

PUBLIC

MINUTES of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE** held at County Hall, Matlock on 24 January 2018

PRESENT

Councillor J Perkins (in the Chair)

Derbyshire County Council

Councillors R Ashton, N Atkin, A Fox, P Makin, S Marshall-Clarke and R Mihaly

Derby City Council

Councillor M Carr

Derbyshire County Unison

Mr M Wilson

Apologies for absence were submitted on behalf of Councillor B Ridgway

1/18 **MINUTES RESOLVED** that the minutes of the meeting held on 12 December 2017 be confirmed as a correct record and signed by the Chairman.

2/18 **MATTERS ARISING – LGPS – Adjudication of Disagreements Procedure (Minute No.62/17)** At the last meeting of the Committee it was agreed that this report would be deferred until the January 2018 meeting. Officers were still considering the comments made at that meeting but would discuss the issue with Members if they so wished.

3/18 **ARRANGEMENTS FOR THE PROVISION OF SERVICES TO THE PENSION FUND BY THE COUNCIL** Mr Handford, the Director of Finance and ICT informed the Committee of changes within the Finance and ICT Division to meet the ongoing needs of Derbyshire Pension Fund in anticipation of investment management and pooling within LGPS Central.

As part of the process to create LGPS Central, the Pensions and Investment Committee had been regularly updated on developments and council staff had been closely involved in setting up the new operating company. Full Council approved Derbyshire Pension Fund's participation in the LGPS Central Pool at its meeting on 8 February 2017.

The business case for the company set out the role the company would take in the investment of the Fund's assets and identified substantial cost

savings for the Fund over the long term. The company would take over responsibility for the management of the majority of the investment assets over time and at least seven out of Derbyshire's eleven internal investment staff would transfer into the LGPS Central Ltd. Whilst the transfer of certain functions to LGPS Central resulted in a staff transfer, many of the functions that the team currently performed would remain with the Council. In particular, the in-house team would retain responsibility for governance and asset allocation, noting that asset allocation was the single largest driver of investment returns.

The current staffing structure supporting the Fund was identified in Appendix 1 to the report. Governance matters were dealt with by the Director of Finance and ICT, the Head of Investments and the Pensions Manager together. Various staffing changes over the past year and the addition of ICT responsibilities to the role of the Director of Finance had reduced the amount of time the Director of Finance and ICT could spend on pension fund matters. The proposed restructuring reflected the arrangements necessitated by the creation of LGPS Central, including the requirement to hold the new operating company to account and to ensure the provision of the vehicles required to deliver the Fund's investment strategy. It also reflected the need to rebuild senior capacity within the division.

In consideration of the structure required, a revised proposal detailed in Appendix 2 to the report was agreed by Cabinet in December 2017. The new posts had been evaluated at Grade 16 for the Head of Pension Fund role and Grade 15 for the new Investment Manager role; both positions needed to be filled by suitably qualified and experienced investment professionals. At present, a market supplement was paid to the Head of Investments and to the Fund Managers. There was a recognition that the new Head of Pension Fund and Investment Manager grades did not provide equality with similar roles at other local authorities, or at LGPS Central who would have staff based on the County Hall site. Cabinet agreed market supplements for the new posts to ensure that the Fund could attract and retain the required specialist investment skills needed for both of these essential roles.

RESOLVED to note the revised arrangements outlined in the report.

4/18 PRESENTATION BY THE FUNDS ACTUARY – HYMANS ROBERTSON Stacey McLean and Richard Warden from Hymans Robertson attended the meeting and provided Members with insight into the role of the actuary.

The Chairman thanked Ms McLean and Mr Warden for their most informative presentation, a copy of which would be circulated to members. Members also suggested that a presentation on cash flow modelling at a future meeting would be very useful.

5/18 DERBYSHIRE PENSION FUND RISK REGISTER The Pensions and Investment Committee last received the full Risk Register in November 2017. Members were presented with a report which reflected a quarterly update.

The Risk Register continued to identify four High Risk items in line with the last report to Committee, although the risk score for Risk No. 21 had reduced from 16 to 12:

- (1) Fund assets insufficient to meet liabilities/fluctuations in assets & liabilities (Risk No 14);
- (2) The Fund was left with insufficient investment skills and experience post the launch of LGPS Central in April 2018 (Risk No 21);
- (3) Performance deterioration / missed investment opportunities / lost cost savings or duplicated costs caused by LGPS Central transition delays (Risk No 29); and
- (4) Procurement and implementation of potential replacement pension administration system (Risk No 33).

There was an inevitable risk for any pension fund that assets could 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 monitored its Asset Allocation and had a significant proportion of its assets in growth assets, whilst proactively managing investment risk. The Fund was also introducing an annual assessment of the Fund's funding position in addition to the triennial valuation.

