

PENSION FUND ANNUAL REPORT AND ACCOUNTS 2018/19

Report of the County Treasurer

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

Recommendation: that the Pension Fund Annual Report and Accounts for 2018/19 be adopted

1. Introduction

- 1.1. The Pension Fund Annual Report, including the Statement of Accounts, is brought to the Committee each year for approval. The draft report for 2018/19 is enclosed.
- 1.2. The Pension Fund Accounts were approved along with the County Council accounts by the Devon County Council Audit Committee on 29 July. The Investment and Pension Fund Committee's role is to approve the full Annual Report which contains the statement of accounts together with other information about the Fund's performance during the year.

2. Annual Report and Statement of Accounts

- 2.1. Revised guidance on what should be included in the Annual Report was issued by CIPFA (the Chartered Institute of Public Finance and Accountancy) in March 2019. As a result, a number of new or revised sections have been added to the Annual Report. These are set out below.
- 2.2. **Investment Pooling** – The Annual Report is now required to include a section on investment pooling, setting out the costs and savings resulting from the pooling initiative. This is set out on pages 17-19. This highlights the fee savings achieved to date of £548,000, against additional costs incurred of £2.162 million. The expectation in the original business case was that the total savings should exceed the total costs by March 2022, with overall cumulative net savings forecast to be £107 million by 2036.
- 2.3. **Cost Transparency** – The guidance also requires inclusion of cost transparency information. In the past the statement of accounts has included the cost of fund manager fees and direct transaction costs, but in addition there are a number of other hidden costs not accounted for. There has been increasing focus on the need to uncover these hidden costs and to show investment costs on a fully transparent basis. The table on page 20 shows that in addition to the direct costs shown in the accounts, there are further additional costs of £10.185 million, giving total investment costs of £25.395 million. The additional costs include the fees and transaction costs of underlying funds invested in by La Salle, Baillie Gifford and Barings, implicit costs arising from trading activity, and entry/exit costs of investing in pooled funds. These costs are assembled from templates completed by the fund managers.

- 2.4. **Pension Fund Budget** – Details of pension fund income and expenditure for the year against the budget forecast, and explanation of any significant variances.
- 2.5. **Employer Contributions** – Details of the employee and employer contributions paid during the year, split by employer.
- 2.6. **Pensions Administration Performance** – The revised guidance requires additional information on value for money and key performance data in relation to pensions administration. This is set out on pages 53 – 58.
- 2.7. In addition, the Annual Report includes:
- A forward from the Chair of the Investment and Pension Fund Committee.
 - An introduction from the County Treasurer outlining the major issues during the year.
 - Details of the training that members have received as required by the CIPFA Code of Practice on Knowledge and Skills.
 - Details of attendance at both the Investment and Pension Fund Committee and the Pension Board.
 - A market update from the Fund's Independent Advisor.
 - An annual report detailing the work of the Pension Board.
 - The Fund's key risks from the Risk Register and the mitigating controls.
 - Details of the voting and engagement activity undertaken during the year in relation to the Fund's responsible investment policies set out in the Investment Strategy Statement
 - A summary of the performance of the Fund's external managers, followed by reports from each manager outlining their performance, stewardship activity and their market outlook going forward.
 - The Statement of Accounts.
 - More detailed information about the operation of the Fund.
 - The Fund's statutory statements.
- 2.8. The general principles in compiling the Pension Fund accounts are those recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA). The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.
- 2.9. The statement of accounts has been audited by Grant Thornton, the Council's external auditors. A copy of the Audit Findings report for the Devon Pension Fund is attached at Appendix 2. Following 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, an unqualified audit opinion was issued on 30 July 2019. A representative of Grant Thornton will be present at the meeting to answer any questions.

3. Conclusion

- 3.1. The Committee is asked to adopt the Pension Fund Annual Report and Accounts for 2018/19.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers - Nil

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