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

County Hall
Topsham Road
Exeter
Devon
EX2 4QD

Date: 16 November 2023

Contact: Fred Whitehouse, 01392 381362
Email: fred.whitehouse@devon.gov.uk

INVESTMENT AND PENSION FUND COMMITTEE

Friday, 24th November, 2023

A meeting of the Investment and Pension Fund Committee is to be held on the above date at 10.30 am at Committee Suite - County Hall to consider the following matters.

Donna Manson
Chief Executive

A G E N D A

PART I - OPEN COMMITTEE

1 Announcements

2 Apologies for Absence

3 Minutes (Pages 1 - 8)

Minutes of the meeting held on 15 September 2023, attached.

4 Items Requiring Urgent Attention

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

5 Devon Pension Board (Pages 9 - 14)

Minutes of the meeting held on 13 October 2023, attached.

6 Brunel Oversight Board (Pages 15 - 20)

Minutes of the meeting held on 7 September 2023, attached.

7 Audit Report on the Pension Fund Statement of Accounts 2022/23 (Pages 21 - 58)

Report of the Director of Finance and Public Value (DF/23/107), attached.

8 Investment Management Report (Pages 59 - 88)

Report of the Director of Finance and Public Value (DF/23/108), attached.

9 Future Cashflow Forecast (Pages 89 - 94)

Report of the Director of Finance and Public Value (DF/23/109), attached

10 Employer Changes

(a) New admitted bodies – The following application for admitted body status has been approved since the last meeting of the Committee:

- 1 June 2023 - Plymouth City Council tuped staff to PEC Management Services Ltd which they had previously seconded to them.
- 1 July 2023 - Delt Shared Services won the contract to provide IT, Finance, HR and Estates management including catering, cleaning, maintenance etc for Mount Tamar School an academy within the Transforming Futures Trust.

(b) Employer Cessations - None

(c) New academy conversions and changes.

- 1 June 2023 - Avanti Hall part of Reach South changed to Thomas Hall.
- 1 July 2023 - Honiton Community College joined Ted Wragg Trust.
- 1 August 2023 - Honiton MAT moved to Learning Academies Trust
- 1 August 2023 - Sparkwell All Saints Primary School moved to Link Academy Trust

11 Dates of Future Meetings

1 March 2024 10.30am
1 March 2024 2.15pm - Staff/Retiree Consultation
14 June 2024 10.30am
13 September 2024 10.30am
29 November 2024 10.30am

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

12 Exclusion of the Press and Public

Recommendation: that the press and public be excluded from the meeting for the following item of business under Section 100(A)(4) of the Local Government Act 1972 on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Schedule 12A of the Act, information relating to the financial or business affairs of an individual (including the authority holding that information).

13 Local Impact Investment (Pages 95 - 100)

Report of the Director of Finance and Public Value (DF/23/110), attached (restricted)

Members are reminded that Part II Reports contain exempt information and should therefore be treated accordingly. They should not be disclosed or passed on to any other person(s). They need to be disposed of carefully and should be returned to the Democratic Services Officer at the conclusion of the meeting for disposal.

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Declarations of Interest for Members of the Council
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Induction Loop available

INVESTMENT AND PENSION FUND COMMITTEE

15 September 2023

Present:-

Devon County Council

Councillors J Morrish (Chair), P Bullivant (Vice Chair), Y Atkinson, M Hartnell

Unitary Councils

Councillors M Brook and T Evans (remote, substitute)

Union and Retired Members

R Franceschini and M Daniell (remote)

(NB – attendees attending virtually are unable to participate in voting)

Apologies:-

L Parker-Delaz-Ajete and Councillors H Gent, R Bloxham, M Lowry

*** 129 Minutes**

RESOLVED that the minutes of the meeting held on 16 June 2023 be signed as a correct record.

*** 130 Items Requiring Urgent Attention**

There was no item raised as a matter of urgency.

*** 131 Devon Pension Board**

The Committee noted the minutes of the meeting of the Devon Pension Board held on 6 July 2023.

*** 132 Brunel Oversight Board**

The Committee noted the minutes of the meeting of the Brunel Oversight Board held on 8 June 2023.

* **133** **Pension Fund Annual Report and Accounts 2022/23**

The Committee considered the Report of the Director of Finance and Public Value (DF/23/80) on the Pension Fund Annual Report and Accounts 2022/23. The Annual Report, including the Statement of Accounts, was brought to the Committee each year for approval. The Statement of Accounts remained subject to approval by the County Council's Audit Committee and completion of the external audit. Formal publication of the Annual Report would not be possible until the audit had been completed.

The Report had been produced in line with CIPFA guidance and included within it statutory policy as required by such guidance. The Report highlighted that, at time of writing, the external auditors had yet to issue audit opinions on the Authority's 2020/21 and 2021/22 Statements of Accounts. As such, the final version of the Pension Fund Annual Report for those years was yet to be published.

Officers highlighted improvements made to the stewardship section of the Report in light of feedback from the UK Financial Reporting Council (FRC).

A member commented on the omission of a narrative report on the fixed interest Sterling Corporate Bonds and Multi Asset Credit portfolios. It was requested to officers that this be rectified and included for future annual reports.

It was **MOVED** by R Francheschini, **SECONDED** by Councillor Y Atkinson and

RESOLVED

(a) that the position on the audit of the 2020/21 and 2021/22 Pension Fund Statement of Accounts be noted;

(b) that the Pension Fund Annual report and Accounts for 2022/23 be approved and adopted, subject to approval of the Statement of Accounts by the Devon County Council Audit Committee and completion of the external audit; and

(c) that the submission of the unaudited Pension Fund Annual Report and Accounts to the Financial Reporting Council for assessment against the requirements of the UK Stewardship Code, be approved.

* **134** **Investment Management Report**

The Committee considered the Report of the Director of Finance and Public Value (DF/23/80). The Report outlined the Fund value and asset allocation, Fund performance, funding level, 2023/24 budget forecast, cash management and voting and engagement activity.

As of 31 March 2023, the Fund value stood at £5,362.9 million which was an increase of approximately £50 million over the quarter. Performance wise, the Fund achieved a positive return of +1.3% over the quarter to 30 June. This represented an under-performance against the strategic benchmark of +1.9%.

A member queried recommendation (c) in respect of what was meant by 'a temporary basis.' It was explained by officers that, if approved, the intention would be to quickly withdraw funds to increase the cash balance given current interest rates of 5-6% on cash. The cash balance would gradually reduce back to target as private market commitments were drawn.

It was **MOVED** by Councillor P Bullivant, **SECONDED** by Councillor Y Atkinson and

RESOLVED

(a) that the amendment of the strategic asset allocation targets for 2023/24, to reflect the table in Section 2 of the report, be approved;

(b) that the reallocation of £50 million from Passive Equites to Sterling Corporate Bonds be approved;

(c) that the provision of flexibility to officers to increase the cash balance to up to 4% on a temporary basis be approved;

(d) that compliance with the 2023-24 Treasury Management Strategy be noted.

* **135** **Department for Levelling-Up, Housing and Communities consultation: Local Government Pension Scheme (England and Wales): Next Steps on Investment**

The Committee considered the Report of the Director of Finance and Public Value (DF/23/82) on the Department for Levelling-up, Housing and Communities Consultation on the future of investment pooling in the Local Government Pension Scheme (LGPS).

Officers explained that although they understood and supported the intention of Government to ensure current pooling arrangements were effective, they were concerned about the possibility of Government imposing a minimum pool value of £50 billion and the impact this would have on the Pension Fund. With the combined assets under management of the Brunel funds being less than this, officers were concerned that this would therefore force realignment resulting in additional costs at the expense of the Fund; and that this was unnecessary given the positive performance of the Fund.

Member discussion points centred around questions eleven and twelve of the consultation and the proposed response from the Devon Fund. Members were concerned that an investment strategy would be imposed which removed local control from the Fund, and that investment in areas which were less beneficial to the Fund would be forced by Government.

It was **MOVED** by Councillor M Brook, **SECONDED** by Councillor J Morrish and

RESOLVED

(a) that the proposed responses to questions eleven and twelve be amended to clearly reflect Member concerns around maintaining local control and not having an investment strategy as detailed above imposed on the Fund, with final wording delegated to the Director of Finance and Public Value in consultation with the Chair of the Committee; and

(b) that, subject to the changes outlined in recommendation (a), the response to the consultation on next steps on investment, attached at Appendix 2 to the report, be approved.

* 136 <u>Pension Fund Risk Register</u>

The Committee considered the Report of the Director of Finance and Public Value (DF/23/83) on the Pension Fund Risk Register. The report outlined the number of risks to both the Devon Pension Fund and to Peninsula Pensions, before and after mitigating actions had been applied.

Members debated the merit of including risks rated ‘low’ within the Register, with a member concerned that this might draw attention away from ‘medium’, ‘high’ and ‘very high’ risks which were inherently more important to address. Officers highlighted that this had been considered by the Devon Pension Board who wished to retain the ‘low’ risks in the Register. Other members expressed that ‘low’ risks could develop into ‘medium’, ‘high’ or ‘very high’ risks and that monitoring these – and therefore having these included in the Register – was important, in agreement with the judgement of the Devon Pension Board. Officers agreed to explore the issue with the Devon Pension Board.

A member commented that risk F2, which regarded the Pension Fund’s investment strategy not achieving required returns, did not include the mitigating factor of the Committee’s monitoring of the quality of external fund managers, and that this would be an important mitigating factor to be included.

It was **MOVED** by Councillor M Brook, **SECONDED** by Councillor Y Atkinson and

RESOLVED that the Pension Fund Register and additional actions proposed to mitigate risk be approved, subject to the inclusion of the mitigating control as outlined above to risk F2.

* 137 Training Review 2022/23 and Training Plan 2023/24

The Committee considered the Report of the Director of Finance and Public Value (DF/23/84) which outlined the training made available to members of the Investment and Pension Fund Committee and the Devon Pension Board in 2022/23. Appendix 1 to the report proposed training to be provided over the year 2023/24 for members of the above-named committees.

It was **MOVED** by Councillor M Brook, **SECONDED** by Councillor Y Atkinson and

RESOLVED that the 2023/24 training plan be approved and adopted.

* 138 Employer Changes

The Committee noted:

(a) New admitted bodies – The following application for admitted body status has been approved since the last meeting of the Committee:
- 1 January 2023 - Livewell with agreement from Plymouth City Council tuped 1 member of staff to NHS (Devon ICB)
- 1 April 2023 - Ted Wragg Trust retendered their catering contract and the new provider Dolce Ltd.
- 1 April 2023 - Ted Wragg Trust tuped cleaning staff to Fusion School Services Limited.

(b) Employer Cessations - The following employer has left the scheme
- 31/3/2023 Aspens catering contract with Ted Wragg Trust ceased.

(c) New academy conversions and changes.
- 1 March 2023 - Mount Tamar School joined Transforming Futures Trust.
- 1 March 2023 - Sidmouth College joined Ted Wragg Trust.
- 1 April 2023 - Wynstream Primary School joined Education South West.
- Atrium School closed on 30th April 2023 and the 5 remaining staff have been transferred to South Dartmoor CC wef 1/5/2023.

* **139** **Dates of Future Meetings**

The Committee noted the dates of future meetings as:

24 November 2023, 10.30am;
1 March 2024, 10.30am;
1 March 2024, 2.15pm (Staff/Retiree Consultation)

* **140** **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 (including the authority holding that information) 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.

* **141** **Review of Indemnity Bonds**

(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 Director of Finance and Public Value (DF/23/85) on the risk to the Pension Fund of a fund employer ceasing to exist with insufficient funding available to settle outstanding debts, or where such an employer might refuse to pay the cessation value. This was a risk that had been identified in the risk register.

Partial mitigation of risk was achieved by the requirement on some admitted bodies to have a bond or guarantee in place. The Fund Actuary had been asked, in line with good practice, to review the indemnity levels of all admitted bodies coming under the valuation.

It was **MOVED** by Councillor M Brook, **SECONDED** by R Franceschini, and

RESOLVED

(a) that the proposed action to notify letting authorities of the revised recommended bond levels and the employer risk assessment risk scores be approved; and

(b) that maintenance of the required indemnity bonds for the three housing companies at the current level be approved.

***NOTES**:*

1. *Minutes should always be read in association with any Reports for a complete record.*
2. *If the meeting has been webcast, it will be available to view on the webcasting site for up to 12 months from the date of the meeting*

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

The Meeting started at 10.35 am and finished at 11.49 am

DEVON PENSION BOARD

13 October 2023

Present:-

Councillors S Randall Johnson and C Slade (Chair)
Ian Arrow, A Bowman (Vice-Chair), C Hearn, R Jeanes, P Phillips and D Walshe

Apologies:-

None

125 Minutes

RESOLVED that the Minutes of the Meeting held on 6th July 2023 be signed as a correct record.

126 Items Requiring Urgent Attention

No item was raised as a matter of urgency.

127 Review of attendance

The Board noted the Report of the Director of Finance and Public Value (DF/23/95) on a review of the Board Member attendance at meetings and training events. A log of attendance of both board meetings and training events were attached in Appendix 1 of the Report.

It was highlighted that there had been an online training event Brunel Pension Partnership at the end of September and Board members were asked to confirm attendance.

It was agreed to change the heading on item 11 of the Board's Terms of Reference to Training and Knowledge.

The Report was noted.

*** 128 Contribution and breaches monitoring**

The Board noted the Report of the Director of Finance and Public Value (DF/23/96) regarding the action taken to monitor timely payment of contributions from employers and employer performance for end of year process and future developments.

The table on page 15 of the agenda pack showed a summary of the monthly contributions received in Q1 of 2023/24.

A total of 7 contributions were received late during this quarter. Five of these were from admitted bodies in the fund and two were Parish councils. All were one off incidents.

It was highlighted that there would be a new format for this Report for the next meeting.

At the July Pension Board meeting, the board requested that Peninsula Pensions provided further information regarding the timeliness of year end data begin submitted by the scheme employers. The table on page 17 of the agenda pack showed that 67% of fund employers responded by the date requested.

Peninsula Pensions were working on ways to improve the number of employers providing data within our deadlines and officers are currently reviewing the pension administration strategy (PAS). A consultation with employers was currently planned for early November on the revised administration strategy which will be brought to the board in January meeting and for final approval at the Investment and Pension Fund committee in March 2024.

Members were also advised that Peninsula Pensions are also working with Devon Audit Partnership on a tool to provide a Report on key employer performance areas. A draft version of this was presented in the meeting. The first report would be brought to the board in the new financial year after April 2024.

129 Pension Board budget monitoring

The Board noted the Report of the Director of Finance and Public Value (DF/23/97) on the Devon Pension Board Budget Monitoring 2023/24 at month 6. The statement showed various expenditure including training, travel and member expenses and committee support.

*** 130 Devon Pension Fund Risk Register**

The Board considered the Report of the Director of Finance and Public Value (DF/23/98) on the Pension Fund Register and additional actions proposed to mitigate risk.

The Board previously considered the Risk Register at its meeting on 6th July 2023, and comments made at board meetings had been taken on board in updating the register.

The Risk Register was attached at Appendix 1 to the Report. It highlighted 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. It incorporated the risk register of both the Investments Team and Peninsula Pensions.

The Investment and Pension Fund Committee was the ultimate risk owner for the Pension Fund and last reviewed the Risk Register in September 2023. 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.

There were several amendments made for the Pension Fund which were detailed at 4.1 of the Report. There were now 43 risks recorded in the Risk Register, 23 of which related to Devon Pension Fund management and 20 to Peninsula Pensions. The Report summarised the number of risks assigned to low, medium and high-risk scores, before and after mitigation.

Across Devon Pension Fund management and Peninsula Pensions, action taken to mitigate risks had reduced the number of high risks from 12 to 2. The remaining high risks are in respect of:

- F5- Global Financial Crisis leading to a failure to reduce the deficit.
- F2 -Investment strategy not providing sufficient returns longer term.

Members' questions and discussion points with Officers included:

- A risk had been raised by the auditor in the Report under item 9 Audit and Action logs which didn't seem to be included in the register concerning Brunel Partnership reporting not detailing the start of the fund.
- Including the Government's desire to accelerate the consolidation of pensions assets by March 2025 as an item on the risk register.
- Updating the target dates for the annual benefit statement and the scheme membership data.

The Report was noted.

131 <u>Investment and Pension Fund Committee</u>

The Board noted the Minutes of the Investment and Pension Fund Committee meeting held on 15 September 2023.

132 <u>Audit and action logs</u>

The Board considered the Report of the Director of Finance and Public Value (DF/23/102) on progress made on completing actions arising from internal audits and pension board recommendations.

The Actions and Recommendations tracker (Appendix 1) included a list of actions, recommendations and requests raised by the Devon Pension Board. Previously completed actions had been removed.

It was highlighted that outstanding work on the employer performance and the administration strategy would be brought to the January meeting.

There was an update on the Devon Pension Fund Cyber Security audit actions which were 2 high, 3 medium and 2 low. The Cyber Security follow up audit was scheduled for 16 November and an update on this would be provided at the next meeting.

It was noted that there were now final reports for Brunel Performance Management Reporting – 2022/23 and for the Actuarial Valuation 2022-23. There were minor issues around capturing challenge to Brunel by members of the Investment and Pension Fund Committee during pre-meetings, however these were now being minuted. Further delays in legislation regarding the Pensions Regulator has meant the audits have had to be pushed back to 2024-25.

Members' questions and discussion points with Officers included:

- Capturing question and answers raised in the briefing for the Pensions Board and it was agreed this would be good practice.
- Possible future risk of producing a levelling up report for the pension fund.

The Report was noted.

*** 133 Peninsula Pensions Administration - Performance Statistics**

The Committee noted the Report of the Director of Finance and Public Value (DF/23/99) on Peninsula Pensions' performance and planned review of the Pension Administration Strategy and targets for 2023.

This included the internal target for Peninsula Pensions and expected performance requirements from individual Fund employers. Performance targets were monitored on a monthly basis via a task management system and reporting tool within the pension database.

The Board noted:

- Total performance against the Occupational and Personal Pension Schemes (Disclosure of information) Regulations 2013 for the quarter ending 30 June 2023 was 91% (94% for High Priority procedures).
- As referred to in the performance reports for previous quarters, the lower-than expected performance was in part due to delays in responses to member information requested from employers.

The team had continued to work with employers to implement improvements in this area.

- The team had also continued to concentrate on processing outstanding deferred benefit and amalgamation cases in preparation for the McCloud remedy and future Pension Dashboard, which has impacted performance. Once these cases have been completed, we expect to see an improvement in performance.
- The team received a total of 15 compliments between 1 April 2023 and 30 June 2023.
- Further information about the detailed breakdown of administration performance for the Devon Pension Fund only, longer-term performance of Peninsula Pensions and the amount of work received over a 12-month rolling period compared to the previous year was shown in the appendices to the Report.
- Peninsula Pensions had staff resource allocated to work on the McCloud remedy when required and were in a good position with regards to the data preparation that was essential in advance of the remedy.
- Following a successful recruitment exercise, Peninsula Pensions were now fully resourced with all new recruits in training currently.

Members' questions and discussion points with Officers included:

- Clarification on work remaining status and acknowledgement that some including waiting for responses to action.
- Increase in work activity from last year due to several leavers in that period – some of these could be staff moving into different positions also.
- Update on the Pension dashboard and a meeting had been arranged in January with the software providers to ensure the system is in place to link to the main national dashboard when this was required. There would be procurement exercise for this, but it was likely to be quite expensive to ensure it is secure.
- Data cleansing with employers had been carried out and there was confidence in the quality of the data being held in preparation for McCloud.

*** 134 <u>LGPS Update Report</u>**

The Board noted the Report of the Director of Finance and Public Value (DF/23/100) on developments affecting the LGPS in relation to:

- The proposed consultation on investment within the LGPS
- Government desire to "accelerate the consolidation of pension assets by March 2025", with proposals to increase transparency, cost savings and the scale of LGPS investment pools.

- The consultation response which was discussed at the Investment and Pension Fund committee on 15th September. The final response was submitted at the end of September and can be found attached to the report.
- The Government had responded to the consultation regarding the McCloud regulations and work was progressing on providing guidance to local authorities.

