PUBLIC

MINUTES of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE** held at County Hall, Matlock on 22 January 2020

PRESENT

Councillor N Atkin (in the Chair)

Derbyshire County Council

Councillors T Ainsworth (substitute Member), R Ashton, R Flatley (substitute Member), S Marshall-Clarke, M Wall (substitute Member) and G Wharmby (substitute Member)

Derby City Council

Councillors M Carr and L Eldret

Derbyshire County Unison

Mr M Wilson

Also in attendance – N Dowey, D Kinley, K Riley and N Smith.

R Graham, O Fishburn and N Read (Pension Board members)

Apologies for absence were received on behalf of Councillors J Boult, P Makin, R Mihaly, J Perkins and B Ridgway.

1/20 **MINUTES RESOLVED** that the minutes of the meeting held on 11 December 2019 be confirmed as a correct record and signed by the Chairman.

2/20 **GOVERNANCE IN THE LOCAL GOVERNMENT PENSION SCHEME** Members were informed of recent reports on governance in the Local Government Pension Scheme (LGPS) from the LGPS Scheme Advisory Board (SAB) and The Pensions Regulator, and to note the intention of officers to work with Derbyshire Pension Board to develop the governance arrangements of the Pension Fund.

In February 2019, the SAB appointed Hymans Robertson (Hymans) to examine the effectiveness of LGPS governance models and to consider alternatives or enhancements to existing models which could strengthen LGPS governance arrangements. Hymans were particularly asked to look at potential conflicts of interest between the pension function of administering authorities and their host local authority. They engaged extensively with stakeholders and considered four governance models. The key findings from the resulting Good Governance Report were presented.

In August 2019, the SAB appointed Hymans to assist two working groups in the next phase of the good governance project. These were Standards and Outcomes Workstream, and Compliance and Improvement Workstream. The Phase II Report which contained the proposals of both workstreams was published in November 2019 and was attached at Appendix 1 to the report. It was envisaged that all the proposals made in the report would be enacted via the introduction of new statutory governance guidance (the Guidance) issued on behalf of MHCLG. The main proposals were highlighted.

The SAB subsequently agreed, that's its Secretariat, in conjunction with the project team at Hymans and scheme stakeholders, should proceed to develop Phase III of the project, including developing drafting statutory guidance on governance compliance statements and establishing a set of key performance indicators. Final proposals for Phase III of the project were due to be considered by the SAB in early February 2020.

The recent SAB and TPR governance reports would be taken into consideration in the Derbyshire Pension's Fund's ongoing review of its governance arrangements. In particular, the reports would help to inform the Fund's review of its policies and procedures and assist with the identification of areas where Fund specific policies should be developed. Officers would work with Derbyshire Pension Board to develop the governance arrangements of the Fund to comply with the new statutory governance guidance as it is developed and to emulate best practice.

RESOLVED to (1) note the recent LGPS governance reports from SAB and TPR; and

(2) note the intention of officers to work with Derbyshire Pension Fund to develop the governance arrangements of the Fund.

3/20 QUARTERLY PENSION ADMINISTRATION PERFORMANCE REPORT 1 OCTOBER 2019 TO 31 DECEMBER 2019 A report from the Director of Finance & ICT was presented on performance levels achieved by the pensions administration team of Derbyshire Pension Fund and other activity undertaken in the third quarter of 2019-20 (Q3).

The statutory timescales against which performance was currently measured were set by The Occupational Pension Schemes Regulations 1996. Table 2 in the report captured performance against these targets in Q3 of 2019-20. The number of case types being measured has been reduced for a temporary period as the Team redevelops its reporting capability on the new system. As part of this redevelopment, the performance targets used will be reviewed as the efficiencies of the new pension administration system began to be realised. The process for recording workflows on the new system is also subject to ongoing development.

Six new academies had joined the Fund as scheme employers during Q3, but no new admission bodies had joined during this period. The number of employers now participating in the Fund has reached 317.

A successful event had been held for employers at Cromford Mills on 25 November 2019 covering the areas of ill-health retirement and dealing with appeals. Induction training had been held at County Hall on 6 November 2019 for new and substitute members of the Pensions and Investment Committee and new members of the Pension Board.

The Fund is dependent upon the receipt of prompt and accurate data from its employers to enable accurate record keeping, funding decisions and benefit calculations. The I-Connect solution will standardise, automate and validate the data received from employers each month, and uploaded it into Altair much more efficiently than by current methods. This will enable contribution reconciliation to take place monthly, thereby relieving the pressure at year-end. The implementation project is underway and a number of employers are working with the Project Team as early adopters of this new functionality.

