

MINUTES of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE**
held at County Hall, Matlock on 26 October 2016

PRESENT

Councillor D J Wilcox (in the Chair)

Derbyshire County Council

Councillors S Brittain, R Davison, S J Ellis, S Freeborn, J Innes, R A Parkinson and D Williams (substitute member)

Derby City Council

Councillor M Carr

An apology for absence was received from Councillor S Marshall-Clarke

70/16 **MINUTES RESOLVED** that the minutes of the meeting held on 7 September 2016 be confirmed as a correct record and signed by the Chair.

71/16 **PRESENTATION FROM THE ACTUARY** The Committee received a presentation from the Geoff Nathan, Hymans Robertson (the Fund's Actuary), on the Funding Strategy Statement. The guidance for this had been amended from the 2012 version, and the key aspects were discussed. In terms of next steps, a first draft of the Funding Strategy Statement had been produced, and this would be presented to the Committee prior to it being circulated to employers for consultation. It was agreed that the Director of Finance should have first sight of the draft, and the Committee could then consider any comments that had been raised.

A presentation was also given on employer monitoring. The potential issues surrounding this were stated, along with understanding employer characteristics and examples of quantifying employer risk. An employer questionnaire had been developed which asked a wide range of questions. Details were provided around setting contribution rates at 2016, and it was noted that everything was brought together in the Funding Strategy Statement.

The Committee received a further presentation on the draft 2016 initial valuation results. The 2016 key assumptions were reported, along with the initial whole fund valuation results. At 31 March 2016, the deficit had decreased to £563m and the funding level had increased to 86.7%. Details were also provided of the change in market conditions, the investment return vs expected return, the overall impact on the deficit, and the whole fund valuation results.

72/16 DERBYSHIRE PENSION FUND RISK REGISTER The latest Risk Register was presented to the Committee. Since August 2016, no items had been removed from the Risk Register, and no new items had been added. Four high risk items had been identified – failure to recruit and retain suitable staff, overreliance on key individuals, funding, and fluctuations in assets and liabilities.

Staff recruitment and retention had been a long term issue for both the Pension and Investment sections. The risk was partly mitigated through staff training and development, although it remained challenging given current public sector pay constraints. The recruitment and retention of Fund Managers was currently supported by a market supplement, and the target was to move this risk, and the risk relating to overreliance on key individuals, towards a medium risk score by reviewing the organisational structure to identify progression opportunities, establishing internal training systems and working to achieve appropriate and sustainable salary levels.

It was an inevitable risk for any pension fund that assets could be insufficient to meet liabilities and fluctuate from one valuation to the next. The Fund was currently 82% funded, and the long term target was to eliminate the deficit by 2032. The preliminary results from the 2016 actuarial valuation would be available shortly. The Fund constantly monitored its asset allocation, and had a significant proportion of its assets in growth assets, whilst proactively managing investment risk.

RESOLVED to note the current Risk Register.

73/16 LOCAL GOVERNMENT PENSION SCHEME INVESTMENT REGULATIONS In November 2015, the Government had published a consultation document – Local Government Pension Scheme: Revoking and Replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 together with the draft Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The 2009 Regulations had been designed to ensure that the Local Government Pension Scheme funds were properly and effectively managed by administering authorities, and had contained restrictions on the proportion of fund assets that could be invested in different vehicles to ensure that authorities had established balanced and diversified portfolios. Consideration of the implications of creating asset pools amongst authorities had led to a review of the 2009 Investment Regulations.

The 2016 Regulations removed some of the existing prescribed means of securing a diversified investment strategy, and instead placed the onus on

authorities to determine the balance of their investments and take account of risk. Authorities would be expected to demonstrate that they had considered the suitability of different types of investment, had ensured an appropriately diverse portfolio of assets, and had ensured an appropriate approach to managing risk. A key feature of the 2016 Regulations was the requirement to publish an Investment Strategy Statement by 1 April 2017, and the statement had to cover a range of issues.

The authority's Strategy would need to set out the maximum percentage of the total value of all investments of fund money that it would invest, and the authority would be required to consult such persons as it considered appropriate regarding the proposed contents of its investment strategy. The Investment Strategy Statement had to be reviewed at least every three years. Under transitional arrangements, key elements of the 2009 Regulations relating to investment policies would continue in force until such time that the Investment Strategy Statement was published, and there would no longer be a requirement to maintain a Statement of Investment Principles.

The 2016 Regulations introduced safeguards to ensure that the more flexible legislation was used appropriately, and in the best long term interests of scheme beneficiaries, and that the guidance on pooling assets was adhered to. Where there was evidence to suggest that an authority was failing to act in accordance with the guidance, the Secretary of State would have the power to intervene in the investment function of an administering authority. Full consultation with the authority would be required to ensure that the power was used 'appropriately, proportionately and only where justified by the evidence' as stated by the DCLG Local Government Pension Scheme – Guidance on Preparing and Maintaining an Investment Strategy Statement'.

A proposed Investment Strategy Statement would be presented to the January 2017 meeting of the Pension and Investment Committee, leaving sufficient time for consultation to take place with the relevant stakeholders ahead of final approval in March 2017.

RESOLVED to note the report.

74/16 THE DEVELOPMENT OF A PERFORMANCE MANAGEMENT REGIME IN THE ADMINISTRATION OF THE DERBYSHIRE PENSION FUND

The Civica UPM Pensions Administration System had been introduced in December 2014. An area of the system's functionality that had required development by the Pensions Team was its ability to produce accurate management information. The priority information items had been operational reports and identifying key events for Fund members. Having established this level of reporting, attention had turned to producing performance management information, and there were two aspects to this – identifying how many of each

particular type of case was completed each month, and identifying how successful the team was in achieving its targets for completion.

The report development work continued, and the information that the team was able to produce was becoming more sophisticated. The data in the system could be pulled together to give totals of the major work area items completed each month, and the totals for the first six months of 2016/17 were presented. The total number of work items being completed each month had increased over the last six months, from 737 in April to 1097 in September. This enabled the Pensions Management Team to quantify the positive impact of recent process and structural changes, and send a positive message to staff. The figures would also help with the accuracy of resource planning going forward.

Progress had also been made towards identifying how promptly work was being completed in relation to national targets, and it was the intention to present the figures at the next meeting of the Committee. Both sets of figures would be presented every six months.

RESOLVED to note the progress being made on developing performance information.

75/16 **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 7 September 2016
2. To consider the exempt reports of the Director of Finance on:-
 - a) Proposed Investment in Multi-Asset Credit (contains information relating to the financial or business affairs of any particular person (including the Authority holding the information))
 - b) Stage 2 Appeal under the Local Government Pensions Scheme Application for Adjudication of Disagreement Procedure (contains information relating to an individual)
 - c) Notification of Referral of a Complaint against Derbyshire Pension Fund to the Pensions Ombudsman (contains information relating to an individual)