Members' questions and discussion points with Officers included:

- Abolition of the Lifetime Allowance and tax provisions
- Amendments to pension calculations for leavers, those leaving after 1 October should have the correct information, some who have retired prior to 1st October will need the calculations revisited but this is unlikely to affect many people.

135 <u>Future Work Programme</u>

The Board received the Report of the Director of Finance and Public Value (DF/23/101) on the work programme over the next three meetings. It was suggested that the Board should include consideration of the external audit report on its schedule, and this would be included at the appropriate time. The external audit report was agreed to be reviewed at the January meeting.

136 <u>Dates of Future Meetings</u>

Dates had been confirmed as Tuesday 30th January 2024, Monday 29th April 2024, Monday 15th July 2024, Monday 21st October 2024, Wednesday 29th January 2025, and Thursday 3rd April 2025.

***NOTES**:*

1. *Minutes should always be read in association with any Reports for a complete record.*
2. *If the meeting has been webcast, it will be available to view on the webcasting site for up to 12 months from the date of the meeting*

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

The Meeting started at 10.32 am and finished at 11.33 am

BRUNEL OVERSIGHT BOARD

Public Minutes

Thursday 7th September 2023, 10:30 am – 12:35 pm

Attendees

Pension Committee Representatives		
Paul Crossley	Avon	Apologies
Timothy Butcher	Buckinghamshire	
Jayne Kirkham	Cornwall	
James Morrish	Devon	
John Beesley	Dorset	
Robert Gould	EAPF	Chair
Lynden Stowe	Gloucestershire	
Kevin Bulmer	Oxfordshire	Vice-Chair
Peter Seib	Somerset	Apologies
Richard Britton	Wiltshire	

Member Representative Observers		
Andy Bowman	Scheme Member rep.	
Alistair Bastin	Scheme Member rep.	

Fund Officers and Representatives		
Nick Dixon	Avon	
Julie Edwards	Buckinghamshire	
Sean Johns	Cornwall	
William Cresswell	Cornwall	Minutes
James Rich	Cornwall	
Mark Gayler	Devon	
David Wilkes	Dorset	
Craig Martin	EAPF	
Matthew Trebilcock	Gloucestershire	
Sean Collins	Oxfordshire	
Anton Sweet	Somerset	
Jenny Devine	Wiltshire	

Brunel Pension Partnership		
Laura Chappell	Brunel, CEO	
Denise Le Gal	Brunel, Chair	
Liz Mckenzie	Brunel, SNED	
David Vickers	Brunel, CIO	
Joe Webster	Brunel, COO	
James Harbutt	Brunel, Systems Manager	Item 6 only
Tim Dickson	Brunel, HoCRT	
Alice Spikings	Brunel, SO	

Public Minutes

No.	Item
1.	**Confirm agenda** **Requests for urgent or for information items** **Any new declarations of conflicts of interest**
	There were no new declarations of interest or AOBs.
2.	**Review 8th June BOB minutes** - Review and sign-off of the previous meeting minutes.
	LS noted, previously the BOB meeting wasn't deemed the correct forum for a discussion on absence rates figures and requested Brunel direct them to the correct forum. - LC noted Brunel have had no issues with their absence rates. An issue was raised previously on the turnover rate which is a separate issue. LC offered to catch up with LS offline regarding the absence rate figures. - JW noted the absence rate is included on the VFM Scorecard included in the CEO report and therefore can be discussed as long as it is not on an individual basis. The minutes were approved.
3.	**Brunel Chair Recruitment update**
	RG confirmed the Brunel Chair Recruitment working group has met and are working well. The group has good shareholder representation with Angie Sinclair from Devon, Andy Brown from Dorset, and RG from the EAPF. The requirements will be published and open to the market shortly.
4.	**Brunel CEO report** - An update from the Brunel CEO on its business activities.

	LC presented the CEO report. LC highlighted the government consultation. LC confirmed the People Strategy has been resolved, vacancies filled, and Brunel are back to full capacity. There is another governance review as requested by Shareholders to ensure future resilience. LC reminded attendees to register for the Brunel investor day in September. LC noted risks have started to stabilise. The current greatest risks are procurement risk, outsourcing risk, and climate risk. JK asked for clarity on the hostile external environment for climate, legal obstacles to Brunel's governance review, and revisiting exclusion lists. LC continued the report and noted the dealing process has been reviewed. Brunel are assured the dealing process is robust, but still contains manual steps and therefore contains some risk. ABa asked if the dealing process has been compared with other pools. LC noted the dealing process has been compared and other pools have easier process to correcting errors due to their differing business model.
5.	**Brunel CIO update**
	DV noted regarding the hostile external climate environment, the US climate debate is becoming weaponised, and RI can result in litigious challenges, especially in Texas. DV noted regarding revisiting exclusions, a number of Clients have requested the current policy is tightened to allow exclusions and this is in discussion between the clients. CofE have implemented exclusions on oil and gas stocks. In Brunel's perspective everything currently invested in meets Brunel's current Climate Change Policy requirements and the TCFD reports offers more detail. ABo highlighted human rights abuses, especially in Saudi Arabia. ABo asked if Brunel take this account under the "Social" aspect of ESG. - DV noted this is taken into account. Difficulties arise as the human rights abuses are not reported in the accounts as they are illegal. Therefore the "Social" data is hidden. - Managers are challenged when the abuses become noticed. DV presented the CIO report. On a macro scale, DV noted the market is predicting inflation in under control and there will not be a recession. DV noted this is possible but unlikely, and therefore they are expecting some volatility. DV noted 80% of Q2 market performance driven by 7 largest stocks. This has created difficulties for active managers the majority of which are underweight the 7 largest stocks for diversification reasons. DV provided the headline for Brunel's Q2 performance noting, 3 funds outperformed, the 2 target return funds MAC and DRF posted positive returns, 4 funds underperformed. The global sustainable fund performed the worst due to being the most underweight to the 7 largest stocks. DV noted the PAB outperformed traditional indexes. Property portfolio continues to outperform. Cycle 1 portfolios performance is becoming more meaningful as they have been deployed for a couple of years, and the numbers are good. DV noted there are no new managers on yellow or no new controversial holdings. DV noted they are redesigning RAG reports to provide a better one-page snapshot.

	DLG commented on DV noting there is a bull market and asked if there is potentially a bubble, which is a view expressed elsewhere? - DV noted the top stocks are expensive and many multiples their revenue. DV has sympathy for views noting there is a bubble. ND noted there are different valuations across regions and asked if Brunel are beginning to look regionally and focus on better value. - DV noted Brunel don't have mandate to set up regional funds and they would have to be requested by Clients. Managers do undertake the analysis on their own. ABa asked if there are any areas DV recommends Shareholders should be asking Brunel to look at or create. - DV noted convertible bonds is an asset class that doesn't usually get recommended by investment consultants, but they would recommend clients look at it.
6.	**Client assurance framework (including Investment Update)** - Cyber Security presentation
	SJ presented the Client Assurance Framework SJ noted Brunel's Cyber Security was reviewed at the Operations Sub-Group and there will be an annual review going forward to provide assurance to Clients. Clients also shared their own cyber security processes at the Operations Sub-Group. SJ highlighted the underperformance since inception on the portfolio and confirmed the client group have discussed it and received assurance from Brunel. JH presented the Cyber security paper. The presentation focused on Brunel's 4-Layer approach to cyber security, training and user awareness, independent assessments, and case studies. KB noted their belief that strong passwords create weaknesses as it encourages users to write down passwords they can't easily remember. - JH agreed and confirmed Brunel use additional security such as 2 factor authentication and single sign on, both minimising the risks from passwords and allowing them to not be overly complex. - DLG confirmed they had cyber security training recently and passwords will be potentially replaced with facial recognition and other processes. JH noted Brunel staff undertake yearly cyber security training and additional initiatives are set up across the year to keep users engaged with cyber security. ABa noted they have experience in IT and emphasised the importance of strong links between HR process and IT process. - JH confirmed there is strong workflow process between HR and IT. - JW confirmed the HR was audited this year and all yellow audit comments have been resolved and taken into account.
7.	**Cross Pool Performance Data**
	JB noted Dorset's independent advisor has recommended using relative performance with other pools to provide assurance and performance comparisons. JB recognises establishing mechanisms to compare performance across pools would

	be difficult and therefore they would like a discussion to see if the data would be meaningful and value for money. DV noted they personally prefer comparing against a wider peer group than just the pools and has introduced these comparisons into the BIRC reports. This will be pulled out into the RAG report update alongside a crib sheet helping to arm councillors. DV noted the majority of performance is driven by the Clients individual investment strategy and the asset allocation. DV noted they could create attribution between Clients' performance and their investment management, e.g., being overweight to property and now looking to sell would create a loss. DLG noted independent advisors are providing advice on the strategic allocations and therefore should already have the knowledge DV provides. LS asked if Brunel have benchmarking figures against other pools. - LC confirmed benchmarking figures to other pools are not available but individual client figures are available. - LC noted the government are consulting on how to best benchmark between pools. ND noted longer term performance is more important than performance over the quarter.
8.	**LGPS Consultation**
	SC noted the Client Group have attempted to set out where they believe is consensus with regards to the response to the government consultation. ABo noted for information, their union is planning on responding to the consultation with similar views expressed. JB noted the Scheme Advisory Board communications are sharing the same views.
9.	**Brunel Chair/SNED Update**
	DLG noted there are currently 9 consultations on going regarding pensions reform and goes way beyond the LGPS. DLG noted the Shareholder Forum was great. There will be further engagements in the Autumn.
10.	**Any other urgent or for information items** Future Meeting Dates: • 13th December 2023 • 25th January 2024 • 7th March 2024 • 6th June 2024 • 5th September 2024 • 5th December 2024
	RG noted the future meeting and there were no AOBs

DF/23/107
Investment and Pension Fund Committee
24 November 2023

AUDIT REPORT ON THE PENSION FUND STATEMENT OF ACCOUNTS 2022/23

Report of the Director of Finance and Public Value

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

1) Recommendation

That the Committee be asked to note the Audit Findings Report from Grant Thornton.

2) Introduction

2.1 The draft Pension Fund Annual Report and Accounts were presented for approval at the last meeting of the Committee. It was resolved that the Pension Fund Annual Report and Accounts for 2022/23 be adopted, subject to approval of the Statement of Accounts by the Devon County Council Audit Committee and completion of the external audit. At the time the audit had not been completed and the Audit Findings Report for the Pension Fund was not available for review by the Committee.

2.2 The external audit has now been substantially completed by Grant Thornton, subject to a small number of remaining items, and the draft Audit Findings Report is attached at Appendix 1 to this report.

2.3 This report also updates the Committee on the audit of accounts for 2020/21 and 2021/22.

3) Audit of Previous Years' Statement of Accounts

3.1 The Pension Fund Statement of Accounts also forms part of the Devon County Council Statement of Accounts. At the time of the September Committee, the external auditors had yet to issue audit opinions on the Authority's Statements of Accounts for 2020/21 and 2021/22. These opinions have now been issued.

3.2 The opinion that is required for the Pension Fund Annual Report is a "consistency opinion". These are to provide the auditor's opinion that the version of the Statement of Accounts contained in the Annual Report is consistent with the version in the County Council's Statement of Accounts. The consistency opinion for the 2020/21 Annual Report has now been issued. The 2021/22 Report required a couple of amendments which are in the process of being made before a revised copy is provided back to Grant Thornton for final review so that the consistency opinions can be issued.

3.3 Once the consistency opinion has been issued for 2021/22, we will then be able to formally publish the annual reports for both 2020/21 and 2021/22. They have previously been published on the Fund’s website as draft versions.

4) Audit Findings Report

4.1 The draft Audit Findings attached at Appendix 1 includes an evaluation of the Pension Fund's internal controls environment, including its IT systems and controls and substantive testing on significant transactions and material account balances, including the procedures outlined in the report in relation to the key audit risks.

4.2 Following Grant Thornton’s report last year, some changes have been made to the journal process used to replicate the transactions and asset valuations held within the Fund Custodian’s accounting system into the Devon CC Pension Fund ledger. For 2022/23 investment journals that originate from the Investments database have been prepared by the Investment Manager, input by the Pension Fund Accountant and authorised by the Head of Investments. This amended practice, primarily intended to achieve the objective of improved operational resilience, does also address the segregation of duties risk reported by the Auditor.

4.3 The report sets out a small number of outstanding items, including:

- Completion of journals testing.
- Further review of IT controls.
- Review of the final version of the Statement of Accounts and the Pension Fund Annual Report.

4.4 A representative of Grant Thornton will be available at the Committee to go through the report and answer any questions.

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5) Conclusion

5.1 Subject to the small number of outstanding matters, Grant Thornton anticipate issuing an unmodified audit opinion. The Committee is asked to note the Audit Findings Report.

Angie Sinclair
Director of Finance and Public Value

Electoral Divisions: All

Local Government Act 1972: List of background papers

Nil

Contact for enquiries:
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Appendix 1

Agenda Item 7

The Audit Findings Report for Devon Pension Fund

Year ended 31 March 2023

13 November 2023

Contents

Your key Grant Thornton team members are:

Peter Barber
Key Audit Partner
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David Bray
Senior Manager
E david.bray@uk.gt.com

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

Name: Peter Barber
For Grant Thornton UK LLP
Date: 13 November 2023

Agenda Item 7

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Devon Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2023 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We commenced our post-statements audit in June 2023 and as at 13 November 2023 our audit is substantially complete. This year we undertook the audit remotely utilising a pooled pension team across our 5 Local Government Pension Fund audits in the South West. Our findings are summarised on pages 5 to 17.

Changes to the national timetable brought forward the accounts production date from 31 July 2022 (in 2021/22) to 31 May 2023. The Pension Fund's draft financial statements were provided to us on 29 June 2023, in advance of our post-statements audit.

The financial statements were prepared to a good standard and were supported by good quality working papers. Once again the work required to discharge our responsibilities has increased. This additional work reflects the continuous raising of the bar and us as auditors providing greater challenge to the Pension Fund especially in the areas subject to greatest estimation and uncertainty.

We have identified no material errors or adjustments to the financial statements and there are no matters arising to date that would require modification of our audit opinion. Audit adjustments are detailed in Appendix D. We have also raised recommendations for management as a result of our audit work in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.

Subject to a small number of audit procedures being completed, we anticipate issuing an unqualified audit opinion on the Pension Fund financial statements; please see Appendix G for our proposed audit opinion.

We will be unable to issue our final audit opinion on the Pension Fund financial statements until the audit of Devon County Council, the Administering Authority for the Pension Fund, is complete. We expect the final Audit Findings Report and financial statements to be considered at the Audit Committee meeting in February 2024.

We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements and we expect to be in a position to issue this alongside our opinions on the financial statements of Devon County Council and Devon Pension Fund.

We will issue a final Audit Findings Report on the conclusion of our work.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 1% (5 of 467) of local government bodies had received audit opinions in time to publish their 2022/23 accounts by the deadline of 30 September 2023. Although the Devon Pension Fund 2022/23 audit is nearing completion, we are unable to issue our opinion until we have issued our opinion for the administering body, in Devon Pension Fund's case, Devon County Council, which is anticipated in early 2024.

We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Pension Fund for their support in working with us to get to the current state of completion by this point.

Local context - triennial valuation

Triennial valuations for local government pension funds have been published. These valuations, which are as at 31 March 2022, provide updated information regarding the funding position of the Pension Fund and set employer contribution rates for the period 2023/24 – 2025/26.

For the Pension Fund, the valuation was undertaken by Barnett Waddingham, and showed that the Fund had assets sufficient to cover 98% of the accrued liabilities as at 31 March 2022, which has increased from 91% at the 2019 valuation. The results of the latest triennial valuation are reflected in Note 22 to the financial statements. These valuations also provide updated information for the net pension liability on employer balance sheets.

We have performed testing of the completeness and accuracy of triennial valuation source data. This was to support our work providing assurances to auditors of employer bodies. As part of this work, we tested a sample of 50 and found the source data to be complete and accurate. This additional testing is only required after each triennial review, rather than annually. See Appendix E for the impact of this work on our 2022/23 audit fee.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

For Devon Pension Fund, the Audit Committee of Devon County Council fulfils the role of those charged with governance.

The Investment and Pension Fund Committee considers the draft financial statements and is part of the overall Member oversight process.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, as communicated to Devon County Council's Audit Committee on 25 September 2023.

Conclusion

We have substantially completed our audit of your financial statements and subject to a small number of outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the completion of the Devon County Council audit.

These outstanding items include:

- completion of our journals testing – please see page 7;
- review of management responses to our draft IT – please see pages 10 and 13;
- completion of the final key audit partner review;
- receipt of management representation letter – please see page 14;
- receipt and review of the final version of the 2022/23 financial statements; and
- receipt and review of the Pension Fund's final Annual Report for 2022/23 – please see page 17.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during the course of our audit.

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan on 25 September 2023. We set out in this table our determination of materiality for the Pension Fund.

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	Pension Fund Amount	Qualitative factors considered
Materiality for the financial statements (headline)	£66.4m	We considered the proportion of net assets to the Fund to be an appropriate benchmark for the financial year. This is approximately 1.25% of your gross assets as at 31 March 2023.
Performance materiality	£46.4m	We have determined this using 70% of headline materiality. In prior years we have identified issues with regards to journals controls and also there were unadjusted errors with the 21/22 accounts which arose due to timing differences. In addition, the management and finance team remain stable.
Trivial matters	£3.3m	This is based on 5% of headline materiality, which we consider to be an appropriate threshold to use in terms of our reporting to the Audit Committee as 'Those Charged with Governance'.
Materiality for fund account	£24.5m	Due to the sensitivity of the fund account disclosures to those stakeholders who are admitted members of the Fund, we have determined a lower materiality threshold over the relevant fund account disclosures. This is approximately 10% of the fund's expenditure in the year to 31 March 2023.

Agenda Item 7

2. Financial Statements: Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.	We have: • evaluated the design and implementation of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • identified potentially unusual journals made during the year and the accounts production stage for appropriateness and corroboration • tested the potentially unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our approach to the testing of journals in 2022/23 reflected the control deficiencies reported in 2021/22. (Please also see the follow-up of prior year recommendations on page 23). Our work in this area is still in progress and we are awaiting corroborating evidence from management to support a number of the journals posted relating to 2022/23. There are no matters that we wish to report to the Audit Committee based on the work undertaken to date.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Level 3 investments The Fund revalues its investments on an annual basis at the year end to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2023. We therefore identified valuation of Level 3 investments as a significant risk.	We have: • evaluated management's processes for valuing Level 3 investments; • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments to ensure that the requirements of the Code are met; • independently requested year-end confirmations from investment managers and custodians; • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2023 with reference to known movements in the intervening period; and • in the absence of available audited accounts, we evaluated the competence, capabilities and objectivity of the valuation expert. Our work in this area is complete and there are no concerns we wish to bring to the Audit Committee's attention. However, we note the following: • Our testing did identify some trivial valuation differences within individual valuations, although these were often due to timing differences – for example, the investment's financial statements may be up to 31 December 2022 whereas the Pension Fund is reporting to 31 March 2023. • There was one investment (£16.6m) where audited financial statements were not available and so we reviewed the service auditor report. Overall, we are satisfied this investment is not materially misstated.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Improper revenue recognition (rebutted)	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Devon Pension Fund, mean that all forms of fraud are seen as unacceptable. We therefore did not consider this to be a significant risk for Devon Pension Fund when producing our audit plan. We have reconsidered our original assessment as part of our audit work on the Pension Fund's financial statements and are satisfied that this rebuttal remains appropriate.
Improper expenditure recognition (rebutted)	Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: "As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit. We have rebutted this presumed risk for Devon Pension Fund because: • expenditure is well controlled and the Fund has a strong control environment; and • the Fund has clear and transparent reporting of its financial plans and financial position to those charged with governance. We therefore did not consider this to be a significant risk for Devon Pension Fund when producing our audit plan. We have reconsidered our original assessment as part of our audit work on the Pension Fund's financial statements and are satisfied that this rebuttal remains appropriate.

2. Financial Statements: new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
IT Audit Our IT auditors have assessed the IT arrangements in place at the County Council (as administering body for the Pension Fund) and the Pension Fund itself.	The original set-up meeting for this work was on 4 August 2023 although there were delays in providing the required information to us. At the time of writing, management have provided a response to our draft report and our IT auditors are reviewing this. Once this report and the findings therein have been agreed, we will assess whether or not there are any implications for our audit.	To be confirmed on finalisation of IT report.

