

PUBLIC

MINUTES of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE** held at County Hall, Matlock on 1 August 2018

PRESENT

Councillor J Perkins (in the Chair)

Derbyshire County Council

Councillors K S Athwal (substitute Member) N Atkin, S Marshall-Clarke, R Mihaly, J Twigg (substitute Member) and D Taylor (substitute Member)

Derbyshire County Unison

Mr M Wilson

Apologies for absence were received on behalf of Councillors R Ashton, A Fox, P Makin and B Ridgway (Derbyshire County Council) and Councillor M Carr (Derby City Council)

Declarations of interest

Mr M Wilson declared a personal interest in Agenda Item 10 – Stage 2 Appeal under the LGPS Application for Adjudication of Disagreement Procedure as he had been involved in the case.

40/18 DERBYSHIRE PENSION FUND WEBSITE - PRESENTATION

Steve Webster and Phil Drury, LGPS Pensions Officers attended the meeting to provide Members with a presentation on the new Derbyshire Pension Fund website. The target date for 'going live' was 31 August 2018.

On behalf of the Committee, the Chairman thanked Mr Webster and Mr Drury for their most informative presentation.

41/18 MINUTES RESOLVED that the minutes of the meeting held on 13 June 2018 be confirmed as a correct record and signed by the Chairman.

42/18 UNQUOTED INVESTMENTS The Derbyshire Pension Fund invested in a wide variety of asset classes and across a large number of investment markets. Increasingly this involved investing in long-term, illiquid, 'unquoted' vehicles which suit the nature of the underlying assets. Infrastructure, Private Equity, Multi-Asset Credit and Indirect Property were the main unquoted areas for the Fund.

At the Pensions and Investment Committee on 20 March 2017, it was agreed that the Committee would delegate authority to invest in unquoted investments to the Director of Finance & ICT with an upper limit of £25m per investment. Above that level, a report to the Committee was required on a case by case basis in advance of the investment being made. In order to allow the In-house Investment Management Team ("IIMT") greater flexibility, it was recommended that in time critical situations the approval decision was delegated to the Director of Finance & ICT in consultation with the Chairman of the Pensions and Investment Committee.

RESOLVED that the Committee agrees to delegate the authorisation of time critical investments in unquoted investments above £25m to the Director of Finance and ICT in consultation with the Chairman of the Pensions and Investment Committee, with any such investments being reported to the next appropriate meeting of the Committee for information.

43/18 GOVERNANCE POLICY AND COMPLIANCE STATEMENT The Local Government Pension Scheme Regulations 2013 required an administering authority, after consultation with such persons as it considered appropriate, to prepare, publish and keep under review, a written statement setting out:

- whether it delegated its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;
- the terms, structure and operational procedures of any such delegations;
- the frequency of any committee or sub-committee meetings;
- whether such a committee or sub-committee included representatives of Scheme employers or members, and if so, whether these representatives had voting rights;
- the extent to which a delegation, or the absence of a delegation, complied with guidance given by the Secretary of State and, to the extent that it did not comply, the reasons for not complying; and
- details of the terms, structure and operational procedures relation to the local pension board.

The Statement set out the governance arrangements for Derbyshire Pension Fund and recorded the extent to which the Fund complied with the statutory guidance issued by the Secretary of State in respect of these matters. Members of Derbyshire Pension Board had been consulted during the formulation of the Statement and their comments had been taken into account in the draft Statement, which was attached at Appendix 1 to the report.

On behalf of the Committee, the Chairman wished to thank the members of the Pension Board for their helpful contribution and assistance in developing the Statement.

RESOLVED that the Committee approves the Governance Policy and Compliance Statement.

44/18 REVIEW OF DERBYSHIRE PENSION FUND'S ADDITIONAL VOLUNTARY CONTRIBUTION (AVC) ARRANGEMENTS Members were presented with the findings of the review of the Fund's AVC arrangements carried out by Hymans Robertson LLP (attached at Appendix A to the report). and to request Committee's approval to develop the Fund's AVC arrangements broadly in line with the review's recommendations.

Under the Local Government Pension Scheme (LGPS) Regulations, each LGPS Fund is required to provide access to an AVC arrangement where Fund members can elect to pay additional contributions in order to further boost retirement savings and/or to provide additional life insurance. Although this is an individual choice, the administering authority is the policyholder for the group arrangement in place and, therefore, has certain responsibilities.

The Pension Regulator's Codes of Practice stated that Defined Contribution schemes, including AVC arrangements for Defined Benefit schemes such as the LGPS, should meet certain aims. They should be efficient, effective and give members "value for money". These aims should be regularly evaluated to ensure this continued to be the case.

The last review took place in 2012 when Prudential were designated as the Fund's sole provider for new AVC business. Further to an 'Invitation to Tender' procurement exercise, Hymans Robertson LLP were contracted to perform a review of Derbyshire Pension Fund's ("the Fund") AVC provision, with specific focus on the:

- Range of investment vehicles and coverage of risk profiles
- Performance of investment funds
- Administration performance, including communication with administration authorities, employing authorities, other financial organisations (eg re the transfer of pension pots), and with Fund members
- Costs for Fund members in terms of administration fees, exit charges etc.

