PUBLIC Agenda Item 3

MINUTES of a meeting of the **PENSIONS AND INVESTMENTS COMMITTEE** held at County Hall, Matlock on 23 January 2019

PRESENT

Councillor N Atkin (in the Chair)

Derbyshire County Council

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

Derbyshire County Unison

Mr M Wilson, Mr N Reed, and Ms K Gurney

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

01/19 **MINUTES RESOLVED** that the minutes of the meeting held on 12 December 2018 be confirmed as a correct record and signed by the Chairman.

02/19 **ACTUARIAL VALUATION TRAINING – HYMANS ROBERTSON** Geoff Nathan and Barry Dodds from Hymans Robertson attended the meeting and provided some training for members on Actuarial Valuation.

The Chairman thanked Geoff and Barry for their most informative presentation, a copy of which would be circulated to members.

03/19 **PENSIONS AND INVESTMENTS COMMITTEE TERMS OF REFERENCE** Members were asked to consider updated terms of reference for the Pensions and Investments Committee.

The terms of reference for Derbyshire County Council committees were being reviewed as part of the review of the Council's Constitution. The Constitution was due to be presented to Full Council on 6 February 2019.

The draft updated terms of reference for the Pensions and Investments Committee, attached as Appendix 1 to report of the Director of Finance and ICT, set out the Committee's responsibilities for:

- Approving and monitoring performance targets
- Reviewing and approving statements, strategies and policies
- Receiving and considering reports
- Ensuring arrangements are in place

- Making appointments
- Investment Pooling

The terms of reference for the Committee, attached at Appendix 2 to the report were last amended by Council in February 2017 to accommodate the transition of Derbyshire Pension Fund's assets to the management of LGPS Central Ltd. This was now expected to take longer than originally envisaged; therefore, the Committee would remain responsible for appointing external fund managers for segregated mandates in advance of the management of the investment assets transitioning to the investment pool.

RESOLVED that the draft updated terms of reference for the Pensions and Investments Committee, attached as Appendix 1 to the report, be recommended for approval by Full Council.

04/19 **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 as set out in the Funding Strategy Statement was to eliminate the deficit by 2032. The Fund introduced an annual assessment of the Fund's funding position last year and a further assessment had been carried out at December 2018. Whilst the Fund had a significant proportion of its assets in growth assets, the newly agreed Strategic Asset Allocation Benchmark introduced a lower exposure to growth assets with the aim of protecting the 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

performance deterioration and/or lost costs savings or duplicated management costs caused by transition delays. 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.

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. Data conversion and mapping difficulties had pushed 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. Twice weekly calls were taking place between the Chief Executive of the new supplier and the Head of the Pension Fund and User Acceptance Testing was progressing well.

The risk item "Failure to complete GMP Reconciliation exercise promptly" had been removed from the Risk Register. The risks identified under this item were that GMP-related pensioner overpayments may continue longer than necessary, and that the Fund may have to take responsibility for GMP-related liabilities that it had previously discharged. The reason for the removal of this item was that the key elements of the exercise had been completed by the target dates thereby eliminating the two risks identified. No new risks had been added to the Risk Register this quarter.

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

05/19 LOCAL GOVERNMENT PENSION SCHEME COST MANAGEMENT Members were informed of anticipated changes to the Local Government Pension Scheme (LGPS) Regulations further to a review of the costs of public sector pension schemes by Her Majesty's Treasury (HMT).

A cost cap mechanism was introduced as part of the Public Service Pensions Act 2013 which is aimed at ensuring that public service pension schemes remain affordable and sustainable.

Under the mechanism, a fixed floor and fixed ceiling of contribution levels was set. If the costs of the scheme breached the floor or exceeded the ceiling, action was taken to bring costs back in line with a target cost via a review of benefits and/or member contribution changes.

Cost management for the public service pension schemes was currently taking place under HMT directions. In September 2018, HMT announced that early indications in some schemes showed that the cost cap floor had been breached with the following information helping to explain the fall:

- A reduction by the Office for Budget Responsibility in its forecasts of short term pay growth and a change in the period over which these forecasts apply, meaning that accrued final salary pensions were now expected to be less costly; and
- The latest population projections from the Office for National Statistics showed forecasts of future life expectancy had reduced, meaning that pensions would typically be paid for a shorter period than previously expected.

In some of the unfunded public service schemes, including the Police, Fire, Teachers' and NHS schemes, indicative outcomes have seen breaches of the cost cap floor requiring benefit improvements in excess of 3% of payroll.

The report gave details of the LGPS Cost Gap Mechanism; the target costs; triggers and provided a summary of the SAB Review

It is anticipated that consultation on thee proposals would be published in late January/early February 2019 with a view to the new regulations taking effect from 1st April 2019.