2. Financial Statements: key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £687m	The Pension Fund has investments in a range of areas that in total are valued on the net asset statement as at 31 March 2023 at £687m (PY: £463m). These investments include UK and Overseas Unit Trusts (Venture Capital and Partnerships). These investments are not traded on an open exchange or market and the valuation of the investment is highly subjective due to a lack of observable inputs. Note 19 to the Pension Fund's financial statements sets out the basis of the valuations for the Level 3 investments. In order to determine the value, management has employed expert fund managers and other advisors who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts.	We have: • reviewed management's assessment and estimation process for level 3 investments and consider it to be robust; • assessed the estimates provided for level 3 investments and tested the validity of the assumptions; • assessed the adequacy of management's experts; • tested the appropriateness of the underlying information used to determine the estimate; • reviewed the consistency of the estimate against industry practice and previous audit work; • tested the reasonableness of the increase in the estimate; and • reviewed the reasonableness of the sensitivities disclosed in the estimates section of the accounting policy. As noted on page 8, our testing identified some trivial valuation differences within individual valuations, although these were often due to timing differences – for example, the investment's financial statements may be up to 31 December 2022 whereas the Pension Fund is reporting to 31 March 2023. Our work in this area is complete and there are no concerns we wish to bring to the Audit Committee's attention.	Light Purple

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £4,564m	The Pension Fund has investments in a range of areas that in total are valued on the net asset statement as at 31 March 2023 at £4,564m (PY: £4,882m). These investments include pooled property funds and other managed funds. The investments are not directly traded on an open exchange / market as they may be restricted, for example, to Pension Funds that sit within the Brunel arrangement. The valuation of these investments is subjective, although valuations are based on observable inputs and so are not as subjective as Level 3 investments. Note 19 to the Pension Fund's financial statements sets out the basis of the valuations for the Level 3 investments. In order to determine the value, management has employed expert fund managers and other advisors who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts.	We have: • reviewed management's assessment and the estimation process for level 2 investments and consider it to be robust; • assessed the estimates provided for level 2 investments and tested the validity of the assumptions; • assessed the adequacy of management's experts; • tested the appropriateness of the underlying information used to determine the estimate; • reviewed the consistency of the estimate against industry practice and previous audit work; • tested the reasonableness of the changes in the estimate; and • reviewed the reasonableness of the sensitivities disclosed in the estimates section of the accounting policy. Our audit work has not identified any issues in respect of the valuation of Level 2 investments	Light Purple

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Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Agenda Item 7

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

As noted on pages 3 and 10, our IT auditors have assessed the IT arrangements in place at the County Council (as administering body for the Pension Fund) and the Pension Fund itself.

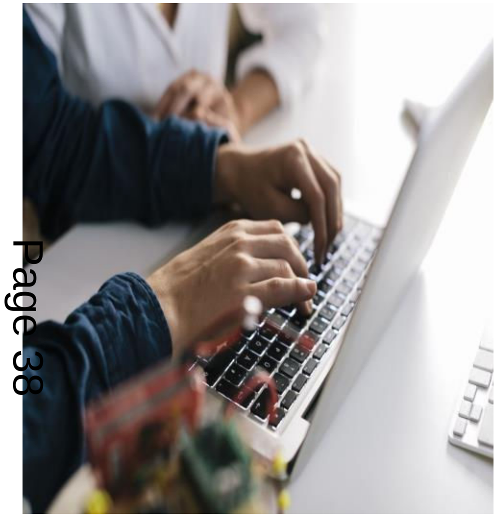
At the time of writing, management have provided a response to our draft report and our IT auditors are reviewing this. Once this report and the findings therein have been agreed, we will assess whether or not there are any implications for our audit.

2. Financial Statements: other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with management and the Chair of the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund, which is included in the supporting Committee papers. This will need to be signed on completion of audit of Devon County Council's financial statements for the year ended 31 March 2023.
Audit evidence and explanations	All information and explanations requested from management was provided.

2. Financial Statements: other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested permission from management to send confirmation requests to the Pension Fund's custodian, fund managers and investment managers. This permission was granted and the requests were sent. All requested information that is available has now been provided, although we did experience some delays as, initially, audited financial statements for some investments had not been published. As noted on page 8, there was one investment (£16.6m) where audited financial statements were not available and so we reviewed the service auditor report. Overall, we are satisfied this investment is not materially misstated.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.

2. Financial Statements: other communication requirements

Our responsibility

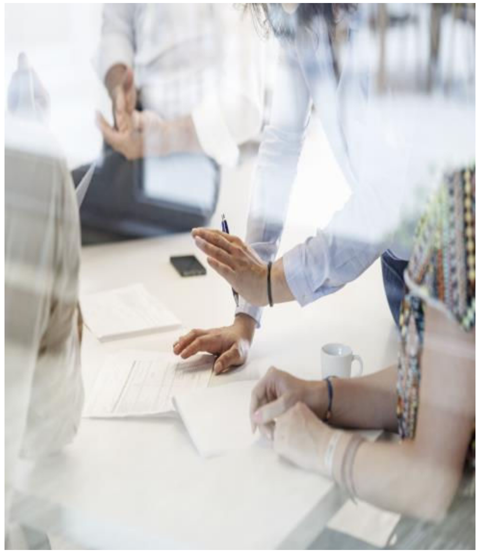
As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Pension Fund and the environment in which it operates • the Pension Fund's financial reporting framework • the Pension Fund's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Agenda Item 7

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	The Pension Fund is administered by Devon County Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements. We are required to read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority. No inconsistencies have been identified within the draft financial statements and we plan to issue an unmodified opinion in this respect – refer to Appendix G.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until 1 December 2023 and therefore this report has not yet been produced. We are required to report if we have applied any of our statutory powers or duties as outlined in the Code. We have nothing to report on these matters.



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3. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm there were no fees for the provision of audit-related or non-audit services. Please note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards. Please see Appendix E for further information.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix E.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Grant Thornton International Transparency report 2023.

3. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Pension Fund that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Pension Fund held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Pension Fund as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Pension Fund.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for future non-audit services and we confirm there were no fees for the provision of audit-related or non-audit services.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Pension Fund's board, senior management or staff.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings Report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified [X] recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2023/24 audit .The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
	[…]	[…] Management response […]
	[…]	[…] Management response […]

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

C. Follow up of prior year recommendations

We identified the following issues in the audit of Devon Pension Fund's 2021/22 financial statements, which resulted in two recommendations being reported in our 2021/22 Audit Findings Report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	The Head of Investments prepares the journals for the investment balances and send the details to the Senior Accountant (Strategy) to be posted on the system. The Head of Investments then authorises the journals that have been posted, meaning that these journals are in effect being self-authorised. This is a significant control weakness as it represents management override of controls.	We recommended that the Pension Fund should introduce appropriate controls for its investment journals that originate from the Investments database, ensuring that there is appropriate segregation of duties between the originator of the journal and the approver. Management have advised that, for 2022/23, investment journals that originate from the Investments database wereprepared by the Investment Team, input by the Pension Fund Accountant and authorised by the Head of Investments. As noted on page 7, our work in this area is still in progress. We will incorporate our findings in the final version of our Audit Findings Report.
TBC	As previously reported in 2020/21, there are inadequate controls over the use of the "200" IDs used by two senior officers to post and approve journals over £200k.	We recommended that The Council should introduce enhanced controls over the authorisation of its journals to ensure there is adequate segregation of duties and appropriate IT access controls. Management have advised that there were no instances where "200"USERID's have been used to approve any Pension Fund journal during the reporting period ending 31 March 2023. As noted on page 7, our work in this area is still in progress. We will incorporate our findings in the final version of our Audit Findings Report.

Assessment

✓ Action completed

X Not addressed

D. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

As noted on page 3, we have not identified any adjustments to the financial statements that resulted in an adjustment to the Pension Fund's reported financial position.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure change identified during the audit.

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
Statistical Summary	The Members summary in Note 1 to the financial statements has the same figures for both 2022/23 2021/22. This note needs to reflect the actual numbers of contributors and pensioners for each financial year. **Management response** This matter has been adjusted in the current version of the statement of accounts on the Council's website. The original disclosure reported the statistical summary provided by the Actuary in the IAS 26 report and reflects membership used in the latest funding valuation and roll forward at 31 March 2023.	✓

Impact of unadjusted misstatements

There are no unadjusted misstatements.

D. Audit Adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Due to the timing of fund manager reports the Fund has used the most recent information available for level 3 investments, which in some cases is the valuation report dated 31 December 2021. As part of our audit procedures we have reviewed the 31 March 2022 reports that were available at the time of audit, after the draft financial statements were submitted. This work highlighted that the value of these investments had increased by £12.5m and therefore that the estimate as at the 31 March 2022 was understated by this amount. We have reported this as an unadjusted misstatement but recognise that the draft financial statements were produced using the most up to date information.	12,534	12,534	12,534	The difference is immaterial, and relates to a timing difference in the availability of information.
A number of level 2 investments had differences in valuations at 31 March 2022 due to timing of audited financial statements or other trivial differences.	8,825	8,825	8,825	The difference is immaterial, and relates to a timing difference in the availability of information.
Overall impact	£25,172	£25,172	£25,172	

E. Fees and non-audit services

We set below our proposed fees for the audit and confirm there were no fees for the provision of non audit services for 2022/23. The final fee will be included in our concluding Audit Findings Report once the outstanding work on page 5 has been concluded. The Audit Committee should note the potential for additional work arising from our IT audit as noted on pages 10 and 12.

Please see page 27 regarding the non audit services undertaken in 2021/22.

Audit fees	Proposed Fee 2022/23
Devon Pension Fund Scale Fee set by PSAA	**25,419**
Proposed fee variations Per Audit Plan	14,750
Core Pension Fund Audit per Audit Plan	**40,169**
IAS 19 letters for employer body auditors*	21,400
Work on triennial valuation member data*	5,000
Re-issued IAS 19 letters for 2021/22 (£1,000 per admitted body)*	8,000
Total audit fees per Audit Plan (excluding VAT)	**£74,569**

*Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances to auditors of local government and NHS bodies should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards. Provision of IAS 19 assurances to auditors of any other type of entity remains non-Code work. Please see page 27 for details of the fees for this work in 2021/22 and the safeguards in place.

The estimated fees disclosed in Note 11 of the Pension Fund's financial statements are £47,000 plus a further £26,400 for the IAS 19 letters and the additional work on the triennial valuation member data which the Pension Fund will re-charge to the admitted bodies.

The fees in Note 11 are estimated as the draft financial statements were prepared in advance of the production of our audit plan. The financial statements clearly disclose this fact.

The £47,000 estimated fees in Note 11 the financial statements are as follows:

PSAA Scale Fee (£24,000)

2020/21 fee variation (£13,000)

'Minor charges'** (£10,000)

** This is the terminology used in the Pension Fund's financial statements.

E. Fees and non-audit services

Audit and non-audit services

As set out on the previous page, fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23.

The fee for this work in 2021/22, as reported in that year's Audit Findings Report, was £19,000 and this was invoiced in November 2022.

We set out below the threat to our independence and safeguard that has been applied to mitigate this threat.

Service	Fees £	Threat identified	Safeguard
Non-audit Related			
IAS19 Assurance letters for Admitted Bodies	7,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £19,000 in comparison to the expected fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

G. Proposed audit opinion

Our proposed audit opinion is included below.

We anticipate we will provide the Pension Fund with an unmodified audit report. As set out on page 3, we will be unable to issue our final audit opinion on the Pension Fund financial statements until the audit of Devon County Council, the Administering Authority for the Pension Fund, is complete.

Independent auditor's report to the members Devon County Council on the pension fund financial statements of Devon Pension Fund

Opinion on financial statements

We have audited the financial statements of Devon Pension Fund (the 'Pension Fund') administered by Devon County Council (the 'Authority') for the year ended 31 March 2023, which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2023 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Director of Finance and Public Value's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

G. Proposed audit opinion

In our evaluation of the Director of Finance and Public Value's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

In auditing the financial statements, we have concluded that the Director of Finance and Public Value's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Finance and Public Value with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Statement of Accounts and Annual Governance Statement, other than the Pension Fund's financial statements and our auditor's report thereon, and our auditor's report on the Authority's financial statements. The Director of Finance and Public Value is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements, the other information published together with the Pension Fund's financial statements in the Statement of Accounts and Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

G. Proposed audit opinion

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters in relation to the Pension Fund.

Responsibilities of the Authority and the Director of Finance and Public Value

As explained more fully in the Statement of Responsibilities set out on page 154, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and Public Value. The Director of Finance and Public Value is responsible for the preparation of the Statement of Accounts and Annual Governance Statement, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance and Public Value determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Fund's financial statements, the Director of Finance and Public Value is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Pension Fund without the transfer of its services to another public sector entity.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

G. Proposed audit opinion

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting framework the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003, the Public Service Pensions Act 2013, the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

We enquired of management and the Audit Committee concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management, internal audit and the Audit Committee whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journals, accounting estimates and critical judgements made by management. Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a focus on large and unusual journals and those posted by senior officers,
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of level 3 investments and IAS 26 pensions liability valuations, and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including the management override of controls and the potential for fraud in revenue and expenditure recognition. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

G. Proposed audit opinion

Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government pensions sector
- understanding of the legal and regulatory requirements specific to the Pension Fund including:
  - the provisions of the applicable legislation
  - guidance issued by CIPFA/LASAAC and SOLACE
  - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014, and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

Peter Barber, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

Date:

Grant Thornton

grantthornton.co.uk

DF/23/108
Investment and Pension Fund Committee
24 November 2023

INVESTMENT MANAGEMENT REPORT

Report of the Director of Finance and Public Value

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

1) Recommendation

That the Committee be asked:
(a) To note the Investment Management Report.
(b) To note compliance with the 2023-24 Treasury Management Strategy.

2) Fund Value and Asset Allocation

The table below shows the Fund value and the asset allocation for the Fund compared to the proposed 2023/24 target asset allocation as at 30 September 2023.

Fund Value and Asset Allocation as at 30 September 2023

	Fund Value as at 30.09.23	**Target allocation 2023/24**	**Fund asset allocation at 30.09.23**	**Variation from Target**
	£m	**%**	**%**	**%**
Fixed Interest				
Sterling Corporate Bonds	396.4	7	7.4	
Multi-Asset Credit	658.6	12	12.3	
Cash	154.4	1	2.9	
	1,209.4	**20**	**22.6**	**+2.6**
Equities				
Passive Equities	1,459.5	25	27.2	
Global High Alpha Equities	306.9	5	5.6	
Global Smaller Companies	275.3	5	5.1	
Emerging Markets	230.9	5	4.3	
Sustainable Equities	499.7	10	9.3	
	2,772.3	**50**	**51.5**	**+1.5**

	Fund Value as at 30.09.23	Target allocation 2023/24	Fund asset allocation at 30.09.23	Variation from Target
	£m	%	%	%
Alternatives/Other				
Diversifying Returns Funds	158.7	3	3.0	
UK Property	369.7	8	6.9	
International Property	102.4	2	1.9	
Infrastructure	487.4	9	9.1	
Private Equity	65.4	3	1.3	
Private Debt	181.0	4	3.4	
Local Impact Portfolio	17.1	1	0.3	
	1,381.7	**30**	**25.9**	**-4.1**
Total Fund	**5,363.4**	**100**	**100.0**	

The key points with regard to the end of quarter asset allocation are summarised below:

a) The Fund value as at 30 September 2023 stood at £5,363.4 million, broadly at the same level as it stood at the end of June, representing an increase of around £50 million over the financial year to date.

b) At the June meeting of the Committee, it was agreed that the UK and core global developed passive allocations should be consolidated into the Global Paris Aligned Benchmark passive fund. This change was implemented during October/early November, post the September quarter end. We were able to take advantage of a redemption from the Paris Aligned fund by Avon to reduce the costs of the transaction.

c) At the September meeting of the Committee, it was agreed that £50 million be moved from passive equities to corporate bonds, as part of the consolidation of the passive allocation. The Committee also agreed on a temporary basis to hold a higher allocation in cash pending private market drawdowns, which would be taken from the Diversified Returns Funds (DRF) portfolio.

d) It was subsequently agreed with Brunel that in order to reduce the transition costs of these moves, the addition of £50 million to the Corporate Bond portfolio should be taken from the DRF portfolio, and that the £50 million intended reduction in the passive equity allocation would then be retained as cash. The end result will be in line with the committee decision, but the revised implementation process will have saved on costs.

e) The £50 million addition to Sterling Corporate Bonds was therefore made in late September, taking that portfolio up to target. The DRF allocation was reduced to its interim 2023/24 target of 3%. As at the end of September, the cash allocation stood at 2.9%.

f) The underweight allocation continues to be that to private markets. Significant commitments have been made to bring private debt and private equity up to the target level, but these will still take some time to be fully drawn.

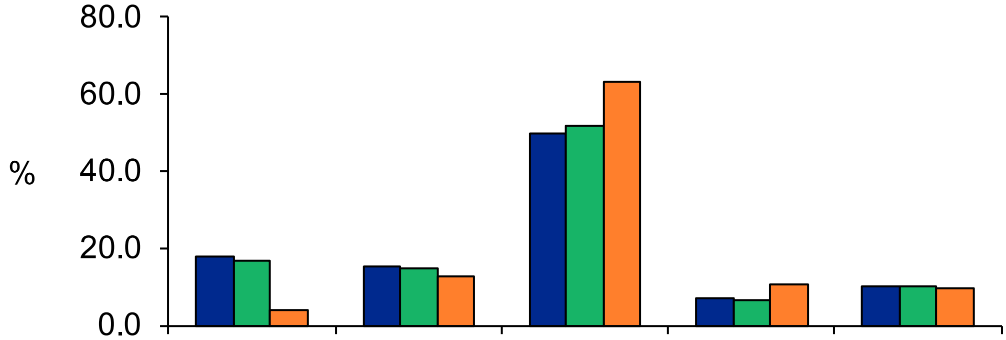
g) Over the quarter, the first investment was made from the Local Impact Portfolio. However, the £17 million investment in the Quinbrook Renewables Impact Fund was from the commitment to the core fund, while the local Devon opportunities are still to be accessed.

h) Following the passive consolidation and the rebalancing agreed at the last meeting of the Committee, it is not proposed to undertake any further rebalancing at this time.

Geographical Weighting of Equity Allocation

i) The following chart gives the geographical split of the Fund's equity allocations against the FTSE All World Index geographical weightings.

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



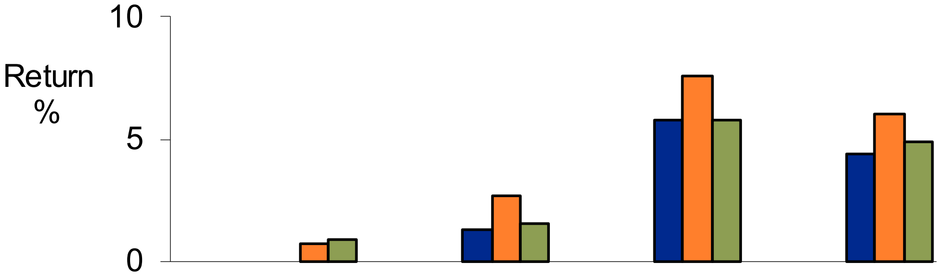
	UK	Europe Ex UK	North America	Asia/ Pacific	Emerging Markets
Fund: March 2023	17.7	15.1	50.0	6.9	10.3
Fund: Sept 2023	16.9	14.9	51.7	6.3	10.1
FTSE All World	3.9	12.5	63.1	10.7	9.8

j) As at 30th September, the Fund retained an overweight to the UK via the investment in the UK Climate Transition Benchmark (CTB) Tracker Fund. The decision to consolidate the Fund's passive equity allocation, including the UK CTB Funds, into the global developed Paris aligned benchmark fund was implemented in late October/early November. Therefore, the UK allocation will more closely align to its weighting in the FTSE All World and other global indices at the end of the current quarter (to 31 December).