There was a risk that the launch of LGPS Central in April 2018 would leave the Fund with insufficient investment skills and experience to discharge its ongoing responsibilities, including strategic asset allocation and monitoring the development and performance delivery of LGPS Central. As Members had already been informed, a new staffing structure was approved by Cabinet in December 2017. The structure included the creation of new roles in respect of Head of Pension Fund and Investment Manager. The role of Head of Pension Fund was successfully recruited to in early January 2018, and the role of Investment Manager was currently being recruited. The approval of a new structure and successful recruitment of a Head of Pension Fund had resulted in the Risk Score falling from 16 to 12, and the Risk Score was expected to fall to the Target Score of 8 following the successful recruitment of an Investment Manager in early February 2018.

The Risk Register report presented to the Committee in November 2017 included a High Risk item (Risk No 29) in respect of a performance deterioration and/or missed investment opportunities caused by lack of ability to retain and recruit experienced staff resources. The launch of LGPS Central in April 2018,

together with the new staffing structure noted above, had reduced this risk. However, Risk No 29 had been updated to reflect the risk that the transition of the Fund's assets into the products offered by LGPS Central 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. Furthermore, it was likely that the Fund would need to directly manage some investments for a period of time to come. Once LGPS Central had completed the recruitment of its senior investment team, a more detailed transition timetable should be available, and this will be reported to Committee. LGPS Central's transition plans would also be monitored through the Practitioners' Advisory Forum.

The current pension administration system had failed to meet service requirements and a new system was currently being procured, Cabinet approval was received on 11 January 2018 to award a contract to a preferred bidder. There was an inevitable risk that the Fund failed to procure an effective new system or failed to migrate data accurately resulting in continued inadequate systems support. To mitigate this risk, the Council's ICT team had completed a detailed risk assessment to support the procurement process and appropriately skilled resource was being allocated to the project, including the establishment of a project board. Members requested that they were given regular updates on the new system and a report detailing milestones and targets. It was envisaged that the project board would provide such information.

RESOLVED to note the current High Risk items identified in the Risk Register.

6/18 LOCAL AUTHORITY PENSION FUND FORUM The Local Authority Pension Fund Forum existed to promote the long-term investment interests of UK local authority pension funds and in particular to maximise their influence as investors to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invested, commensurate with statutory regulations. In accordance with Provision 15 of the Forum's 2017 Constitution, members must nominate two persons who may act as Authorised Representatives for its dealings with the Forum and at least one Authorised Representative must be a councillor or trustee equivalent. It was proposed that the Chairman or the Vice Chairman of the Committee (to be determined by the Chairman of the Committee) and the Head of Pension Fund were nominated as the Authorised Representatives of Derbyshire Pension Fund. Authorised Representatives may nominate in writing a proxy to act on their behalf at General Meetings of the Forum.

RESOLVED to approve the nomination of the Chairman or Vice-Chairman of the Committee and the Head of Pension Fund as Derbyshire Pension Fund's Authorised Representatives for dealings with the Local Authority Pension Fund Forum.

7/18 DERBYSHIRE PENSION FUND PENSIONS ADMINISTRATION STRATEGY

The Pensions Administration Strategy was initially considered and approved by the Committee in April 2015. A number of significant changes had taken place in pension fund administration since then. One of the most significant changes was the development of the Pension Regulator's (TPR) role with regard to Public Service Pension Schemes, including the LGPS. It was now required by TPR that the fund was able to demonstrate that it had taken every available step to ensure that employers understood and could carry out their LGPS responsibilities, particularly in regard to the provision of Fund member information. The Derbyshire Pension Board had also highlighted the importance of the relationship between the Fund and its employers, as well as the need to measure and improve the efficiency of data and information transmission.

A review of the Pensions Administration Strategy had therefore been undertaken and the revised Derbyshire Pension Fund Pensions Administration Strategy, which was attached at Appendix 1 to the report, set out the administration protocols between employers and the fund.

RESOLVED to approve the Derbyshire Pension Fund Pensions Administration Strategy 2018.

8/18 DERBYSHIRE PENSION FUND COMMUNICATIONS STRATEGY

The Communications Strategy 2015-16 was considered and approved by the Committee at its meeting on 29 April 2015. A number of significant changes had taken place in pension fund administration since then, both nationally, for example the increasing level of scrutiny, and locally, such as the change in systems strategy.

A review of the communications strategy had therefore been undertaken and the revised Strategy, which was attached at Appendix 1 to the report, described the direction in which the Pension Fund proposed to go in order to ensure that the employing authorities and Pension Fund members in Derbyshire received the best possible pensions administration service.

RESOLVED to approve the Derbyshire Pension Fund Communication Strategy 2018-20.

9/18 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 12 December 2017 (contains exempt information)
2. To consider the exempt reports of the Director of Finance and ICT on:-
 - a) Quarterly Pensions Administration Performance Report – 1 October 2017 to 31 December 2017
 - b) Local Government Pension Scheme Investment Pooling
(contains information relating to the financial or business affairs of any particular person (including the Authority holding that information))