

MINUTES of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE** held at County Hall, Matlock on 31 October 2018

PRESENT

Councillor J Perkins (in the Chair)

Derbyshire County Council

Councillors R Ashton, N Atkin, J Boulton, P Makin, S Marshall-Clarke, R Mihaly, B Ridgway

Derbyshire County Unison

Mr M Wilson

Apologies for absence were received on behalf of Councillor M Carr (Derby City Council)

61/18 **MINUTES RESOLVED** that the minutes of the meeting held on 11 September 2018 be confirmed as a correct record and signed by the Chairman.

62/18 **INVESTMENT STRATEGY STATEMENT CONSULTATION REPORT** Members were informed of the outcome of consultation in respect of Derbyshire Pension Fund's revised Investment Strategy Statement (the ISS) and approval was sought for the ISS.

The ISS was approved by the Committee on 11 September 2018, subject to the outcome of consultation with the Fund's stakeholders. The consultation process opened on 12 September 2018 and ran until 28 September 2018.

Stakeholders in Derbyshire Pension Fund (the Fund) were asked for their comments on the ISS. Members of the Pension Board were asked at the Pension Board meeting on 11 September 2018 to feedback any comments on the ISS to officers. The consultation was advertised on the County Council's website and there was a link to the consultation from the Derbyshire Pension Fund section of the website. Details of the consultation were also included in the September Employer Newsletter which was sent to all the Fund's employers.

Stakeholders were asked to submit comments either by an email link from the consultation page on the County Council's website or by post. The Fund received three email responses to the consultation, which were detailed in the Director of Finance & ICT's report.

No changes to the ISS were recommended following the consultation. The Fund had a strategy of engagement to influence behaviour and enhance value rather than exclusion and the ISS made it clear that ESG factors would be taken into consideration alongside conventional financial considerations within the investment process.

The Strategic Asset Allocation Benchmark contained within the ISS would be adopted from 1st January 2019 and the asset allocation recommendations taken to the December Pensions and Investments Committee would be based on the revised benchmark.

The recent launch of Derbyshire Pension Fund's website and the continued development of employer engagement were expected to increase the level of stakeholder participation in any future consultations.

RESOLVED to confirm that no changes to the revised Investment Strategy Statement are required based on the outcome of the consultation and approve the revised Investment Strategy Statement set out in Appendix 1 to the report.

63/18 QUARTERLY PENSIONS ADMINISTRATION PERFORMANCE REPORT 1 JULY 2018 – 30 SEPTEMBER 2018 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 second quarter of 2018-19 (Q2).

Included in the report were details of performance data, including membership numbers, throughput, 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 and regulations; projects and collaboration and training.

The number of Active member records has reduced during Q2, having risen consistently over the last five years. This reflects the work now being undertaken by DPF's larger employers, with the support of the DPF team, to tackle their own backlogs of leavers.

Of the leavers notified to DPF during Q2, 199 qualified for refunds, 655 for deferred benefits, 268 for pension benefits to be put into payment, and 54 opted for transfers out. Despite this, the number of 'Deferreds' recorded in Table 1 of the report had only increased marginally. This reflects the impact of the work on 'Aggregations', which involves joining two or more deferred cases together, and the increase in deferred beneficiaries deciding to take their pension benefits early and, as a result, moving into the category of 'Pensioner'.

There were 283 such cases processed during Q2, including 62 of those between ages 55 and 59 who became entitled to early payment further the

LGPS Amendment Regulations reported to Committee in August 2018. This compared with just 186 such cases processed during Q1. The work of the Team in raising members' awareness of their entitlements under the Local Government Pension Scheme (LGPS) is likely to have contributed to the increased number of early retirements from deferred status now being processed by the Team.

The Team would continue to monitor, report and analyse the changing trends in Membership Figures which are fundamental in DPF's funding and investment strategy decisions and in determining employer contribution rates.

The throughput figures in Table 2 of 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 email queries.

In comparison with Q1's throughput figures, 3,546 more cases were closed in Q2. However, as the incoming workload in Q2 was greater than Q1 by 6,545 cases, there were more cases in progress at the end of Q2 than at the start.

Part of this increase in workload had been due to data cleansing work ahead of the migration of data to the new system. These figures also clearly reflect the increase in the number of leaver forms being received from the larger employers.

The statutory timescales against which performance was currently measured were set by The Occupational Pension Schemes Regulations 1996, and are attached at Appendix A to the Director of Finance & ICT's report. Table 4 of the report captured achievement against these targets in Q1 and Q2.