3) Fund Performance

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

Longer Term Fund Performance Summary



	Latest Quarter %	2023/24 %	3 Years % pa	5 Years % pa
Fund	0.0	1.3	5.8	4.4
Benchmark	0.7	2.7	7.6	6.0
Relative Return	-0.7	-1.4	-1.8	-1.6
LGPS Universe	0.9	1.5	5.8	4.9

Source for LGPS Universe: PIRC Local Authority Pension Performance Analytics

The performance statistics quoted are net of fees. The LGPS universe figures for the last quarter are based on the asset allocation of the PIRC Local Authority Universe with index returns applied. The previous periods are updated to include actual Universe returns.

The return was flat for the quarter to 30 September, resulting in an unchanged positive return of +1.3% over the financial year to date, compared with the fund strategic benchmark of +2.7%, and just behind the LGPS Universe average of +1.5%. The key areas of under-performance against benchmark were Sustainable Equities and Infrastructure.

A breakdown of the performance of the Total Fund for the financial year to date and three years to 30 September 2023 and the comparative Index returns are shown in the following table:

Performance to 30 September 2023

Sector	Financial Year To Date		Three Years		Benchmark Description
	Fund Return	Benchmark	Fund Return	Benchmark	
	%	%	%	%	
Fixed Interest					
Investment Grade Bonds	-0.2	-1.2	-7.0	-7.3	iBoxx Sterling Non-Gilts [1]
Multi-Asset Credit	+3.8	+4.4	+1.8	+6.6	GBP SONIA +4% [1]
Cash	+0.8	+2.3	+0.7	+1.5	GBP 7 Day LIBID
Equities					
Passive Equities	+3.3	+3.3	+10.1	+10.2	Devon Passive Index
Global High Alpha Equities	+3.3	+4.8	+8.3	+10.7	FTSE World / MSCI World
Global Smaller Companies	-2.0	+0.2	-	-	MSCI World Small Cap
Emerging Markets	-2.4	-0.5	-1.6	+0.6	MSCI Emerging Markets
Sustainable Equities	-4.1	+4.2	-	-	MSCI AC World
Alternatives/Other					
Diversifying Returns Funds	+3.0	+4.4	+3.0	+5.7	GBP SONIA +4% [1]
UK Property	+1.5	-0.3	+3.5	+2.1	AREF/IPD UK All Property
International Property	-2.4	-7.8	+7.4	+5.9	MSCI Global Property
Infrastructure	-1.4	+4.4	+7.3	+10.9	CPI + 4% [1]
Private Equity	+3.5	+4.2	-	-	MSCI AC World
Private Debt	+9.0	+4.4	+10.3	+10.9	CPI + 4% [1]
Local Impact Portfolio	0.0	+0.5	-	-	7% p.a. Return
Total Fund	**+1.3**	**+2.7**	**+5.8**	**+7.6**	**Devon Bespoke Index**

Notes

1. the benchmark shown is the current benchmark, but the benchmark return will also incorporate the benchmarks applicable for the earlier part of the 3 year period where the benchmark has changed as a result of transition to Brunel.

a) The Sterling Corporate Bonds portfolio delivered a positive return of 2.4% over the quarter, reversing the negative return in the previous quarter. The Multi-Asset Credit (MAC) portfolio also delivered a positive performance.

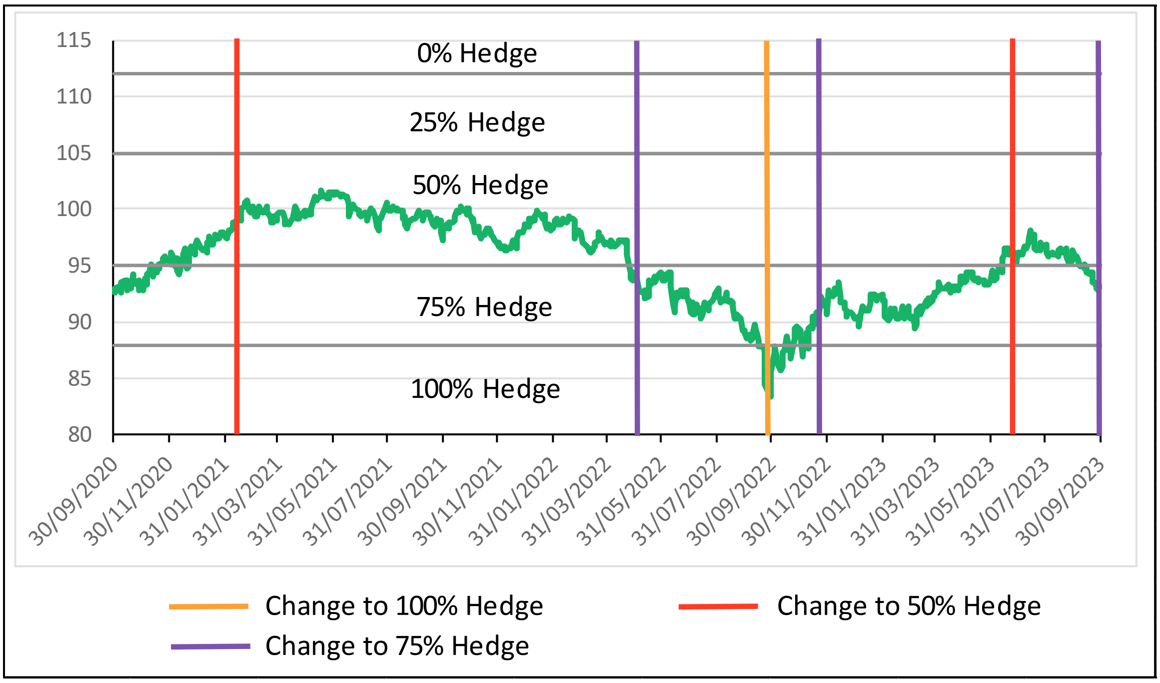
b) Within equities the biggest underperformance against benchmark was on Sustainable Equities. This quarter saw market sentiment shift to favour more value-orientated, defensive strategies. The oil price increased as Saudi Arabia and Russia cut back on production. Moreover, central banks confirmed rates were likely to stay higher for longer and the market ultimately discounted an imminent rate cut, which again favoured defensive stocks. This market environment favoured stocks with high ESG risks, and as a result more sustainable focused portfolios under-performed.

c) Infrastructure was the other significant area of relative underperformance over the quarter. Rising interest rates have impacted on both Infrastructure and Private Equity, as they have fed through to an increase in the cost of capital, most obviously in debt funding costs. This has impacted on valuations to some extent, while the use of an inflation plus benchmark for Infrastructure has contributed to the underperformance given the continuing high level of inflation.

Currency Hedging

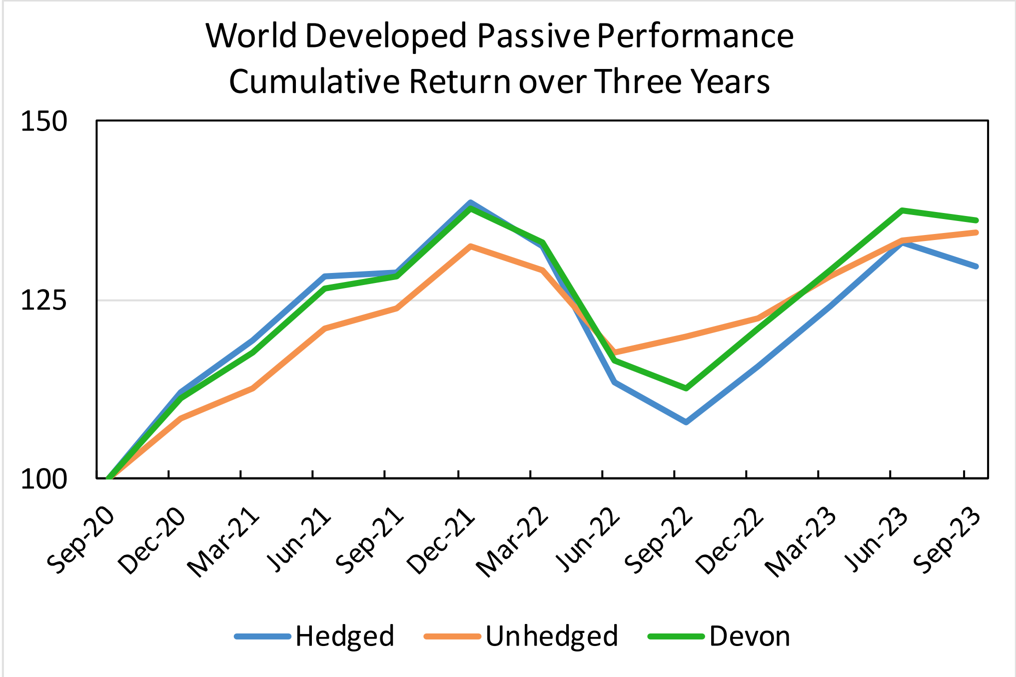
d) The following graph shows the value of Sterling against a weighted average of the other major currencies, over the three years to 31 March 2023. The currency strategy agreed by the Committee is to increase or decrease the hedge ratio on the Fund's global passive equity funds based on the ranges as shown on the chart. The middle (base 100) position reflects a weighted average of £1 = $1.40, £1 = €1.15 and £1 = ¥150.

Value of Sterling v. Weighted Average of US Dollar, Euro and Yen



e) The value of the pound fell over the quarter from $1.2714 as at 30 June to $1.2207 as at the end of September. As a result, the hedge ratio increased to 75% at the end of September.

f) Over the quarter, an unhedged strategy would have delivered a higher return on the global developed passive portfolio, but over the longer periods of one and three years the hedging strategy has delivered a better return than both a fully hedged or a fully unhedged portfolio. This is illustrated in the following chart.



Returns	Cumulative Since 30/09/20	Last Quarter	1 Year	Annualised 3 Years
Hedged	+29.7%	-2.5%	+20.3%	+9.1%
Unhedged	+34.4%	+0.7%	+12.0%	+10.3%
Devon	+36.1%	-0.9%	+20.9%	+10.8%

4) Funding Level

The triennial actuarial valuation, as at 31 March 2022, carried out by the Fund Actuary, Barnett Waddingham, determined that the Devon Pension Fund had a funding level of 98.4%.

The Fund Actuary has provided a funding update, as at 30 September 2023, using the approach of rolling forward the data from the 2022 valuation, and updating it for subsequent investment returns, pension and salary increases. While it is not possible to assess the accuracy of the estimated liability as at 30 September 2023 without completing a full valuation, the results will be indicative of the underlying position.

a) The returns over the period since the 2022 Triennial Valuation are shown in the following table.

Return since 31 March 2022 compared with Actuarial Assumption

	Actuarial Assumption	Actual Return
2022/23	4.7%	-1.5%
2023/24	4.7%	1.3%
Return since 31/03/2022 (annualised)	**4.7%**	**-0.1%**

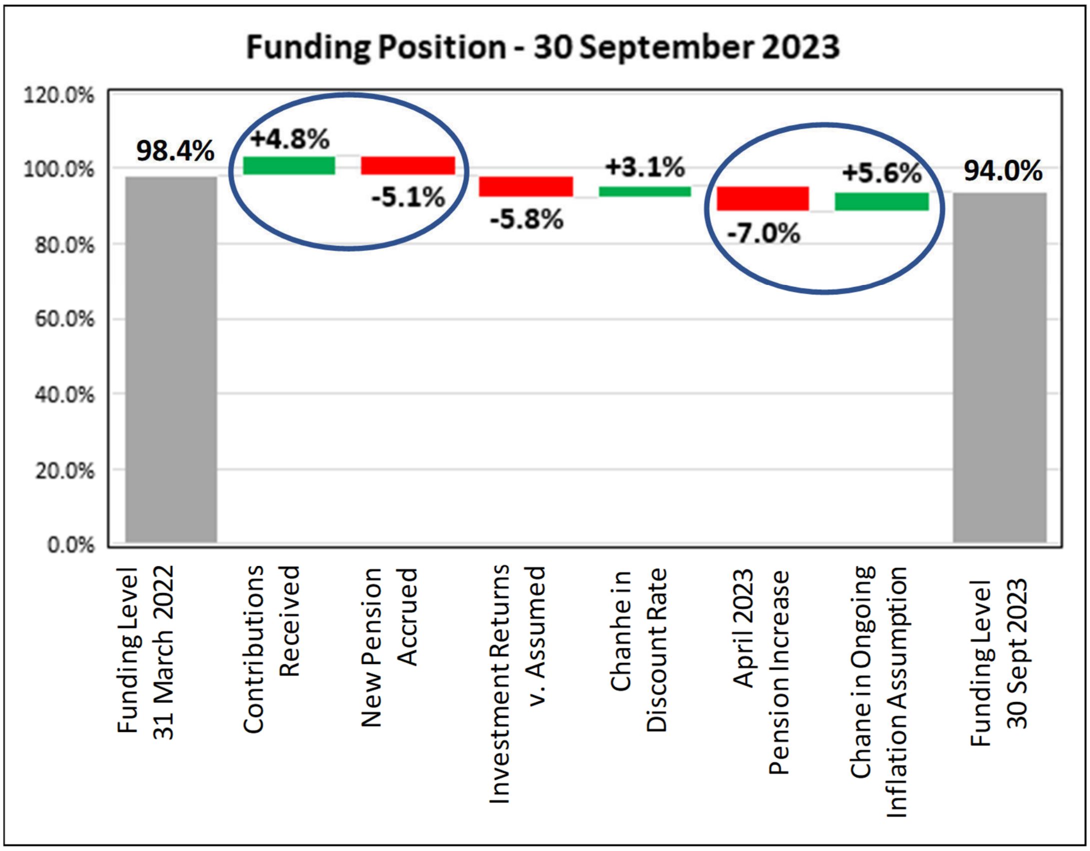
b) The negative annualised investment return of -0.1% since March 2022 is well below the Actuary’s assumption of a +4.7% return. This has a negative impact on the value of Fund assets and therefore on the funding level.

c) The valuation of liabilities depends on the assumptions used by the Actuary, in particular those for pension and salary increases and the discount rate applied to liabilities. The assumptions used by the Actuary for the September 2023 funding update, compared with those used in the 2022 Triennial Valuation are shown in the following table.

Actuarial Assumptions	**March 2022**	**September 2023**
Pension Increases (CPI)	2.90%	2.51%
Salary Increases	3.90%	3.51%
Discount Rate	4.70%	4.93%

d) The assumption for pension and salary increases has been reduced, but this is offset by the pension increase applicable from April 2023, which is now reflected as an actual increase. The average inflation assumed going forward therefore now excludes the April 2023 increase. The assumed discount rate going forward has also been increased.

e) The chart below shows the change in the estimated funding level between 31 March 2022 and 30 September 2023. The circled items show the effect of employer and employee contributions paid into the fund over the year offset by the additional pension liability accrued over the year, and then the impact of the April 2023 pension increase offset by the reduced inflation assumption going forward. The biggest impact is from the negative investment return during 2022/23 which has the effect of reducing the funding level by 5.8%.



f) In summary, the estimated funding level as at 31 March 2023 is 94.0%, compared with the funding level as at the 2022 Triennial Valuation of 98.4%. While this is a decrease from the 2022 funding level, it is a slight improvement on the estimated level as at 31 March 2023, which was 93.3%. The small improvement is largely due to the changes in the discount rate applied as at 30th September.

5) Budget Forecast 2023/24

Appendix 1 shows the income and expenditure for 2023/24 against the original budget forecast. The following points should be noted.

a) Contributions income to date is ahead of the budget and is forecast to be higher than the original budget forecast for the year. There have also been a high number of transfers in processed during the year to date, and these are now forecast to be higher than the original budget.

b) Investment income from property, infrastructure and private debt is received in cash and can be used to aid cashflow. Income to date is ahead of budgeted income.

c) The high actual expenditure to date on Peninsula Pensions is because the annual licence fee for the pension administration system is paid during the first quarter. In addition, Somerset Pension Fund will not have been invoiced for their share. Therefore, no significant variance is anticipated at year end at this stage.

d) The invoiced investment management fees line represents the overhead costs of Brunel. All other fees are taken directly from the funds and are charged based on a percentage of the value of the assets under management. No significant variances are expected at this stage, but much will depend on asset performance over the rest of the financial year.

e) Transaction costs for the year to date are higher than expected, to some extent reflecting initial costs in relation to new private market fund commitments. The forecast for the year has been increased to reflect that.

f) Oversight and Governance costs are anticipated to be in line with the budget forecast. The pattern of expenditure on these headings will be variable across the year depending on when charges are raised.

6) Cash Management

The following table shows that the unallocated cash on deposit, as at 30 September 2023, was £146.3 million, plus $1.8 million in US Dollars. By 31 October, the cash on deposit had reduced to £113.2 million, plus $1.9 million in US Dollars, following private market calls totalling over £30 million during October.

As agreed at the September meeting of the committee, a higher level of cash is currently being held, given that rates of between 5% and 6% can now be achieved. A further £48 million was added to the cash balance at the beginning of November as a result of the passive reallocation.

Cash on Deposit

Type of Deposit	Maturity period	Actual as at 30/09/23	Average Interest Rate	Current as at 31/10/23	Average Interest Rate
GBP Deposits		**£m**	**%**	**£m**	**%**
Call and Notice Accounts	Immediate	56.3	5.27	23.2	5.29
	35 Day Notice	0.0		0.0	
Term Deposits	<30 Days	0.0		0.0	
	>30 Days	90.0	5.66	90.0	5.66
TOTAL GBP		**146.3**	**5.51**	**113.2**	**5.58**
USD Deposits		**$m**	**%**	**$m**	**%**
Call and Notice Accounts	Immediate	1.8	5.40	1.9	5.42

Points to note:

a) The weighted average rate being earned on GBP cash deposits, as at 30th September 2023, was 5.51%. Given that rates have now stabilised, the average rate was little changed at the end of October.

b) The deposits in place during 2023-24 have fully complied with the Fund's Treasury Management and Investment Strategy.

7) Voting and Engagement

As a responsible investor, the Fund should report regularly on its engagement activity. Each year the Financial Reporting Council (FRC) publishes a list of asset owners and asset managers who are accredited signatories to the UK Stewardship Code, which sets high standards for how asset owners should fulfil their responsibilities as owners of the assets they hold. The Devon Pension Fund are accredited signatories to the Code.

Voting and engagement are delegated to the Brunel Pension Partnership for the actively managed equity portfolios and to Legal and General Investment Management (LGIM) for the passive portfolios. On significant issues, Brunel may request that their shares held by LGIM are split out and a different vote made. The voting records of Brunel and LGIM at company meetings held over the last quarter is summarised in the following table.

