

MINUTES of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE**
held at County Hall, Matlock on 7 February 2017

PRESENT

Councillor D J Wilcox (in the Chair)

Derbyshire County Council

Councillors R Davison, S J Ellis, S Freeborn, J Innes and S Marshall-Clarke

Derby City Council

Councillor M Carr

Apologies for absence were submitted on behalf of Councillors S Brittain and R A Parkinson

1/17 **RICHARD APPLEBY** The Committee wished to record its thanks and appreciation of the work undertaken over the last few years by Richard Appleby, Deputy Director of Finance, who had recently retired.

2/17 **MINUTES RESOLVED** that the minutes of the meeting held on 14 December 2016 be confirmed as a correct record and signed by the Chair.

3/17 **PROPOSED INVESTMENT STRATEGY STATEMENT** The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 had been introduced in November 2016, and a key feature was the requirement to publish an Investment Strategy Statement by 1 April 2017. The Statement had to cover a range of issues, and the authority's investment strategy needed to set out the maximum percentage of the total value of all investments of fund money that it would invest in particular investments or classes of investment. The authority would also be required to consult such persons as it considered appropriate regarding the proposed contents of its strategy.

The Statement had to be reviewed, and if necessary revised, following any material change in the factors which were judged to have a bearing on the stated investment policy, and at least every three years. There would no longer be a requirement to maintain a Statement of Investment Principles. The Committee was presented with the Investment Strategy Statement, along with a review of the document from the Fund's independent investment adviser.

The Strategic Asset Allocation Benchmark (SAAB), which was contained within the Investment Strategy Statement, had last been amended

and agreed by the Committee in July 2015. It was recommended that a number of incremental changes should be made to the SAAB, including a reduction of 3% in UK equities, taking the weighting to 25%; an increase of 1% in US equities, taking the weighting to 12%; a reduction of 1% in fixed income government bonds, taking the weighting to 5.5%; an increase of 1% in Multi Asset Credit, taking the weighting to 4%; and an increase of 2% in infrastructure, taking the weighting to 5%.

It was the intention to consult with scheme employers, the Derbyshire Pension Board and other stakeholders on the proposed Investment Strategy Statement. The results of the consultation would be reported back to the Committee in March 2017.

RESOLVED to approve the Investment Strategy Statement set out in the report subject to the outcome of the consultation with the Fund's stakeholders.

4/17 PENSIONS ADMINISTRATION ACHIEVEMENTS AND CHALLENGES A summary was provided of progress that had been made in pensions administration since December 2014. However, the ability to deliver and continually improve the service had been made more difficult by two factors. Firstly, the section had not been resourced to deal with the complexities and demands of pensions administration after LGPS 2014, alongside the implementation of a new pensions administration system. This had been due to an inability to attract suitably experienced staff. Secondly, the pensions administration system, Civica UPM, had failed to meet the expectations originally set by the supplier.

Resourcing had been identified on the Risk Register as LGPS administration had developed into such a complex and specialist role. Steps had been taken to address this, including adding certain posts to the establishment, the redefining of specific roles, and the development of an internal training capacity to ensure that new staff were contributing positively as quickly as possible. Work in this area continued, and some key appointments had been made recently.

A great deal of work had been undertaken with Civica and other users of the system to try to develop UPM so that its processes and calculations were efficient and accurate. This, however, had met with limited success. Furthermore, Civica appeared unable or unwilling to improve its bulk processing software which took so long to run that it effectively brought the Annual Benefit Statement target date forward to mid-August, and this made it more difficult to achieve the statutory deadline. The first review date in the contract between the County Council and Civica would occur in November 2018, so it was now appropriate to assess the achievements and successes of Civica UPM against the difficulties which still existed. Discussions were

taking place with other authorities in a similar position to Derbyshire as to possible solutions. The outcome of the assessment work would be reported to the next meeting of the Committee.

RESOLVED to note the report.

5/17 LGPS FRAMEWORK – ACTUARIAL SERVICES It was a statutory requirement of the County Council to obtain, from an actuary, a triennial valuation of the Derbyshire Pension Fund's assets and liabilities, a report in respect of the valuation, and a rates and adjustments certificate. The current contract with Hymans Robertson LLP to provide these and related services ran until 30 June 2017, at which point there would be a requirement to put in place a new contract for actuarial services. It was proposed to use the National Local Government Pension Scheme Framework to appoint a supplier for actuarial services for the Derbyshire Pension Fund. There were four nationally recognised suppliers of actuarial services used by LGPS Funds, and each of them was represented on the framework.

There would be a one off fee for using the framework of £3,000 for the period up to September 2020, and it was the intention to award the contract for a period of three years from 1 July 2017 with an option to extend the contract for a further three years.

The Corporate Procurement Team would run a mini competition exercise between the four suppliers on the National LGPS Framework, and this would be based on the County Council's specific requirements. The work would be completed by mid April 2017. It was requested that members delegated authority to the Director of Finance, in consultation with the Chair of the Pensions and Investment Committee, to approve the decision to award the contract before the end of April 2017, and this would be reported to the Committee meeting on 14 June 2017. The contract start date would be 1 July 2017. In accordance with Protocol 2 of the Council's Financial Regulations, a business case had been submitted to, and approved by, the Director of Finance. The cost of the services provided would be met initially from the Pension Fund, with specific items recharged to individual employing authorities as appropriate. .