The SAB had identified that implementation of revised regulations from 1 April 2019 would provide a significant challenge for Administering Authorities and had proposed to HMT and MHCLG that implementation of any changes wass delayed, however, indications were that the implementation date was unlikely to be changed. The SAB had, therefore, "strongly suggested" to MHCLG that:

- The consultation be as short as possible; and
- A letter of comfort be issued as soon as is legally possible to allow administering authorities and software providers to anticipate the changes to regulations and employers to implement new contribution rates.

The Pension Fund Team would ensure that the Fund's employing authorities were made aware of and kept up to date with the potential changes, particularly those relating to ill-health and early retirement so that any decisions for processes under consideration may be made with awareness of the potential changes. The Team would also work with employers to seek their assistance in cascading information to their scheme members.

The HMT ECC process would be completed once the outcome of the SAB proposals and subsequent consultation is known.

LGPS fund valuations, used to determine local employer contributions, currently took place on a triennial basis and the LGPS national scheme valuation, used to test the employer cost cap mechanism, was originally aligned with the LGPS local valuation cycle. However, the other major public service schemes undertook quadrennial valuations, with the next one due in 2020. HMT wanted to bring the LGPS national scheme valuation onto the same quadrennial cycle as the other public service schemes. Discussions were ongoing regarding the implications of such a move for local fund valuations.

The Government Actuary was going to review the cost cap mechanism to check whether it was working as intended and delivering the government's objectives before the next round of quadrennial valuations.

RESOLVED that the report be noted.

06/19 QUARTERLY PENSIONS ADMINISTRATION PERFORMANCE REPORT 1 OCTOBER 2018 – 31 DECEMBER 2018 The Director of Finance & ICT presented a report on performance levels achieved by the pension's administration team of Derbyshire Pension Fund and other administration activity undertaken in the THIRD quarter of 2018-19 (Q3).

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.

The number of Active member records has increased by 5 % during Q3, and had occurred almost entirely in October 2018. Schools and other educational establishments usually experienced a high intake of new staff early in September each year, and information pertaining to those joining the LGPS was received and processed by the Team during the following few weeks

The throughput figures detailed 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 email queries.

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

Where backlog areas have been identified, they are being managed towards achieving consistent compliance with statutory targets. Work areas where backlogs previously existed but have since been cleared include 'New Joiners', 'UPM not updated', 'Data Cleanse items' and 'Transfers'. Transfers

work was no longer defined as a backlog area due to the achievement of a 'business as usual' position during Q3.

The statutory timescales against which performance was currently measured were set by The Occupational Pension Schemes Regulations 1996, and were attached at Appendix A to the Director of Finance and ICT's report. Table 4 of the report captured performance against these targets in each quarter of 2018/19 so far. The figures of 3% and 4% against 'Notification of Deferred Benefits' continue to reflect the low priority level attached to this work relative to work areas that result in immediate payments to Fund members. It was not expected that performance in this area would not improve significantly until after the replacement pension's administration system was well established. At that point it was intended to review the current approach to performance reporting and to adopt a more demanding set of targets.

The data recorded for employers' notifications of retirements, refunds and deaths-in-service in Q3 was presented in Appendix B to the report.

There was a statutory requirement for employers to remit contributions by the 19th of the month following deduction from payroll. Employer performance in this area during Q3 was detailedin the report:

Due to the collation of responses a month after contributions are due, the report only included a full set of figures from the first two months of Q3 2018/19.

Employing authorities whose payment and/or related documentation, had been received late on three occasions or more, had received a letter explaining that they had 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.

Furthermore, a late contribution return represented a statutory breach and each case was being recorded. Where remedial efforts, including charging, were not successful in improving employer performance, this evidence would be used in support of the submission of a report to The Pension Regulator.

Six new academies joined the Fund as scheme employers during Q3 2018/19.

There was one AADP case considered by Pensions and Investment Committee during Q3**.**

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

The Pensions Regulator's Annual Scheme Return was completed and submitted within the target date of 6th November 2018.

In relation to the replacement Pension Administration System, the new system was planned to ‘go live’ on 25 February 2019. Time and resource had been dedicated during Q3 to migrating the data from the current system and setting up the processes, calculations and letters in the new system. It was likely that the quarterly performance data provided to Committee would be less comprehensive during the transition period to the new system. A verbal update would be provided at the meeting.

With regard to Guaranteed Minimum Pension (GMP) Reconciliation, the deadlines of October 31 2018 for the submission of queries to HMRC, and 31 December 2018 for the resolution of ‘pensioner in payment’ cases had each been achieved, subject to any further pensioner cases being identified. The risk associated with missing these had been removed from the Pension Fund Risk Register.

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 Q3 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.

07/19 **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 12 December 2018 (contains exempt information)

2. To consider the report of the Director of Finance & ICT on Stage 2 Appeal under the Local Government Pension Scheme application for Adjudication of Disagreement Procedure (contained information relating to an individual).