Votes Cast at Company Meetings in the quarter to 30 September 2023

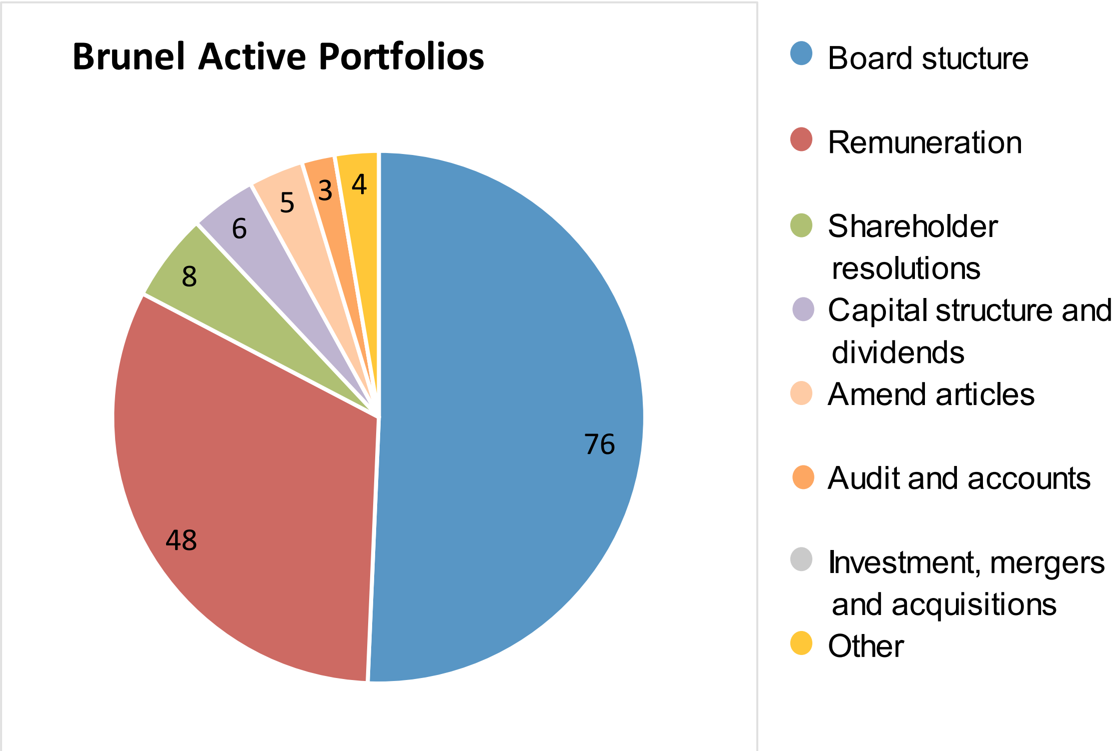
	Quarter to 30 September 2023		
Manager	**Number of Meetings**	**Number of Resolutions**	**Votes against management recommendation**
Brunel / LGIM Passive Portfolios	280	3,584	468
Brunel - Active Portfolios	113	963	150

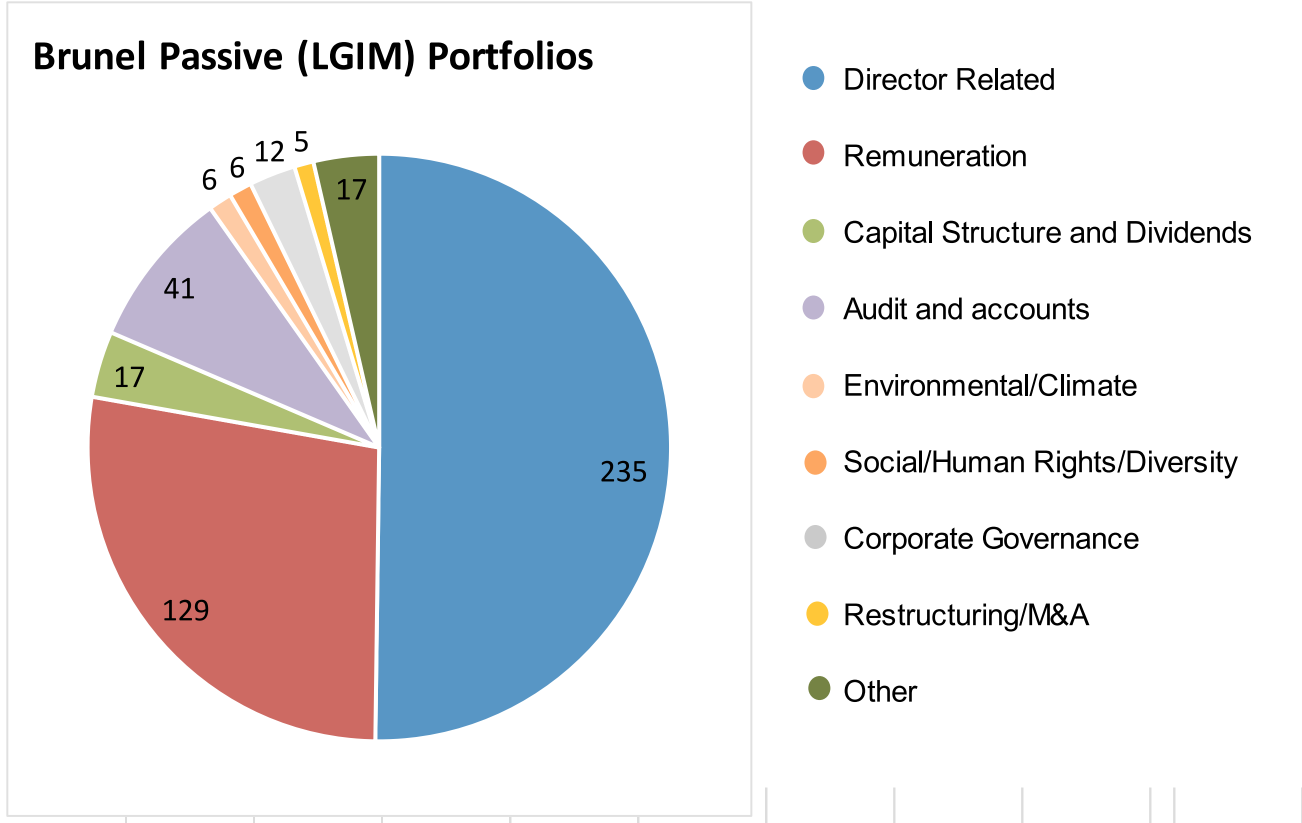
Points to note:

a) Brunel actively vote the shares held within their funds on behalf of their client funds, including Devon. The Brunel/LGIM passive allocation will include all the companies in the relevant indices, both UK and across the developed world, hence there are many more meetings voted at than for the active portfolios.

b) The votes against management recommendations will reflect matters where there is concern that the company is not addressing the relevant issue and managing it effectively. The Devon Fund would expect that the votes against management should be primarily on the priority areas set out in the Fund's Investment Strategy Statement. An analysis of the issues where votes have been cast against management recommendations is set out below.

Votes against management recommendation by issue Quarter to 30 September 2023





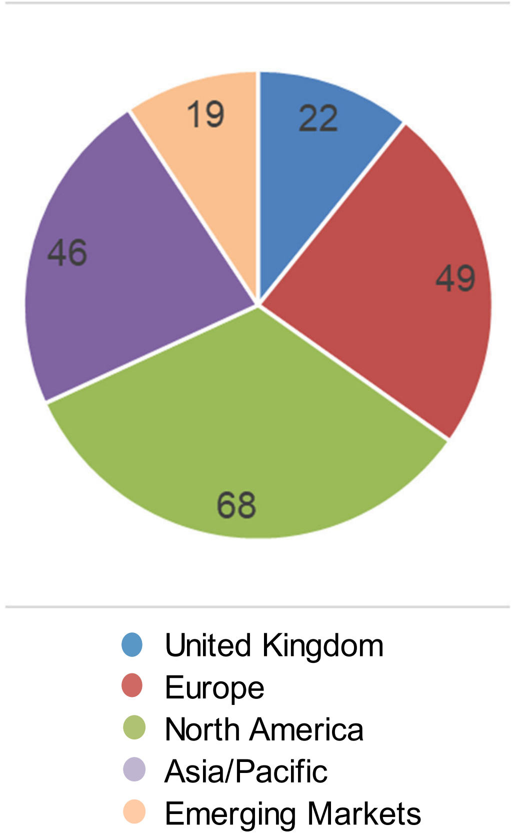
c) The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), who undertake engagement activity on behalf of their member funds. Where significant issues arise on the agendas of company meetings, LAPFF will issue voting alerts, with recommendations on how to vote. The Devon Fund will then pass on these recommendations to Brunel and ask them to report back on how they have voted.

d) A summary of the voting alerts issues by LAPFF during the quarter to 30th September is attached at Appendix 2 to this report. This includes details of how Brunel and LGIM voted on the issues raised and their rationale for the way they cast their votes. There were only two voting alerts issued over the quarter, as few companies hold their AGMs over the Summer period.

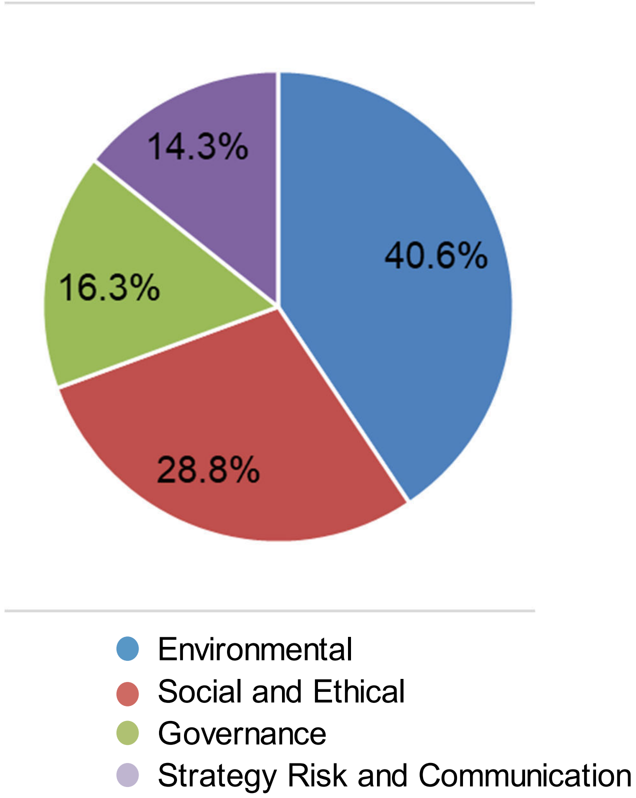
e) Brunel and/or LGIM may take a different view to LAPFF on some of the issues raised, particularly where they think a company is moving in the right direction which should be encouraged, but where LAPFF still feel the company is falling short. On National Grid, for example, Brunel and LGIM took the view that the company should be supported in the work it is undertaking on transitioning its business. The shares are held within Brunel's Sustainable Equities portfolio due to the positive impact the company can have on the transition. However, LAPFF's view is that the company is not moving fast enough to transition its US business away from gas pipelines to its electricity network. LAPFF also seeks more transparency on political lobbying, but the company has a policy of not making political donations and put forward the resolution on political donations to be compliant with UK law.

f) Brunel conduct significant engagement with investee companies on behalf of the Devon Fund and other clients. A breakdown of the engagement undertaken over the last quarter is summarised in the following charts:

Number of Companies Engaged With, By Region



Breakdown of Issues Engaged On



g) More details on Brunel's engagement can be found in their quarterly report.

h) The LAPFF quarterly engagement report for the quarter to 30 September is attached at Appendix 3 to this report. The report leads on LAPFF's engagement with the banking industry on climate change. While we have had a lot of lobbying on investing in the equity of fossil fuel supply companies, it is generally the banks where they get most of their finance for new exploration, so engagement with banks is crucial to the transition. LAPFF also prioritise significant engagement with mining companies. While mining tends to be a carbon intensive activity, many of the minerals being mined are crucial to the transition.

Angie Sinclair
Director of Finance and Public Value

Electoral Divisions: All

Local Government Act 1972: List of background papers

Nil

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Appendix 1

Devon County Council Pension Fund Budget Forecast 2023/24

	Actual 2022/23 £'000	Original Forecast 2023/24 £'000	Actual to Sept 2023/24 £'000	Revised Forecast £'000	Variance 2023/24 £'000
Contributions					
Employers	(141,245)	(165,000)	(86,153)	(170,000)	(5,000)
Members	(49,905)	(52,000)	(25,231)	(52,000)	0
Transfers in from other pension funds:	(13,253)	(14,000)	(12,452)	(18,000)	(4,000)
	(204,403)	(231,000)	(123,836)	(240,000)	(9,000)
Benefits					
Pensions	176,799	200,000	97,295	200,000	0
Commutation and lump sum retirement benefits	27,720	30,000	18,257	30,000	0
Lump sum death benefits	3,826	4,000	2,537	4,000	0
Payments to and on account of leavers	981	1,000	448	1,000	0
Transfers Out	9,140	10,000	7,437	10,000	0
	218,466	245,000	125,974	245,000	0
Net Withdrawals from dealings with fund members	**14,063**	**14,000**	**2,138**	**5,000**	**(9,000)**
Investment Income	**(39,113)**	**(40,000)**	**(21,937)**	**(40,000)**	**0**
Administrative costs					
Peninsula Pensions	2,602	2,864	2,158	2,864	0
	2,602	**2,864**	**2,158**	**2,864**	**0**
Investment management expenses					
External investment management fees - invoiced	1,511	1,650	1,264	1,650	0
External investment management fees - not invoiced	21,602	24,000	10,763	24,000	0
Custody fees	30	35	4	35	0
Transaction costs	1,980	1,800	2,391	3,500	1,700
Class Action Proceeds	0	0	0	0	0
Other investment management expenses	27	30	7	30	0
	25,150	**27,515**	**14,429**	**29,215**	**1,700**
Oversight and governance costs					
Investment & Pension Fund Committee Support	92	95	50	95	0
Pension Board	41	45	22	45	0
Investment Oversight and Accounting	388	420	185	420	0
Brunel Pension Partnership	20	10	0	10	0
Legal Support	37	30	0	30	0
Actuarial Services	107	40	29	40	0
Investment Performance Measurement	72	75	0	75	0
Subscriptions	58	61	16	61	0
Internal Audit fees	21	24	0	24	0
External Audit fees	47	50	(10)	50	0
	883	**850**	**292**	**850**	**0**
Total Management Expenses	**28,635**	**31,229**	**16,879**	**32,929**	**1,700**

Appendix 2

LAPFF Voting Alerts - Q3

National Grid PLC - 10 July 2023	Active Portfolios held in: Sustainable Equities			
Target Resolutions	**LAPFF Recommend-ation**	**LGIM (Passive) Vote**	**Brunel (Active) Vote**	**Vote Outcome**
1 To receive the Annual Report and Accounts	Oppose	For	For	Approved (99.5% votes for)
18 To authorise the Company to make political donations	Oppose	For	For	Approved (97.8% votes for)

Rationale for vote:

LAPFF's concern on political donations was around lobbying. However, this was a routine proposal seeking to avoid accidental breach of UK law as the company has a policy not to make UK political donations. In addition, postive engagement has resulted in National Grid publishing an updated Responsible Lobbying Policy on its website.

FedEx Corporation - 21 September 2023	Active Portfolios held in: None			
Target Resolutions	**LAPFF Recommend-ation**	**LGIM (Passive) Vote**	**Brunel (Active) Vote**	**Vote Outcome**
6 Shareholder proposal: Just Transition Report	For	For	N/A	Not Approved (68.5% against)

Rationale for vote:

Climate change: A vote in favour was applied as LGIM expects companies to be taking sufficient action on the key issue of climate change.

Quarterly Engagement Report

July-September 2023

Local Authority Pension Fund Forum

Climate and Finance Engagement, Minimum Wage, Water Companies, New Member

UPDATES

Smoke from Canadian wildfires blows south over New York, June 2023

Climate and Finance

Objective: LAPFF has been engaging with financial institutions on climate for a number of years now. Most notably, it has issued voting alerts for Barclays, HSBC, and Standard Chartered in recent years. In 2020, LAPFF also sent letters to 11 insurers asking how they approached climate change from a strategic perspective. Discussions with these companies suggested that they tended to approach climate in terms of its effect on the companies rather than in terms of the companies' effects on climate.
While investors are clearly interested in the impact climate change is having on insurers, LAPFF's approach is to ask first what companies' impacts are on climate. This approach aligns with the approach set out in the UN Guiding Principles on Business and Human Rights, which call for companies to assess their impacts on human rights and rights holders before assessing the impact of human rights on their businesses. This framing is supported not least because risks to the business are missed if the human rights and impact analysis is not undertaken. In LAPFF's experience, the same logic applies in relation to climate change. LAPFF therefore began a process of following up with the eleven insurers, but also expanded the engagement to cover additional insurers of global impact in which LAPFF holds a significant number of shares. It also wrote to large global banks in which members have large holdings. Finally, in line with a growing interest of the LAPFF membership in biodiversity and environmental impacts of climate change, the engagement will explore these companies' strategies in relation to natural resources and their link to climate.

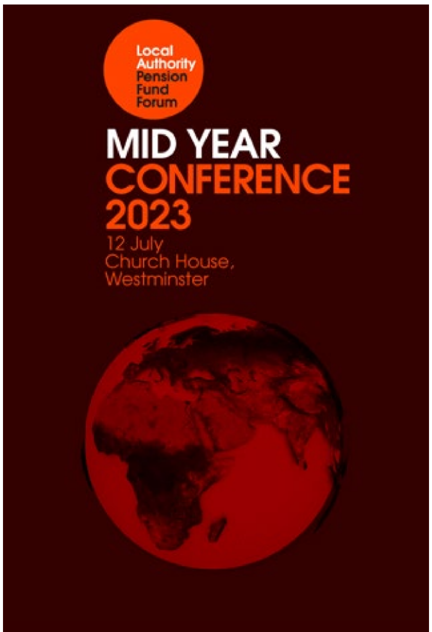
Achieved: LAPFF has now written to 13 global insurers to engage on their approaches to decarbonisation and natural resources. There have been responses from four companies so far. One company with which LAPFF will clearly not be engaging is Berkshire Hathaway. Its pro forma email stated that no one is reading messages sent to the investor relations email address, and no one is likely to respond to a letter sent to the company's physical address. LAPFF would have hoped for more from Mr. Buffett, but LAPFF found this response to be in line with that of many US companies, which tend to be less willing to engage in a meaningful way than companies in many other markets, including the UK and Australia. For a full list of companies approached so far through this engagement, please see the company engagement table at the back of this report.

In Progress: LAPFF will continue to send letters and set up meetings with these companies over the course of the year.

Cover image: ask first what companies' impacts are on climate

New Member

LAPFF would like to welcome its newest member, the ACCESS pool. LAPFF's membership now comprises 87 LGPS funds and seven pooled companies, the vast majority of the LGPS family. The more LGPS funds who become LAPFF members, the greater leverage LAPFF gains in engaging with investee companies in relation to their environmental, social, and governance practices as they impact on financial returns. With a membership that in aggregate holds over £350 billion in assets under management, LAPFF's financial clout is already equivalent to that of one of the top ten largest global pension funds. However, any additional members can only help.



Given the success of LAPFF's annual conference in Bournemouth, LAPFF decided to hold its first mid-year conference at Church House in London. This event also proved to be a success with speakers from Unseen UK, Rathbones, and DiCello Levitt. The sessions covered a summary of the 2023 AGM season, the link between climate and executive pay, modern day slavery, investor litigation in Europe, and the ESG backlash in the US.

COMPANY ENGAGEMENTS

Investors are often not provided with a specific vote on company climate plans for shareholder approval

Say on Climate

Objective: It is almost universally recognised that climate change poses significant systemic and company-level risks. Yet, despite the level of investment risks and the need for capital expenditure to deliver the transition, investors are not provided with a specific vote on their climate plans for shareholder approval.

Issuers are increasingly setting out their climate ambitions within a transition plan. It is also something regulators are looking at. For example, the UK's Transition Plan Taskforce, established by HM Treasury, is developing a 'gold standard' for climate transition plans.

Over the past two years, LAPFF has sent letters to the FTSE All-Share companies requesting a vote on climate transition plans. While LAPFF has been encouraged by the substantive responses, such resolutions during 2023 were far from standard practice, including among high-emitting companies.

Achieved: To continue to encourage companies to provide shareholders with such a vote, LAPFF organised a letter to 35 companies in high-emitting sectors considered to face heightened climate risks, whose actions are essential to the accelerated action required to meet the Paris goals and where the risks investors face are substantial.

The letter, like the previous one, was supported by CCLA Investment Management, Sarasin & Partners and the Ethos Foundation. LAPFF gained the support of a wider group of investors and in total had 18 signatories which collectively represented £1.8 trillion in assets under management. The letter stressed the climate-related risks to investors. It also urged companies to provide such votes to enable shareholders to first express their view on climate strategies through a specific AGM vote rather than immediately voting against the chair or another board member. The letter requested a response so that the signatories could make an informed assessment of the company's position.

In Progress: LAPFF will be tracking the responses to the letter and will continue to engage with companies about holding a climate transition plan vote. This could become an important area of shareholder focus if the recommendations of the Transition Plan Taskforce are introduced. LAPFF supports such votes becoming mandatory and will raise the issue where appropriate with policymakers.

Mining and Human Rights

Objective: While LAPFF is continuing to engage with **Anglo American, BHP, Glencore, Rio Tinto**, and **Vale** on their human rights practices, LAPFF has picked up a new mining company engagement with **Grupo Mexico**. LAPFF has been approached by community members affected by a 2014 leak at one of the company's tailings ponds in Sonora, Mexico.

The main objective of these engagements is to ensure that the companies understand that any failure to respect human rights and environmental impacts could have financial consequences for them and for their shareholders. One of the main milestones LAPFF is looking for is how well the companies acknowledge and engage with the workers and communities they affect. Effective stakeholder engagement is important to LAPFF both as a human rights imperative and because it can expedite less costly solutions to operational, reputational, legal, and financial concerns at companies.