The data recorded for employers' notifications of retirements, refunds and deaths-in-service in Q2 is presented in Appendix B to the Director of Finance & ICT's report.

The figures represented an improvement on Q1 and it was likely that the majority of the late notifications of retirements and refunds were due to the backlog clearing work at the larger employers.

There is a statutory requirement for employers to remit contributions by the 19th of the month following deduction from payroll. Employer performance in this area during Q2 was detailed in the report

Employing authorities whose payment and/or related documentation, has been received late on three occasions or more, had received a letter explaining that they have accrued a charge under the terms of the Pensions Administration Strategy. An invoice for the amount accrued would be sent, along with invoices relating to future underperformance, if statutory compliance was not achieved by that employer each month for the remainder of 2018/19.

Twenty-two new academies joined the Fund as scheme employers during Q2 2018/19.

There was one AADP case considered by Pensions and Investment Committee during Q2.

Details of the communications activity undertaken was detailed in the report.

The Pensions Regulator's Annual Scheme Return requirements were received in September 2018. Arrangements were in place to complete and return the information requested ahead of the target date of 6th November 2018.

In relation to the replacement Pension Administration System, work had continued to prepare letters and workflow processes for the new system, further data cleansing had taken place, and some training had been received by the Project Team. However, supplier problems with converting and migrating the data from the current system would push back the implementation date from November 2018 into Q4 18/19.

With regard to Guaranteed Minimum Pension (GMP) Reconciliation it was anticipated that the deadlines of October 31st 2018 for the submission of queries to HMRC, and 31st December 2018 for the resolution of pensioner cases would be achieved, subject to any further pensioner cases being identified.

Members of the DPF team have continued to learn, share and network with colleagues from other Funds and the wider industry at a number of events during Q2 and had continued to develop their skills and knowledge.

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.

64/18 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 was 86.7% funded at 31 March 2016 and the long term target was set out in the Funding Strategy Statement was to eliminate the deficit by 2032. The Fund constantly monitors its Asset Allocation and has 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 in the process of introducing a new Strategic Asset Allocation Benchmark as part of a revised Investment Strategy Statement (ISS) to protect an improvement in the Fund's funding level following strong market gains since the triennial valuation in March 2016.

The transition of the Fund's assets into the products offered by LGPS Central Ltd. (LGPSC) was 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 LGPSC, 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. At the June 2018 meeting of the Joint Committee, Members encouraged LGPSC to consider accelerating the timetable for the delivery of products.

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 increased 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. Data conversion and mapping difficulties would push the implementation date of the new system into the first quarter of 2019. The new supplier had provided reassurance to the project oversight board with a credible plan for resolving the difficulties.

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

65/18 DERBYSHIRE PENSION FUND ANNUAL REPORT Members were asked to receive and approve the publication of the Pension Fund Annual Report for 2017-18.

In accordance with the Local Government Pension Scheme Regulations 2013, the Administering Authority must prepare and publish an Annual Report (the Report) for the pension fund (the Fund) on or before 1 December following the year end.

Members had been provided with a copy of the report in advance of the meeting.

The Report was split into six sections and covers:

- Information on the governance, management & financial performance of the Fund;
- Investment policy and performance for the year to March 2018

Arrangements for the administration of the Fund;

- Fund activity – membership and employer statistics;
- The actuarial report; and
- The Fund's Statement of Accounts 2017-2018.

The Fund's Statement of Accounts also formed part of the County Council's Accounts which had already been considered and approved by the County Council's Audit Committee.

Also included was the external auditor's opinion, which confirmed that the information contained within the Annual Report was consistent with the Fund's Statement of Accounts for 2017-2018. It also confirmed that the statements had been properly prepared in accordance with accounting standards and gave a fair view of the Fund's transactions during the year and its assets and liabilities at the year end.

The Appendices set out copies of the Governance Policy & Compliance Statement, Investment Strategy Statement, Actuarial Valuation Report 2016, Funding Strategy Statement, Schedule of Employees' and Employers' Contributions, Communications Policy Statement, Pensions Administration Strategy and Common and Conditional Data Certificate.

Members were asked to note that the Investment Strategy Statement included in the Annual Report was the version approved by Committee on 20th March 2017, which applied in the 2017-2018 period. A copy of the revised

Investment Strategy Statement, once approved, would be included in next year's Annual Report.

RESOLVED to approve the publication of the Pension Fund Annual Report as required by the regulations.

66/18 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 11 September 2018 (contains exempt information)

67/18 EXEMPT MINUTES RESOLVED that the exempt minutes of the meeting held on 11 September 2018 be confirmed as a correct record and signed by the Chairman.