RESOLVED to give approval for the use of a non-Derbyshire County Council Framework for the provision of the appointment of a contractor to provide Actuarial services from the Framework for the Derbyshire Pension Fund, and to delegate authority to the Director of Finance in consultation with the Chair of the Pensions and Investment Committee to appoint a supplier from the Framework.

6/17 REQUEST FOR DOMAIN NAME FOR A FUTURE STAND-ALONE DERBYSHIRE PENSION FUND WEBSITE Currently, the Derbyshire

Pension Fund's webpages, which carried information about the LGPS for members and employers, were located on the County Council's website in the section titled 'Working for Us'. However, this was inconsistent with the Fund's customer base of active, deferred and pensioner members, the majority of whom did not work for Derbyshire County Council. A specific website for the Fund would therefore improve accessibility for all its members.

As part of the Communications Strategy, the Pension Fund was committed to launching a stand-alone website, and this would require a specific domain name. Before any further work could commence towards a new website, the Committee was asked to approve a request to secure a domain name for a future stand-alone Derbyshire Pension Fund website – www.derbyshirepensionfund.org.uk. This would bring the Fund in line with similar domain names used by other LGPS Funds. The cost of the domain name was approximately £10-£20 per year, and other costs relating to the website build would be included in the Pension Fund's contract with its software supplier.

RESOLVED to approve the request to secure a domain name for a future Derbyshire Pension Fund website utilising the domain name www.derbyshirepensionfund.org.uk

7/17 LOCAL GOVERNMENT PENSION SCHEME VALUATION OF THE PENSION FUND AS AT 31 MARCH 2016 The Local Government Pension Scheme Regulations 2013 required administering authorities to obtain a valuation of their pension funds at 31 March 2016 and in every third year afterwards. The Regulations also required the administering authority to obtain a report by an actuary in respect of the valuation and a rates and adjustments certificate by the first anniversary of the valuation date. The Fund's actuary, Hymans Robertson, had undertaken a valuation of the Derbyshire Pensions Fund as at 31 March 2016 to determine each participating employer's level of solvency and the amount of their contributions for the three years commencing 1 April 2017. Whilst the actuary had not yet submitted a final report and rates and adjustments certificate, the report was based on Hyman's preliminary results of the valuation. The rates and adjustments certificate would show the contributions to be paid to the pension fund for each of the following three years, and also set out the assumptions as to the liabilities expected to occur in the period covered by the certificate.

Since the previous valuation, asset returns of 18.2% had been achieved, thus outperforming the expected return. However, during the same period, falling bond yields had increased liabilities by almost 12%, offsetting some of the benefit of the investment outperformance. On the membership side, pay growth and pensions increase factors over the last three years had been lower than anticipated. However, there had been more early leavers over the period than expected and take up of the 50:50 membership option

offered from 2014 had been significantly less than expected. As a whole, the membership factors had had a positive impact on the funding position.

Overall, the position at the 2016 valuation was that there had been an increase in the funding level to 86.7%, and a reduction in the deficit from £663m to £564m. The Fund and the Actuary had agreed and applied financial assumptions about expected investment returns, long term pay growth, potential inflation and longevity, as well as considering specific employer risk profiles. The details of how the assumptions and perceived risks had been assessed were contained within the Funding Strategy Statement.

The outcome was that the Actuary had proposed an increase in the employer rate of 1% with effect from 1 April 2017 for the majority of larger employers and local authorities. Academies would also see their rates increase by 1% in most cases, other than where their individual funding positions allowed for no change or a reduction of 1%. Admitted bodies were assessed individually, and had a mixed outcome. The actuary had some discretion to adjust calculated rates, and some employers had raised questions regarding the proposed rates. Once these issues were resolved, the Actuary would issue the final report. It was asked that information be provided on the current funding level for the District/Borough Councils, Derby City Council, Derbyshire Police and Derbyshire Fire and Rescue Service.

Administering authorities were required by the 2013 Regulations to prepare and maintain a Funding Strategy Statement (FSS). The draft FSS, which had been prepared in conjunction with the Fund's actuary, was presented. It was the intention to consult with scheme employers, the Pension Board and other stakeholders on the proposed FSS. The results of the consultation would be reported to the next meeting.

RESOLVED to (1) note the preliminary results of the valuation of the Pension Fund as at 31 March 2016;

(2) note that the FSS will be updated following the final report and both documents brought to a future meeting of the Committee; and

(3) that members be provided with an update on the current funding level for District/Borough Councils, Derby City Council, Derbyshire Police and Derbyshire Fire and Rescue Service.

8/17 EXCLUSION OF THE PUBLIC RESOLVED that the public be excluded from the meeting during the Committee's consideration of the remaining items on the agenda to avoid the disclosure of the kind of information detailed in the following summary of proceedings:-

SUMMARY OF PROCEEDINGS CONDUCTED AFTER THE PUBLIC HAD BEEN EXCLUDED FROM THE MEETING

1. To confirm the exempt minutes of the meeting held on 14 December 2016
2. To consider the exempt reports of the Director of Finance on Infrastructure Investments (contains information relating to the financial or business affairs of any particular person (including the Authority holding the information))