LAPFF is pleased that both the Anglo American and Vale groups in the PRI Advance initiative have recognised the importance of stakeholder engagement. There are plans for both groups to engage with relevant affected stakeholders.

Achieved: LAPFF met a Grupo Mexico representative for the first time. LAPFF Chair, Cllr Doug McMurdo, spoke with an investor relations contact, who he found to be open to the engagement. It was interesting to hear that the company has been approached by a number of investors in relation to environmental, social, and governance (ESG) issues of late. This increase in attention on ESG issues might not be a coincidence as the company is one of those chosen for inclusion in PRI's Advance human rights initiative.

As with many mining companies, LAPFF's view is that Grupo Mexico has a number of processes in place, some of which appear to be sound on paper.

COMPANY ENGAGEMENTS

However, there appears to be significant work to be done in practice. Once again, the company accounts of its human rights practices and the community accounts differ drastically.

In relation to its PRI engagements, LAPFF has reached out to a couple of non-governmental organisations and community representatives on behalf of the Anglo American PRI Advance group to see if they would be willing to meet the group. There have been positive responses.

In Progress: Cllr McMurdo is now seeking to speak with the Sonora community group affected by Grupo Mexico's operations. As LAPFF has done in other such engagements, it will use the community and company perspectives to form a view of how to encourage improved human rights practices at the company.

LAPFF will now work to set up the community meetings for both the Anglo American and Vale PRI Advance groups.

Water companies are currently facing considerable reputational risks

Water Companies and Sewage Pollution

Objective: Water companies are currently facing considerable reputational risks and regulatory scrutiny around their environmental performance. The focus of concern centres on the use of storm overflow drains. These drains are used to stop water backing up into people's homes when there is heavy rain but result in sewage being released into the waterways. As water companies are effectively regional monopoly suppliers subject to environmental and economic regulation, there are considerable regulatory risks, not least those driven by current reputational perceptions and public concern. The sector has faced further recent public scrutiny when financial concerns about Thames Water came to light.

The main objective of the engagement activity, which started in 2022, is to ensure that these risks are being appropriately addressed and that environmental performance improves. An important focus was ensuring plans were in place and progress is being made in reducing the amount of sewage being released into waterways. In addition, LAPFF sought to ensure companies had credible climate transition plans and progress was being made against them.

Achieved: During the quarter, LAPFF's chair, Cllr Doug McMurdo, met with the Chair of **Severn Trent**, Christine Hodgson. The meeting was held against the backdrop of the problems facing Thames Water and covered the challenges facing the sector as a whole. This meeting was very constructive, and it was welcome news that the company was ahead of its targets on reducing overflows. The discussion covered the company's longer-term plans and targets and capital investment. The company also set out how it was addressing climate change, including through capturing emissions from the sewage treatment process.

LAPFF met with the chair of **United Utilities**, David Higgins. The meeting was positive despite the significant challenges that remain in the sector. The company outlined how it had reduced the number of overflows in the past couple of years. The meeting also covered plans to reduce overflows further and investment to address overflow issues. As with the discussion with Severn Trent, issues facing the sector were raised. The company also set out its plans regarding climate adaptation and mitigation.

LAPFF's chair also met the Head of Environment and Sustainability at **Northumbrian Water**. The company is owned by three holding companies, two of which (CK Hutchinson and CK Asset Holdings Limited) a large number of LAPFF members hold. It was a useful meeting which covered the company's plans and targets to reduce storm overflows and capital investment required to do so. The meeting also covered the company's wider environmental performance and its climate change ambitions.

In Progress: While there is progress, significant risks remain. Adverse publicity and concerns about sewage overflows show few signs of diminishing while there is continued focused from regulators. LAPFF therefore will be continuing to engage with the companies on their progress and plans.

COMPANY ENGAGEMENT ACTIVITY

Electric Vehicles and Human Rights

Objective: Continuing its engagement with electric vehicle manufacturers to better understand how they are addressing the risks associated with minerals for batteries for their vehicles, LAPFF wrote to a number of companies seeking further engagement with those it has already engaged on this issue and to meet others for the first time.

Achieved: LAPFF met with **Volkswagen** (VW) and **Volvo Group** (trucks and HGVs) this quarter, both for the first

COMPANY ENGAGEMENTS

time. LAPFF had a detailed discussion with Volkswagen, which published its third iteration of its raw materials report this year. The discussion covered the company's overall human rights programme and more focussed attention on individual minerals. LAPFF also broached questions about the scrutiny VW faced for one of its joint ventures linked to auto manufacturer supply chains allegedly associated with Uyghur forced labour in Xinjiang. VW has publicly announced that it will be undertaking a social audit of this factory, although it has faced scrutiny from various NGOs and labour groups that social audits in China are ineffective based on political pressures.

Volvo provided a high-level overview of its human rights programme, which in terms of reporting, appears to be lacking compared to some of its peers, particularly on risk management of human rights in critical mineral and material supply chains. Despite this lack of transparency in reporting, Volvo provided a promising conversation on its aspirations to improve various parts of its human rights work.

In Progress: More and more legislative instruments pertaining to corporate sustainability are being enacted around the world, such as the EU Battery Regulation which came into effect in August 2023. These new regulations impose sustainability, recycling, and safety requirements on all battery manufacturers, importers and distributors in the EU. Responsibility and due diligence requirements are also extended to supply chains for materials like cobalt, lithium and nickel. The EU's Corporate Sustainability Due Diligence Directive, whilst still in development, will require companies to conduct due diligence on, and take responsibility for, human rights abuses and environmental harm throughout their global value chains. Therefore, LAPFF will continue to monitor and engage on how companies are set to meet these requirements, including for minerals and materials being used in the production of electric vehicles, where human rights abuses continue to be a major source of concern.

A number of companies not adhering to wage floor requirements including listed companies such as M&S. Above: M &S in Truro City centre in Cornwall

Minimum Wage

Objective: LAPFF believes that good employment practices are linked to long-term corporate prosperity and hence the creation of investment value. It is therefore concerning when investee companies are found to be in breach of statutory national minimum wage standards. In June, the Department of Business and Trade announced that an investigation had found a number of companies not adhering to wage floor requirements including listed companies such as **WH Smith, Marks & Spencer, Argos** (which is owned by **Sainsbury's**) and Whitbread. LAPFF therefore sought to ensure that changes were in place to avoid future incidents.

Achieved: LAPFF wrote to the four companies requesting details around how the incidents occurred, what actions were taken to address the breach, and how they would be prevented in the future. All four companies responded and provided information about the nature of the breaches. Companies provided details of actions taken and gave assurances about seriousness with which they took the issue.

In Progress: LAPFF will continue to monitor breaches in labour law and engage companies where any issues are found to ensure that they are addressed.

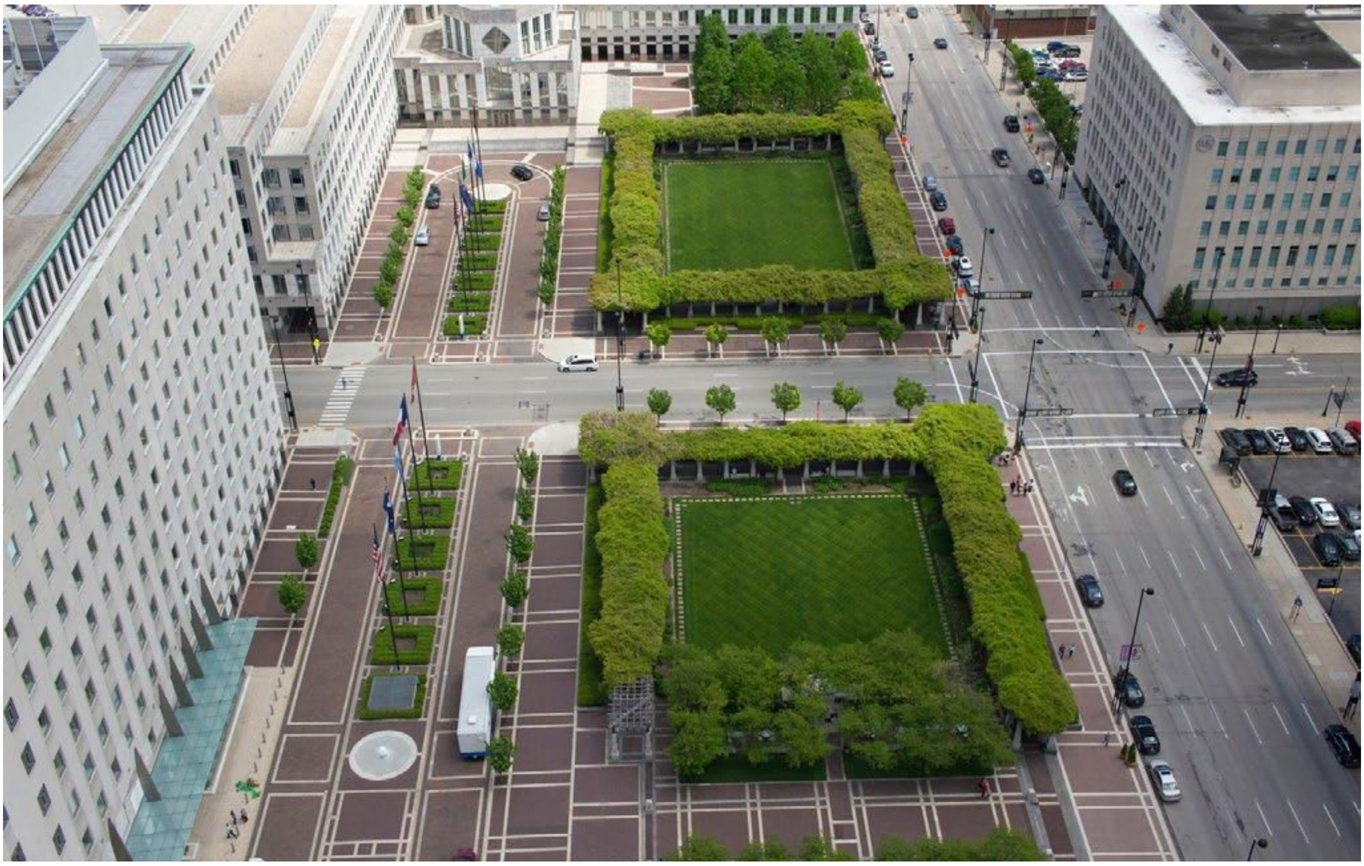
Biodiversity

Objective: Alongside writing to financial institutions regarding their role in supporting positive developments on biodiversity and climate change, LAPFF has also sought to understand approaches to biodiversity at companies in other industries. For example, Procter & Gamble was recently reported to have removed policy commitments not to buy wood pulp from degraded forests. This action comes three years after a majority of investors supported a non-binding shareholder resolution at the company's AGM requesting that Proctor & Gamble assess how it could improve efforts to eliminate deforestation and forest degradation in its supply chains. LAPFF also aimed to find out more about Nestlé's approach to regenerative agriculture.

Achieved: LAPFF has written to **Procter & Gamble** regarding this engagement. LAPFF also wrote to **Nestlé**, who hosted the Forum at its chair's roundtable in March 2023. The request seeks to discuss the company's plans for regenerative agriculture and how it contributes to the company's pathway to halve its greenhouse gas emissions by 2030 and reach net-zero by 2050.

In Progress: Deforestation is becoming an increasingly important topic for LAPFF members and wider investors,

COMPANY ENGAGEMENTS



A city park owned by the Proctor and Gamble company in Cincinnati, Ohio

particularly as the Taskforce on Nature-related Financial Disclosures (TNFD) published its final recommendations in September 2023. TNFD will have implications for a wide range of market participants. LAPFF will be monitoring how relevant companies incorporate the TNFD recommendations and will seek to engage those lagging behind on biodiversity and deforestation.

Shell

Objective: Further to Shell's rowing back from its already unsatisfactory Energy Transition Plan, the company is now a point of special focus, given both its size and importance as an investment, as well as the scale of its emissions. LAPFF continues to aim to have the company understand its role in the energy transition and take action accordingly.

Achieved: LAPFF has met with the chair of Shell with some meeting of minds on some issues. Comments from the new leadership at the Shell Annual General meeting, that Shell does not have enough visibility on some putative sources of future revenue and growth to attach numbers to, does accord with LAPFF's critique in LAPFF's voting alerts since 2020.

In Progress: Given Shell's historically poor investment performance (over 20 years barely better than a bond return), which is indicative of poor investment decision making, alongside no appreciable record or prospect of investment, further effort will be put into understanding the numbers and the business model as well as direct engagement.

Centrica

Objective: Growing energy prices following the end of Covid lockdowns and since the start of the war in Ukraine have become a major business, economic, social and political issue. Rising costs have been a driver of inflation and reduction in the household standard of living. With prescribed economic regulations this backdrop has led to mounting scrutiny of energy companies' practices, especially those related to low-income households. LAPFF sought to understand how energy companies were managing the regulatory and reputational risks around the cost-of-living crisis, including changes needed to support those on low incomes or in arrears.

Achieved: LAPFF wrote to Centrica one of the major UK energy suppliers and owner of British Gas. The company responded by setting out how it is supporting customers through the cost-of-living crisis. The company also outlined ongoing support and advice that it provides low-income customers.

In Progress: With energy prices remaining high, LAPFF will be seeking to meet the major UK energy suppliers on their approaches to supporting households and managing the ongoing risks.

COMPANY ENGAGEMENTS

One of LAPFF's main concerns is to ensure that the National Grid's transition plan allows for a sufficiently speedy transition for the users of its grid

National Grid

Objective: LAPFF has continued its engagement with National Grid through the CA100+ forum. One of LAPFF's main concerns is to ensure that the company's transition plan allows for a sufficiently speedy transition for the users of its grid.

Achieved: LAPFF's view is that the company is missing some opportunities to decarbonise more quickly, so LAPFF issued a voting alert for National Grid ahead of the company AGM in July. LAPFF cited three main concerns in the voting alert: the company's confusing approach to the use of gas, delays in connecting clean energy projects to the grid, and disclosure on the energy transition. Consequently, LAPFF recommended opposition to the company report and accounts and to the resolution on political donations.

In Progress: LAPFF will continue to engage National Grid on its transition plan, including on the specific points mentioned above.

SSE

Objective: LAPFF has a longstanding engagement with SSE and has found the company to be open and responsive to engagement. Because it is progressive on a number of issues, including a fair and just transition, LAPFF seeks to maintain this relationship and push the company to entrench its leadership role in areas such as just transition and living wage.

Achieved: LAPFF Executive member, John Anzani, attended SSE's AGM again this year and asked a two-pronged question about SSE's approach to a just transition. First, he asked whether the SSE is looking to review its just transition principles in the near future. Second, he asked about capital allocation and whether money being spent on carbon capture and storage (CCS) could be better spent elsewhere.

In Progress: LAPFF has requested a follow-up meeting to discuss SSE's responses in greater detail.

Taylor Wimpey

Objective: Housing is a major contributor to greenhouse gas emissions and a focus of environmental regulation. To reduce the climate risks associated with overall emissions and the specific consumer and regulatory risks companies face, LAPFF therefore seeks to engage housebuilders on having credible transition plans. Following concerns from consumers and policymakers around leasehold arrangements and fire safety LAPFF also seeks to ensure the issues were being managed.

Achieved: The LAPFF Chair, Cllr Doug McMurdo, met with the Chair of Taylor Wimpey to discuss the company's approach to climate change. Since LAPFF last met the company, Taylor Wimpey has produced a transition plan, which has emission targets covering scopes 1-3 emissions and with a net zero by 2045 commitment. The meeting was informative and covered the company's progress and plans for reducing operational emissions, its approach to residual emissions, emissions from its homes when sold, and supply chain emissions such as from concrete and diesel. The issue of the just transition was raised as was putting the company's transition plan to a vote. The meeting also covered issues and costs associated with the agreement with the CMA on leaseholds and works related to fire safety.

In Progress: LAPFF will continue to meet with companies in the sector to ensure they have credible plans in place.

Unilever

Objective: Unilever has received quite a lot of press regarding its decision to remain in Russia after Russia's invasion of Ukraine. LAPFF heard from Total last year about that company's difficulties in deciding whether to leave Myanmar and recognises the significant challenges companies face in taking these decisions. Therefore, LAPFF wanted to understand better Unilever's challenges in deciding whether to remain in or exit Russia.

Achieved: LAPFF's Chair, Cllr Doug

COLLABORATIVE ENGAGEMENTS

McMurdo, met with Unilever Chair, Nils Anderson, to discuss Unilever's challenges in Russia. Mr. Anderson was not only open about the obstacles the company faces in Russia but also appeared to be open to working with LAPFF and others to determine appropriate solutions.

In Progress: LAPFF is continuing to participate in investor webinars on human rights and conflict zones. It will also continue to work with Unilever on this issue and will likely seek to partner with other investors who have been investigating the role of companies in conflict zones over the last couple of years.

COLLABORATIVE ENGAGEMENTS

FAIRR

Objective: The FAIRR initiative is a collaborative investor network that raises awareness of material ESG risks and opportunities caused by intensive animal production. The initiative's engagements have a wide-reaching impact on how business models contribute to material risks for investors. LAPFF aims to increase its understanding of the material ESG risks and opportunities and to engage with relevant companies associated with this issue.

Achieved: LAPFF has re-signed onto a FAIRR engagement focusing on working conditions at food producers, mainly in North and South America. LAPFF has also signed onto two new engagement streams, one examining antimicrobial resistance in animal pharmaceutical industry and the other analysing quick-service restaurant antibiotic policies, both with a focus on the concern about increasing global antimicrobial resistance. More than 20 companies have been contacted across these three workstreams.

In Progress: LAPFF will join calls as appropriate in due course which are being coordinated by FAIRR.

Farm land in Uruguay. This is the result of intensive livestock business in South America

Asia Research and Engagement's Energy Transition Platform

Objective: LAPFF joined calls hosted through Asia Research and Engagement's Energy Transition Platform which seeks to engage both financial companies and coal-exposed power companies. During the second quarter of 2023, LAPFF joined calls with **Mizuho Financial Group, China Construction Bank** (CCB), and **Huaneng Power.**

Achieved: Engagement with Mizuho assessed the feasibility of the company discontinuing all financing of oil and gas projects, and how the company was exploring its reduction targets for upstream activities within these industries. During the engagement, LAPFF raised inquiries regarding Mizuho's transition risk rating matrix, specifically inquiring about the scoring criteria applied to its clients. Additionally, investors sought insights into Mizuho's approach to navigating national policy restrictions, allocating budgets for the development of new green technologies, and leveraging its internal expertise in sustainable finance.

The conversation with CCB revolved around inquiries into CCB's environmental, social, and governance (ESG) rating system for clients, its disclosure practices concerning credit exposure linked to high-carbon industries, and the establishment of green sector targets. Similar to the discussion with Mizuho, this dialogue also delved into considerations related to national policy boundaries and restrictions.

The call with Huaneng Power covered questions around the company's previous disclosures on reaching peak emissions by 2024, as well as continuing aspirations for the company's targets for renewable energy production by the end of China's 14th Five-Year Plan, which comes to an end in 2025.

In Progress: Whilst there are many difficulties with aligning investor expectations with company progress in various markets due to challenging and conflicting national policies, ARE's Energy Transition Platform continues to build positive and meaningful

COLLABORATIVE ENGAGEMENTS

engagement with a variety of financial institutions and coal-exposed power companies.

Nature Action 100

Objective: Nature loss is a financially material risk. As the world's GDP is highly reliant on nature and its services, biodiversity loss creates significant risks for investors. As such, LAPFF's workplan seeks to engage companies to promote positive environmental impacts and reduce the operational, reputational and regulatory risks associated with nature loss.

Achieved: Alongside our own engagement work on biodiversity, this quarter saw LAPFF sign onto a major new collaborative initiative Nature Action 100. The global investor-led engagement initiative led by Ceres and IIGCC seeks to reverse biodiversity loss and drive nature action. The initiative sent letters to 100 companies from eight key sectors systemically important in reversing nature loss. The letter supported by over 190 investors sets out the initiative's expectations.

In Progress: LAPFF will seek to be involved in engagements as part of its participation in Nature Action 100.

30% Club Investor Group

Objective: LAPFF continues to support the 30% Club Investor Group. Initially, the group focused on enhancing gender diversity within UK boards, advocating for a minimum representation of 30 percent women on FTSE 350 boards and senior management positions within FTSE 100 companies. Over recent years, its scope has expanded to cover racial equity in UK boardrooms and promote gender diversity in global boardrooms.