The conclusions from the review were summarised and reflected in the recommendations proposed to the Committee.

It was not being proposed at this stage to either stop AVC payments to the legacy providers, or to move AVC members from their existing providers without consent. However, once Equitable Life 'With Profits' policy holders had received their windfall in 2019, and work had been completed on the

implementation of the replacement pensions administration system, that may be an appropriate time to take a more robust approach to running down the Fund's arrangements with its legacy AVC providers.

RESOLVED to approve (1) that Prudential remain as the Fund's principle AVC provider;

(2) that the Fund works with Prudential to develop improved investment options that reflect better members' requirements of their AVC funds;

(3) that the options available to AVC members, particularly those currently saving with the legacy providers, were better communicated with a longer term view towards moving all AVC members to Prudential; and

(4) that a review of the suitability of the Fund's AVC requirements, incorporating an assessment of the value for Fund members, was carried out every three years.

45/18 DERBYSHIRE PENSION FUND RISK REGISTER The Risk Register was kept under constant review by the risk owners, with quarterly review by the Director of Finance & ICT. A copy of both the Summary and Main Risk Registers were presented. The Risk Register had identified three High Risk items:

- (1) Fluctuations in assets and liabilities (Risk No 15);
- (2) Performance deterioration / missed investment opportunities / lost cost savings or duplicated costs caused by LGPS Central transition delays (Risk No 30); and
- (3) Implementation of replacement pension administration system (Risk No 34).

There was an inevitable risk for any pension fund that assets may be insufficient to meet liabilities and fluctuate from one valuation to the next, principally reflecting external risks around both market returns and the discount rate used to value the Fund's liabilities. The Fund constantly monitors its Asset Allocation and had a significant proportion of its assets in growth assets, whilst proactively managing investment risk. The Fund had recently introduced an annual assessment of the Fund's funding position and was considering options for protecting the improvement in funding level following strong market gains since the triennial valuation in March 2016.

It was reported that Hymans Robertson LLP were currently undertaking research on asset liability modelling. When the report was received and the results had been analysed Dawn Kinley would produce a report on the outcomes for the meeting of the Committee in September.

The transition of the Fund's assets into the products offered by LGPS Central is likely to take several years and there was a risk of transition slippage which may lead to a performance deterioration, missed investment opportunities and/or lost costs savings or duplicated management costs. The Fund continued to take a meaningful role in the development of LGPS Central, and had input into the design of the potential product offering to ensure that it would allow the Fund to implement its investment strategy. Furthermore, LGPS Central's transition plans would be monitored by the Joint Committee and the Practitioners' Advisory Forum.

The current pension administration system had failed to meet service requirements and a new system had been procured. A project was now underway to migrate the data and implement the new system. Failure to implement an effective pension administration system would limit the Fund's ability to carry out its statutory administration duties as an administering authority and increase the risk of diminished service standards and potential censure from the Pensions Regulator. A comprehensive project governance regime had been established to support the effective implementation of the new system. A project update was provided in the 'Pensions Administration Quarterly Performance Report' and developments would be reflected in the Risk Register in due course as progress was made.

Members were informed of the addition of one new medium risk during the period in respect of Cyber-Liability Insurance relating to the pensions administration system (Risk No 35).

It was suggested that the risk register could be considered by the Pension Board as part of their remit and also to provide the Committee with a further level of assurance.

RESOLVED to note the risk items identified in the Risk Register.

46/18 COMPLIANCE WITH THE GENERAL DATA PROTECTION REGULATIONS (2016/679) Members were updated on the progress of Derbyshire Pension Fund towards compliance with the General Data Protection Regulations and the Data Protection Act 2018. The GDPR legislation became effective from 25 May 2018.

DPF had worked collaboratively with West Midlands Pension Fund and the Local Government Association to share the associated workload, access legal advice and ensure compliance. A GDPR Implementation Plan had been developed covering all the areas of data transfer, record retention and communication with stakeholders that required attention. The Plan was attached at Appendix A to the report and would be reviewed every quarter to ensure satisfactory progress was being achieved.

RESOLVED to note the progress made against the requirements of the GDPR.

47/18 LOCAL GOVERNMENT PENSION SCHEME (AMENDMENT) REGULATIONS 2018 Members were updated on the changes made to the regulations governing the Local Government Pension Scheme (LGPS) by the introduction of the Local Government Pension Scheme (Amendment) Regulations 2018.

The Amendment Regulations came into force on 14 May 2018 with some provisions backdated to 1 April 2014 when the career average arrangements in the LGPS were introduced. They included new regulations and some minor correcting regulations designed to clarify the existing LGPS regulations and to ensure that the original intention of the regulations was delivered. Some areas which had been included in the consultation, and where policy change was expected, were not included in this set of amendment regulations and these were highlighted. A summary of the main changes introduced by the amendment regulations was presented.

RESOLVED to note the introduction of The Local Government Pension Scheme (Amendment) Regulations 2018.