Achieved: LAPFF is supporting the Group's Global Workstream, which looks to markets outside of the UK, namely in the USA and Asia, where boardroom diversity is lacking compared to the EU and UK. Through this workstream, LAPFF wrote to KKR & Co Inc. and Shinhan Financial Group asking the companies to set targets for diversity at board level and seeking to discuss individual company approaches to diversity more widely.

In Progress: LAPFF hopes to secure meetings with both companies in the fourth quarter of 2023 and continues to support other meetings held by the 30% Club Investor Group on an ad hoc basis as appropriate.

Valuing Water Finance Initiative

Objective: LAPFF is co-chair of the Valuing Water Finance Initiative (VWFI), a global investor-led effort, facilitated by the NGO Ceres, to engage companies with a significant water footprint to value and act on water as a financial risk and drive the necessary large-scale change to better protect water systems.

Achieved: Along with other members of the VWFI, LAPFF met with Burberry Plc during the quarter to discuss the company's approach to water stewardship. A headline aim of the VWFI is to work with companies so as not to negatively impact water availability or water quality in areas across their value chain. Water scarcity poses a material risk throughout Burberry's cotton and leather supply chains whilst disposal of wastewater at manufacturing sites and dye houses risks polluting local watersheds. The company outlined its process for assessing risk at a commodity, regional and individual facility level. The outcome of the assessment resulted in the facilities with the highest risk being designated a hot spot. The company has subsequently set a target for zero hot spots within its supply chain by 2030. Burberry has made good progress in identifying water risk in recent years.

In Progress: The VWFI will release a detailed assessment and benchmark of all focus companies by the end of October 2023, including Burberry. LAPFF will assess the benchmark to identify potential shortcomings in the company's approach to manging water risk and follow up accordingly. The VWFI benchmark will provide a means through which performance on this issue can be tracked over time.

SIGN-ON LETTERS AND STATEMENTS

CDP - Science-Based Targets Campaign

LAPFF signed onto the CDP's science-based targets campaign for the third straight year. This campaign offers CDP investor signatories and Supply Chain members the opportunity to accelerate the adoption of science-based climate targets, by collaboratively engaging companies on this matter.

WDI – ISSB Letter

LAPFF signed onto a letter to the International Sustainability Standards Board (ISSB) requesting that the body 'prioritise researching' human capital and human rights indicators in its work plan.

Bank Track – Investor Statement on Global Human Rights Benchmark

Bank Track has finalised its investor statement on banks and human rights and is encouraging signatories to use it as a basis of engagement with banks on human rights. LAPFF is a signatory.

POLICY UPDATES

Letter to the UK Prime Minister

LAPFF signed onto a letter organised by the PRI, IIGCC and UKSIF regarding a statement by the Prime Minister on climate change.

Climate Risks

An updated briefing note for members was produced on LAPFF and climate risks. The briefing document includes an overview of LAPFF expectations of companies regarding climate change and how LAPFF supports change through engagement. The document is available to members on the member section of the website.

Water Risks

During the quarter LAPFF met with the Director of Investor Relations at Ofwat. In a highly regulated sector, Ofwat and

COLLABORATIVE ENGAGEMENTS

other regulators play an important role in shaping what individual companies can do and charge. At the meeting LAPFF discussed issues around capital expenditure, affordability, delivery of investment plans, the resilience of the sector, and the impact of climate change.

Reliable Accounts

Objective: LAPFF has continued to focus on policy making in the area of reliable accounts, given problems with accounting standards and standards of auditing. The focus also extends to climate change aspects of accounts, including decarbonisation. There are cross-cutting issues with capital markets (see later) given the impact that two Parliamentary Committees have given to the effect of pension fund accounting on pension fund asset allocations away from UK equities.

Achieved: The concept of Paris aligned accounts is now a mainstream issue. Two Parliamentary Committees, the DWP Select Committee of the Commons and the Industry and Regulators Committee put the accounting standards at the centre of their criticisms of the regulatory and advisory environment.

Freedom of Information Act requests are revealing more troublesome insights into the way Ministers have been briefed by officials at the Department of Business Energy and Industrial Strategy (BEIS), now the Department for Business and Trade (DBT). Requests first made in the summer of 2021 have elicited new information that had been held back but now released in July 2023 given interjection by the Information Commissioner. Further developments are expected and will be reported in full when the sensitivity of a live case has been settled. There are strong parallels with the circumstances of the Freedom of Information Act requests done in 2015 and 2016 which revealed that the Financial Reporting Council was not portraying the position of His Majesty's Government lawyers properly.

In Progress: The focus on the Freedom of Information Act requests continues, and Parliamentarians have been kept updated. See also capital markets working group (later).

Capital market reform and Capital Markets Working Group

Objective: LAPFF has for over a decade been concerned about the dropping of standards required of companies listing on UK capital markets, with specific problems with certain mining and extractive companies. More recently a group of City of London interests bereft of asset owner representation has made efforts to drop standards even further. There are overlapping issues with the poor quality of some companies coming to the UK for listing, as with NMC Health which joined the FTSE 100 and then collapsed, and poor-quality accounting. There are also ongoing issues given the work being done by the DWP Select Committee on pensions.

Achieved: LAPFF made strong response to the Financial Conduct Authority's consultation on relaxing the Listing Regime further. That response was met by equally strong condemnation of the FCA proposals by other large asset owners, including RailPEN. In the light of this, the LAPFF Executive has decided to set up a Capital Markets Working Group.

In Progress: With Parliament coming out of recess for the autumn session, attention will be given to this area, in association with the newly formed Capital Markets Working Group.

Party conference fringe events

Objective: LAPFF hosts fringe events at the political conferences. The meetings are a valuable way for LAPFF to engage with national politicians and stakeholders. The focus of this year's meetings was greenwashing. LAPFF has raised concerns about greenwashing, including in specific company engagements, and the fringe meetings provided the opportunity to raise such concerns with policymakers.

Achieved: Within the quarter, LAPFF held a meeting at the Lib Dem party conference. Alongside the chair of LAPFF, other speakers included Lord Robin Teverson, Lords Spokesperson Energy and Climate Change, Cllr Keith Melton, Chair of the Green Lib Dems, and Sarah George, Deputy Editor of Edie. LAPFF outlined the work it undertakes, how investors can tackle greenwashing by companies, and the role governments and policymakers could play. The discussion covered how regulations can guard against greenwashing, green taxonomies and labels, the importance of transparency and the role of reporting.

Progress: Meetings at the Conservative and Labour party conferences were planned for the following quarter. LAPFF will also continue to engage national policymakers on the issue and around the importance of reporting and corporate governance standards.

CONSULTATION RESPONSES

UN Consultation on Investors, ESG, and Human Rights

LAPFF has responded to the UN Working Group on Business and Human Rights consultation on investors, ESG, and human rights. The Working Group is tasked with identifying ways to implement the UN Guiding Principles on Business and Human Rights and has been increasingly interested in the role investors can play in this regard. LAPFF set out a range of measures it employs to supporting both ESG and human rights. You can find LAPFF's response posted here on its website.

MEDIA COVERAGE

Climate

Net Zero Investor: UK stewardship stocktake: engagement at a gridlock?

Human Rights

Corporate Secretary/IR Magazine: Trillion-dollar coalition calls for human and worker rights focus at ISSB

Investments & Pensions Europe: Investors urge ISSB to focus on human and labour rights

Edie: Investment giants press for new global disclosure standards on human rights

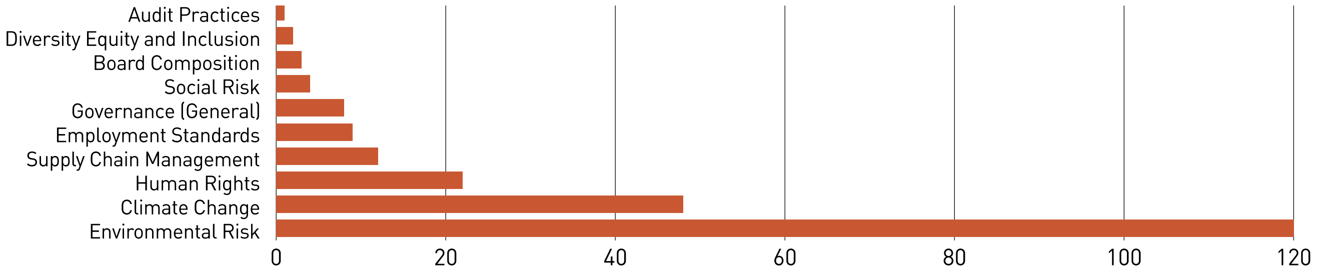
COMPANY PROGRESS REPORT

182 companies were engaged over the quarter. This number includes collaborative engagement letters sent to companies as part of the LAPFF-led Say on Climate initiative and the Nature Action 100 initiative. Excluding these engagement letters, LAPFF engaged with 54 companies.

Company/Index	Activity	Topic	Outcome
AIA GROUP LTD	Sent Correspondence	Environmental Risk	Awaiting Response
ALLIANZ SE	Sent Correspondence	Environmental Risk	Awaiting Response
ALPHABET INC	Sent Correspondence	Diversity Equity and Inclusion	Awaiting Response
APPLE INC	Sent Correspondence	Diversity Equity and Inclusion	Awaiting Response
ASSOCIATED BRITISH FOODS PLC	Received Correspondence	Human Rights	No Improvement
AVIVA PLC	Sent Correspondence	Environmental Risk	Awaiting Response
AXA	Sent Correspondence	Environmental Risk	Awaiting Response
BARRATT DEVELOPMENTS PLC	Sent Correspondence	Climate Change	Awaiting Response
BAYERISCHE MOTOREN WERKE AG	Sent Correspondence	Supply Chain Management	Awaiting Response
BERKSHIRE HATHAWAY INC.	Sent Correspondence	Environmental Risk	Awaiting Response
BOOKING HOLDINGS INC.	Sent Correspondence	Human Rights	Dialogue
BURBERRY GROUP PLC	Meeting	Environmental Risk	Small Improvement
CENTRICA PLC	Received Correspondence	Social Risk	Dialogue
CHINA CONSTRUCTION BANK CORP	Meeting	Climate Change	Dialogue
CHINA LIFE INSURANCE (CHN)	Sent Correspondence	Environmental Risk	Awaiting Response
DEVON ENERGY CORPORATION	Sent Correspondence	Environmental Risk	Dialogue
FEDEX CORPORATION	Alert Issued	Climate Change	Dialogue
FORD MOTOR COMPANY	Sent Correspondence	Human Rights	Awaiting Response
GENERAL MOTORS COMPANY	Sent Correspondence	Human Rights	Awaiting Response
GRUPO MEXICO SA DE CV	Meeting	Human Rights	Dialogue
HENNES & MAURITZ AB (H&M)	Received Correspondence	Human Rights	Dialogue
J SAINSBURY PLC	Received Correspondence	Employment Standards	Satisfactory Response
KKR & CO INC	Sent Correspondence	Board Composition	Awaiting Response
LEGAL & GENERAL GROUP PLC	Meeting	Environmental Risk	Awaiting Response
LLOYDS BANKING GROUP PLC	Sent Correspondence	Environmental Risk	Awaiting Response
MARKS & SPENCER GROUP PLC	Received Correspondence	Employment Standards	Satisfactory Response
MERCEDES-BENZ GROUP AG	Sent Correspondence	Human Rights	Awaiting Response
META PLATFORMS INC	Sent Correspondence	Human Rights	Awaiting Response
METLIFE INC.	Sent Correspondence	Environmental Risk	Awaiting Response
MIZUHO FINANCIAL GROUP INC	Meeting	Climate Change	Small Improvement
MUENCHENER RUECK AG (MUNICH RE)	Meeting	Environmental Risk	Awaiting Response
NATIONAL GRID GAS PLC	AGM	Climate Change	Dialogue
NESTLE SA	Sent Correspondence	Climate Change	Awaiting Response
NORTHUMBRIAN WATER GROUP	Meeting	Environmental Risk	Moderate Improvement
OCCIDENTAL PETROLEUM CORPORATION	Sent Correspondence	Environmental Risk	Dialogue
PERSIMMON PLC	Sent Correspondence	Climate Change	Awaiting Response
PING AN INSURANCE GROUP	Sent Correspondence	Environmental Risk	Awaiting Response
PRUDENTIAL PLC	Sent Correspondence	Environmental Risk	Awaiting Response
RENAULT SA	Sent Correspondence	Human Rights	Awaiting Response
RIO TINTO GROUP (AUS)	Sent Correspondence	Human Rights	Dialogue
RYANAIR HOLDINGS PLC	Alert Issued	Remuneration	No Improvement
SALESFORCE INC	Sent Correspondence	Board Composition	Awaiting Response
SEVERN TRENT PLC	Meeting	Environmental Risk	Moderate Improvement
SHINHAN FINANCIAL GROUP LTD	Sent Correspondence	Board Composition	Awaiting Response
SSE PLC	AGM	Climate Change	Dialogue
SUZANO SA	Meeting	Climate Change	Small Improvement
TAYLOR WIMPEY PLC	Sent Correspondence	Climate Change	Awaiting Response
TESLA INC	Sent Correspondence	Human Rights	Awaiting Response
THE PROCTER & GAMBLE COMPANY	Sent Correspondence	Environmental Risk	Awaiting Response
TOTAL ENERGY SERVICES INC	Sent Correspondence	Human Rights	Dialogue
UNILEVER PLC	Meeting	Human Rights	Small Improvement
UNITED UTILITIES GROUP PLC	Meeting	Environmental Risk	Moderate Improvement
VALE SA	Sent Correspondence	Human Rights	Dialogue
VOLKSWAGEN AG	Meeting	Human Rights	Small Improvement
VOLVO AB	Meeting	Human Rights	Small Improvement
WH SMITH PLC	Received Correspondence	Audit Practices	Satisfactory Response
WHITBREAD PLC	Received Correspondence	Employment Standards	Satisfactory Response
ZURICH INSURANCE GROUP AG	Sent Correspondence	Environmental Risk	Awaiting Response

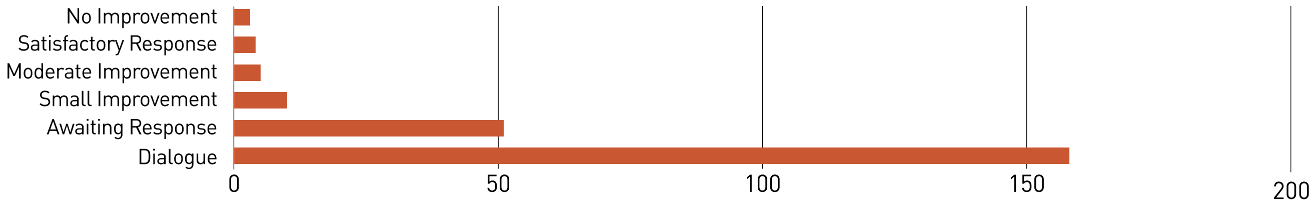
ENGAGEMENT DATA

ENGAGEMENT TOPICS



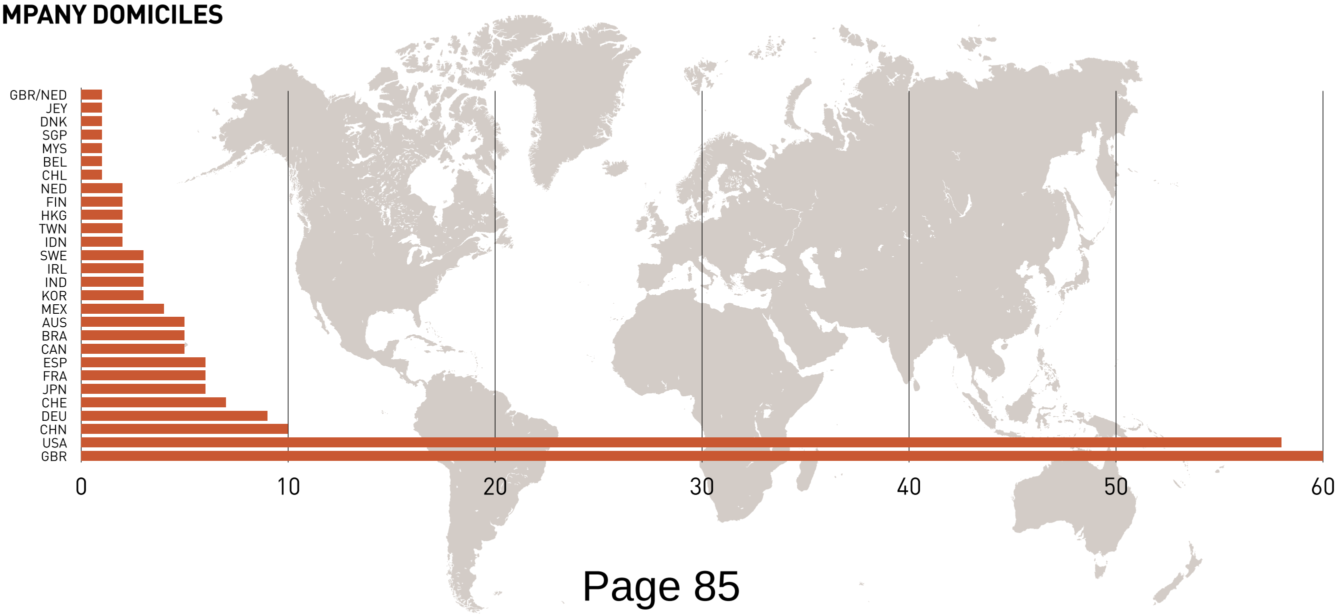
ACTIVITY

MEETING ENGAGEMENT OUTCOMES

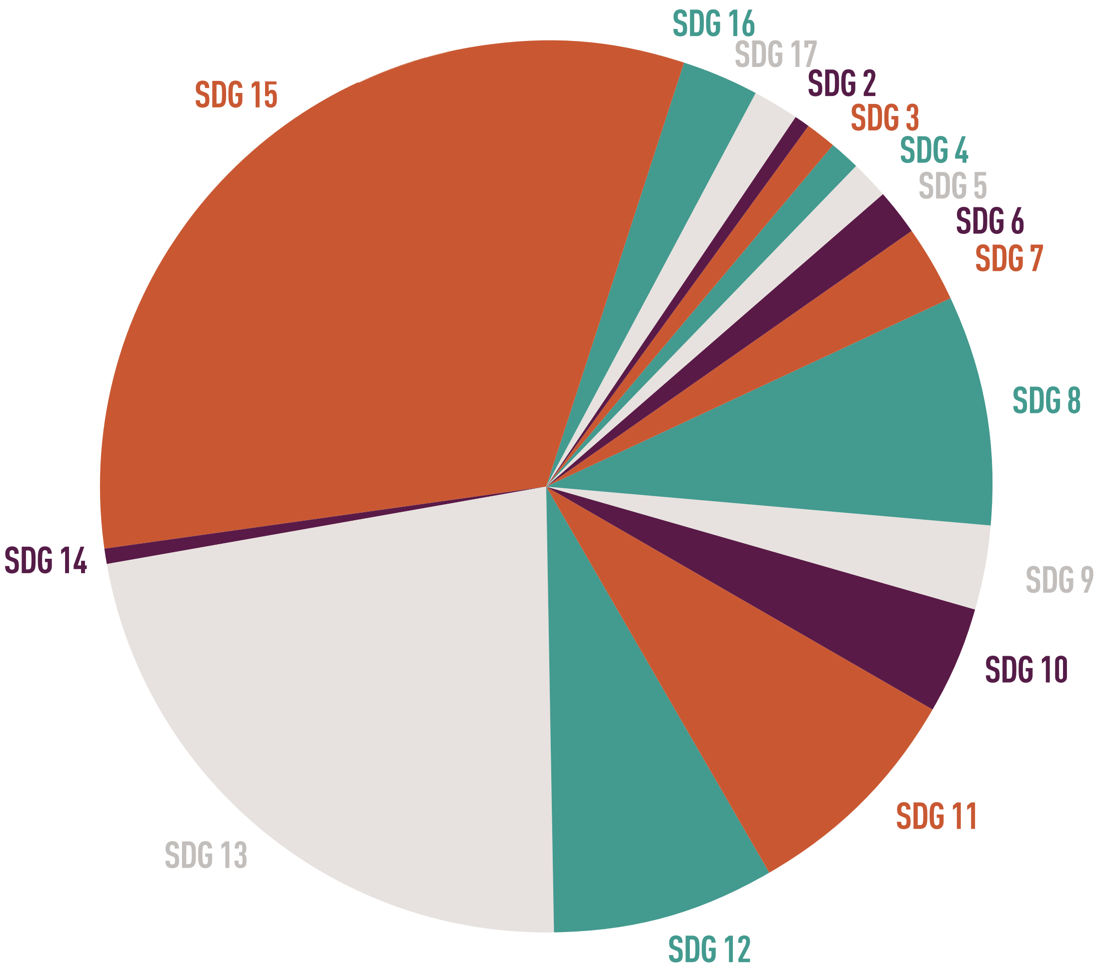


POSITION ENGAGED

COMPANY DOMICILES



ENGAGEMENT DATA



LAPFF SDG ENGAGEMENTS

SDG 1: No Poverty	0
SDG 2: Zero Hunger	2
SDG 3: Good Health and Well-Being	4
SDG 4: Quality Education	4
SDG 5: Gender Equality	4
SDG 6: Clean Water and Sanitation	6
SDG 7: Affordable and Clean Energy	9
SDG 8: Decent Work and Economic Growth	27
SDG 9: Industry, Innovation, and Infrastructure	10
SDG 10: Reduced Inequalities	13
SDG 11: Sustainable Cities and Communities	27
SDG12: Responsible Production and Consumption	27
SDG 13: Climate Action	73
SDG 14: Life Below Water	2
SDG 15: Life on Land	106
SDG 16: Peace, Justice, and Strong Institutions	9
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	5

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

Avon Pension Fund
Barking and Dagenham Pension Fund
Barnet Pension Fund
Bedfordshire Pension Fund
Berkshire Pension Fund
Bexley (London Borough of)
Brent (London Borough of)
Cambridgeshire Pension Fund
Camden Pension Fund
Cardiff & Glamorgan Pension Fund
Cheshire Pension Fund
City of London Corporation Pension Fund
Clwyd Pension Fund (Flintshire CC)
Cornwall Pension Fund
Croydon Pension Fund
Cumbria Pension Fund
Derbyshire Pension Fund
Devon Pension Fund
Dorset Pension Fund
Durham Pension Fund
Dyfed Pension Fund
Ealing Pension Fund
East Riding Pension Fund
East Sussex Pension Fund
Enfield Pension Fund
Environment Agency Pension Fund
Essex Pension Fund
Falkirk Pension Fund
Gloucestershire Pension Fund
Greater Gwent Pension Fund
Greater Manchester Pension Fund
Greenwich Pension Fund
Gwynedd Pension Fund
Hackney Pension Fund
Hammersmith and Fulham Pension Fund
Haringey Pension Fund
Harrow Pension Fund
Havering Pension Fund
Hertfordshire Pension Fund
Hillingdon Pension Fund
Hounslow Pension Fund
Isle of Wight Pension Fund
Islington Pension Fund
Kensington and Chelsea (Royal Borough of)
Kent Pension Fund
Kingston upon Thames Pension Fund
Lambeth Pension Fund
Lancashire County Pension Fund
Leicestershire Pension Fund
Lewisham Pension Fund
Lincolnshire Pension Fund
London Pension Fund Authority
Lothian Pension Fund
Merseyside Pension Fund
Merton Pension Fund
Newham Pension Fund
Norfolk Pension Fund
North East Scotland Pension Fund
North Yorkshire Pension Fund
Northamptonshire Pension Fund
Nottinghamshire Pension Fund
Oxfordshire Pension Fund
Powys Pension Fund
Redbridge Pension Fund
Rhondda Cynon Taf Pension Fund
Scottish Borders Pension Fund
Shropshire Pension Fund
Somerset Pension Fund
South Yorkshire Pension Authority
Southwark Pension Fund
Staffordshire Pension Fund
Strathclyde Pension Fund
Suffolk Pension Fund
Surrey Pension Fund
Sutton Pension Fund
Swansea Pension Fund
Teesside Pension Fund
Tower Hamlets Pension Fund
Tyne and Wear Pension Fund
Waltham Forest Pension Fund
Wandsworth Borough Council Pension Fund
Warwickshire Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Westminster Pension Fund
Wiltshire Pension Fund
Worcestershire Pension Fund

Pool Company Members
ACCESS Pool
Border to Coast Pensions Partnership
LGPS Central
Local Pensions Partnership
London CIV
Northern LGPS
Wales Pension Partnership

DF/23/109
Investment and Pension Fund Committee
24 November 2023

FUTURE CASHFLOW FORECAST

Report of the Director of Finance and Public Value

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

1) Recommendation

That the Committee be asked to note the future cashflow forecast scenarios set out in the report.

2) Introduction

2.1 A key priority for the Pension Fund is to ensure that it manages its cashflows to ensure it always has sufficient available funds to meet its obligation to pay pensions. Following each Triennial Actuarial Valuation it is, therefore, good practice to reassess forecast future cashflows.

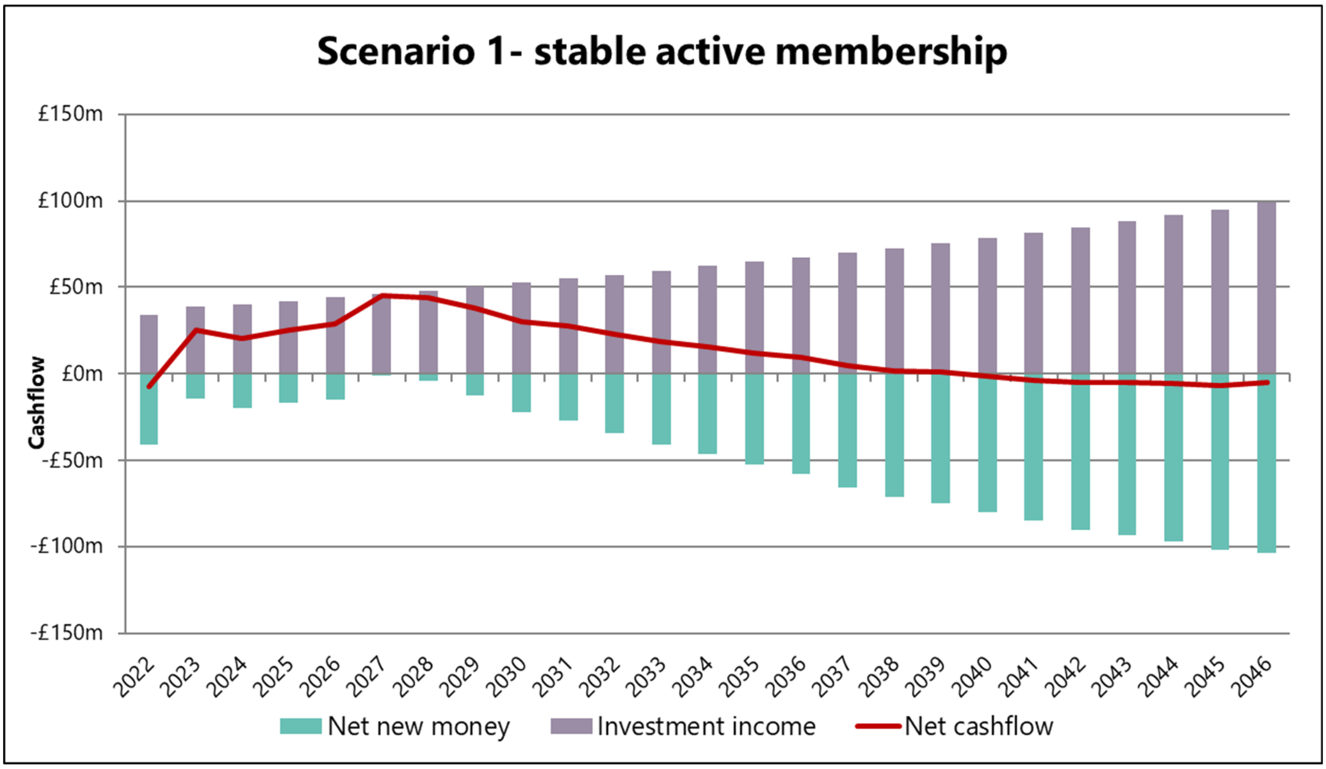
2.2 A pension fund where most of the liabilities are in relation to active members is said to be “immature” and will result in a positive cashflow as employee and employer contributions into the fund will exceed payments out. A fund where most of the liabilities are in relation to pensioners (current and deferred) is said to be “mature”, and will have a negative cashflow, where benefit payments exceed the level of contributions. There are two potential stages to maturity, firstly where investment income is used to supplement contributions to fund the payment of benefits, secondly where the Fund has to sell assets to meet benefit payments.

2.3 Going back 15 years, in 2008/09 the contributions into the Fund exceeded the benefits paid by £41 million. However, each year since 2014/15, with the exception of 2019/20, benefit payments have exceeded contributions. 2019/20 was an exception as Plymouth City Council paid £72 million into the Fund to pay off their deficit. Without that payment, benefit payments would have exceeded contributions.

2.4 The Fund Actuary has provided a model to enable the Fund to examine current cashflows and project ahead over a 25 year period. Three scenarios, based on the Actuary’s cashflow model, are outlined below.

3) Scenario 1 – Stable Active Membership

3.1 The first scenario assumes that the fund has a stable level of active membership going forward. The pensionable pay of the Fund's employers would therefore remain stable, with a gradual rise each year resulting from salary increases, assumed to be 3.9%. This percentage takes into account promotions as well as annual pay awards. This scenario is illustrated in the following graph.



3.2 The green bars on the chart show the forecast balance between contributions and benefits, which is negative across the period shown. In 2021/22 there was a negative balance of around £40 million. A significant factor in this was a £16 million transfer payment to the Dorset Pension Fund due to the transfer of a significant number of support staff from Devon and Cornwall Police to Dorset Police as part of a strategic partnership between the two forces. The negative position reduced to around £14 million in 2022/23. The forecast position then remains at around the same level over the next three years.

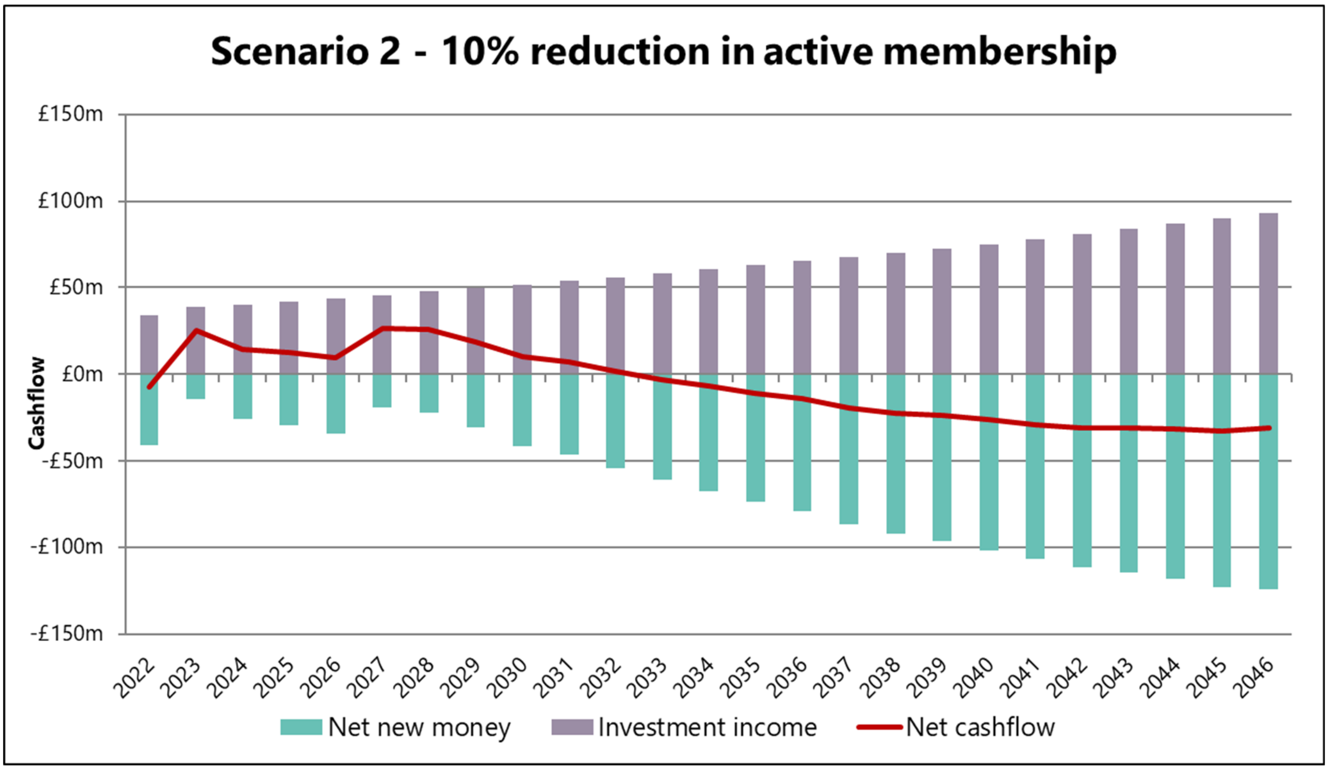
3.3 Contribution rates from 2026/27 onwards will be re-set by the next triennial valuation as at 31 March 2025. The model currently assumes that there will be an increase in contribution rates from April 2026. This assumes that the funding level will have fallen due to the negative investment return achieved in 2022/23, meaning that the Fund will not have achieved the 4.7% return assumed at the 2022 Valuation. This produces a balanced position between contributions and benefit payments for 2026/27, before the position turns negative again. The negative position then grows gradually each year as the Fund matures.

3.4 The grey bars show the forecast investment income for each year. These are based on a prudent estimate, assuming a 2.5% yield on a quarter of the Fund's assets. This comprises the income from the Fund's private markets investments (property, infrastructure, private debt and private equity), on the basis that the Fund will receive back the income from those assets as distributions. The income on the Fund's equity and bond investments is automatically reinvested and not returned to the Fund. If there was a need for additional income, then it would be possible to access this additional income. As the value of the Fund's assets grows, a consistent income yield will bring in higher investment income each year.

3.5 The investment income received can be used to fund the shortfall position between contributions income and pension benefits payments. The result is the red line, which shows the net cash position including contributions, benefit payments and investment income. It shows that until around 2039 the Fund will benefit from positive cashflows, even as the contributions/benefit payments net position remains negative.

4) Scenario 2 – 10% Reduction in Active Membership

4.1 Scenario 2 is based on a 10% reduction in total pensionable pay of the active membership over the next three years. With the current significant budget challenges facing local authorities, there is likely to be pressure to reduce staffing budgets, which will reduce contributions income to the Pension Fund. This scenario is illustrated in the following chart.

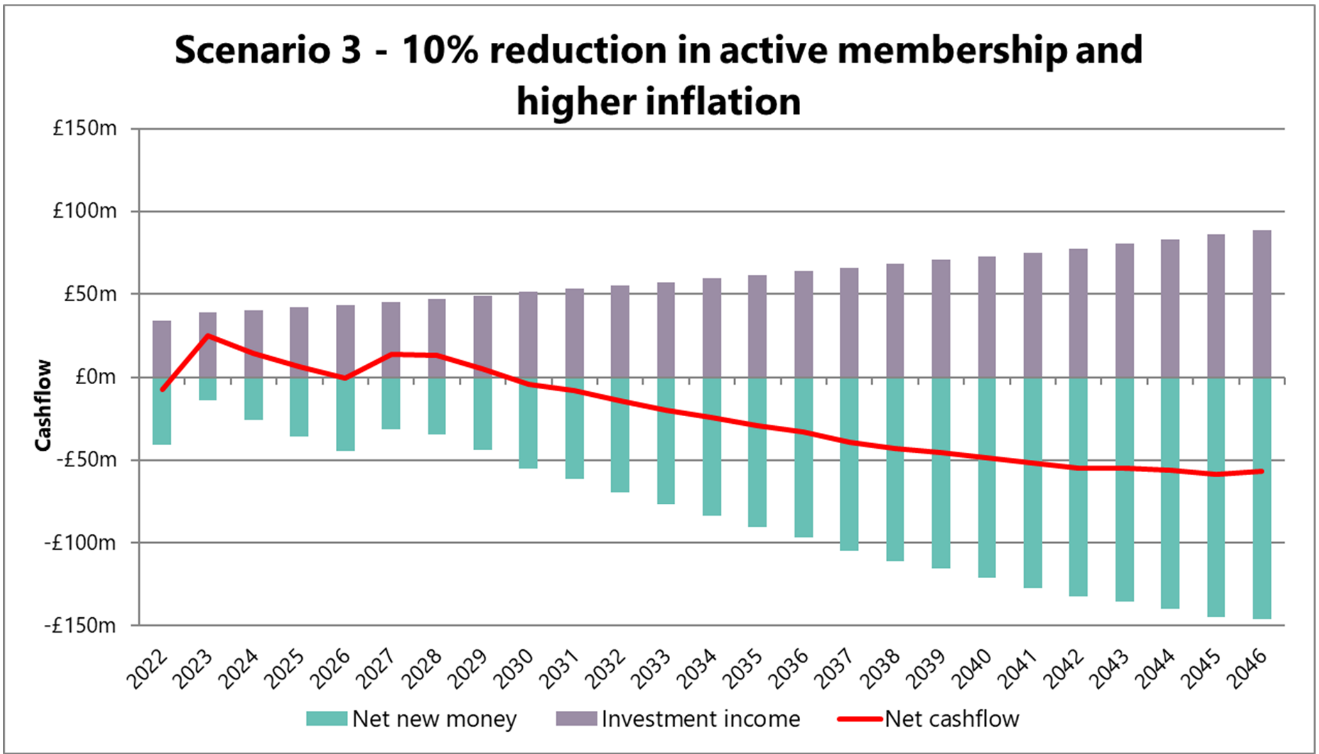


4.2 In this scenario, the net position on contributions / benefit payments is more negative each year going forwards. As with scenario 1, the position improves in 2026/27 following the 2025 triennial valuation, but in this case there will still be a negative balance in that year. The negative position also grows more quickly as a result of the reduction in active members. This will also have a small impact on the investment income forecast, as the Fund will grow more slowly as a result of the growing negative position between contributions and benefit payments.

4.3 The red line demonstrates that taking the investment income into account there is still a positive cashflow until around 2032, but from that date onwards the investment income will not be sufficient to fund the negative balance between contributions and benefit payments.

5) Scenario 3 – 10% Reduction in active membership and higher inflation

5.1 Scenario 3 is based on inflation being 0.3% per annum higher than the current actuarial assumption in addition to a 10% reduction the active membership over the next three years. While the current level of inflation is likely to fall, there is a risk it remains higher for longer. This scenario is illustrated in the following chart.



5.2 In this scenario, the gap between benefit payments and contributions grows more quickly. 2025/26 could see a position where investment income is only just sufficient to meet the deficit position, before the position is reset by the 2025 triennial valuation. The cashflow position then turns negative in 2029/30. The position would be a particular concern if pay increases are below inflation, as pensions would rise more quickly than increases in contributions income.

6) Conclusion

6.1 Under scenario 1, with the use of investment income from its private markets' allocation, the Fund should have sufficient cashflow to meet its pension payment liabilities over the next 15 years. However, there is a level of sensitivity around the core assumptions and if we see falling active membership and higher inflation, then the cashflow situation could deteriorate more quickly.

6.2 Under those circumstances the Fund would need to start to sell assets to meet pension payments or change its investment strategy to one that generated higher levels of investment income, rather than focusing on capital growth.

6.3 This is not an urgent issue, given that under all scenarios cashflow, including investment income, remains positive for the next 5 years. However, this is an issue that should be considered when the Fund next commissions an external review of its investment strategy, which is due in early 2025 in the lead up to the next triennial valuation.

Angie Sinclair
Director of Finance and Public Value

Electoral Divisions: All

Local Government Act 1972: List of background papers

Nil

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Name: Mark Gayler
Telephone: 01392 383621
Address: Room 196 County Hall

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

Agenda Item 13

Document is Restricted