48/18 LGPS CENTRAL JOINT COMMITTEE MEETING A meeting of the Joint Committee of the LGPS Central Pool had been held in Matlock on 29 June 2018. The Chairman and Vice-Chairman of the Pensions and Investment Committee represented Derbyshire at the meeting. The draft minutes were presented for Members' information.

Members were fully supportive of any proposal to have Trade Union representation on the Joint Committee. Furthermore, it was suggested that members of the Pension Board had a vital role to play and should also be represented at the meetings. Dawn Kinley said this issue was continuing to be debated nationally and she would raise it with the other Pension Funds in the LGPS Central Pool.

RESOLVED that the minutes of the LGPS Central Joint Committee meeting held on 29 June 2018 be noted.

49/18 QUARTERLY PENSIONS ADMINISTRATION PERFORMANCE REPORT 1 APRIL 2018 TO 30 JUNE 2018 (Following legal advice the Chairman agreed to consider this report in the public section of the meeting). The Director of Finance & ICT presented a report on performance levels achieved by the pensions administration team of Derbyshire Pension Fund and other administration activity undertaken in the first quarter of 2018-19 (Q1).

Included in the report were details of performance data, including membership movements, backlog management, achievement against performance standards, employing authority performance, monthly contribution returns, new academies and admission bodies, and application for adjudication of Disputes Procedures cases; communications; governance; development, including procurement of replacement pensions administration system, and projects; and collaboration.

It was reported that between 2013 and 2017, the number of Fund members had increased each year by around 5% from 81,605 in March 2013. While the workload continued to increase, the rate of increase in Fund membership slowed to 1.2% in the last year.

There was, however, the potential for a significant shift of Fund member types from 'Deferred' to 'Pensioner' status, further to the LGPS (Amendment) Regulations 2018 which came into force on 14th May 2018. These Regulations brought forward eligibility for payment of deferred benefits for pre-2014 leavers from age 60 to age 55. There were 4,859 deferred beneficiaries in the DPF aged between 55 and 59 who had, as a result of the change to the regulations, become eligible to claim their retirement benefits. There was no precedent to indicate what the level of take up would be, but it was likely that, even where these beneficiaries continued to defer, they would require detailed estimates outlining the options available to them. This could lead to significantly increased workloads in the short to medium term.

Also, with a view to understanding potential future workloads, an analysis had been carried out of active members within 5 year age brackets. This was highlighted in Table 2 in the report. The table showed that a significant proportion of DPF's active membership was aged between 45 and 60, underlining the need to continue to develop and retain the skilled resource necessary to support Fund members approaching retirement.

Table 3 in the report showed the work that was processed through the system during the quarter. These figures excluded other areas of activity such as dealing with telephone and e-mail queries. It was noted that Aggregations had reduced from 4311 at the beginning of the quarter to 3736 by the end.

'Others' covered numerous work areas including, for example, new joiners, which were uploaded monthly in bulk from the larger employers, changes to members' personal details, GMP input, CARE and PI revaluation updates, and data cleansing activity, which accounted for the majority of these items.

While the figures were generally positive, it was clear that the Team had not kept up this quarter with the number of new deferred beneficiaries being notified by employers, and this was further reflected in the backlog figures in Table 4 in the report. This was partly because the number of these cases being received had increased, as work the Team had done with the larger employers had helped them to clear some of their backlogs of leaver documentation. A

second factor had been staff turnover and reallocation, and new staff had been recruited and were currently being trained. Work areas where backlogs previously existed but had since been cleared included 'New Joiners', 'UPM not updated' and 'Data Cleanse items'. Progress during Q1 against the remaining three measured backlog areas of Transfers, Notification of Deferred Benefits and Aggregate member records was captured in Table 4.

The data recorded for employers' notifications of retirements, refunds and deaths-in-service in Q1 was presented in Appendix B to the report.

The increase in leaver information being received by the Team reflected the success of the engagement work carried out during the year with employing authorities. Further work that had been carried out to support employer performance was reported in Section 4 of the report. However, there was a concern over the promptness of 'Death in Service' notification from employers. The monitoring exercise had identified that, of ten cases during the quarter, just one was notified to the Fund within 30 days. The Team was looking at how it could help employers to improve their performance in this sensitive area. The response of employing authorities to submitting their year-end returns promptly had improved on the previous year. By the end of May 2018, only 5 of 224 employers' returns were outstanding. The Team was continuing to work with the employers to resolve their difficulties.

The accuracy of the data supplied via the year-end returns was generally of a good standard. However, although they were provided within the deadline, two of the returns were inconsistent with the contributions they had paid over and member movements they had reported during 2017-18. The Team had been working with the two employers' payroll suppliers and the issues had now been resolved in one case.

Members thanked Nigel Dowey and his team for all the work they had carried out.

RESOLVED to note the workloads and performance levels outlined in the report.

50/18 **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 13 June 2018 (contains exempt information)

2. To consider the exempt reports of the Director of Finance and ICT on:-
 - (a) Proposed Investment in Infrastructure
(contains information relating to the financial of business affairs of any particular person (including the Authority holding that information))
 - (b) Stage 2 Appeal under the LGPS Application for Adjudication of Disagreement Procedure
(contains information relating to any individual)