A specific project is also underway to reduce and ultimately eliminate the remaining backlog areas of ‘Aggregations’ and ‘Deferreds’. Resource had been allocated, and monitoring and reporting methods were being developed. In the key area of ‘aggregations’, reporting had been able to identify that the backlog had reduced by 532 cases during Q3, from 2,861 to 2,329. It was expected that this rate of reduction would be maintained during Q4. The current backlog of ‘deferred benefit’ cases was 2,282.

A dedicated Project Team had been created to oversee the migration of the Fund’s records from the UPM system to Altair. The project had now been successfully completed with all processes and calculations working well and staff initiation training taken on board. The Project Team would now focus on I-Connect and the Altair system support work would become ‘business as usual’.

Members enquired if the Team undertook any benchmarking, particularly with our neighbouring authorities. It was reported that once the Altair system had bedded down then benchmarking exercises could be undertaken and this would be in line with Cipfa recommendations.

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

4/20 DERBYSHIRE PENSION FUND COMPLAINTS POLICY The Derbyshire Pension Fund Complaints Policy (the Policy) had been developed to prove assurance to members of the Pension Fund that all complaints would be considered properly and in a consistent manner. The Policy would also ensure that complaints were recorded consistently and that the Fund's effectiveness in dealing with complaints was monitored, with member feedback supporting the continued improvement of services.

The Altair pension administration system, implemented in 2019, provides the functionality to record, escalate and monitor the progress of complaints within Fund members' individual records. This functionality would enable the Pension Fund to implement the procedures set out in the Policy. The implementation of the Policy was expected to result in fewer Applications for the Adjudication of Disagreements Procedure cases.

A summary of the complaints received by the Fund will be reported to the Pensions and Investment Committee within the quarterly Pensions Administration Performance Reports.

RESOLVED to approve the draft Derbyshire Pension Fund Complaints Policy attached at Appendix 1 to the report.

5/20 DERBYSHIRE PENSION FUND PENSION ADMINISTRATION STRATEGY Derbyshire Pension Fund (the Fund) maintains a Pension Administration Strategy (PAS) in line with Regulation 59 of the LGPS Regulations 2013, which is reviewed and revised annually. The PAS is circulated to all employers and published on the Fund's website. It sets out the roles and the service standards to be achieved by the Fund, and by the Fund's participating employers, to enable the efficient administration of Fund members' records. It also includes details of how administrative underperformance by employers will be monitored and managed.

The last review of the PAS was undertaken and approved by the Committee in July 2019. Subsequently, the arrangements for the management of employer underperformance had been reviewed, taking into consideration the Fund's practical experience of implementing charges for employer underperformance. The 2020 review had been undertaken promptly to ensure that the proposed revisions to the process for charging for underperformance, and to the level of charges, were documented, implemented and communicated to employers as soon as possible.

RESOLVED to approve the draft Derbyshire Pension Fund Pension Administration Strategy 2020 attached at Appendix 1 to the report.

6/20 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. Changes from the previous quarter were highlighted. The Risk Register had the following four High Risk items:-

(1) Fluctuations in assets and liabilities (Risk No.15)
(2) LGPS Central related underperformance of investment returns (Risk No.25)
(3) Impact of McCloud judgement on funding (Risk No.32)
(4) Impact of McCloud judgement on administration (Risk No.40)

There was an inevitable risk for any pension fund that assets may be insufficient to meet liabilities and funding levels 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. Every three years, the Fund undertook an actuarial valuation which was a planning exercise for the Fund to determine the expected cost of providing the benefits built up by members at the valuation date in today's terms (the liabilities) compared to the funds held by the Pension Fund (the assets), and to determine employer contribution rates.

As part of the valuation exercise, the Pension Fund's Funding Strategy Statement (FSS) was reviewed, to ensure that an appropriate funding strategy was in place. The FSS set out the funding policies adopted, the actuarial assumptions used and the time horizons considered for each category of employer. The Fund's draft 2020 FSS was currently subject to consultation with the Fund's stakeholders.

The Fund was 87% funded at 31 March 2016. There had been an improvement in the funding level of the Fund to 97% at March 2019, with a reduction in the deficit from £564m to £163m.

The forthcoming review of the Fund's long term investment strategy would take into account the results of the actuarial valuation as well as the information contained in the Fund's Climate Risk Report.

LGPSC was a relatively new company which had launched its first investment products in April 2018. There was a risk that the investment returns delivered by the company would not meet the investment return targets against the specified benchmarks. The Fund continued to take a meaningful role in the development of LGPSC, and had input into the design and development of the company's product offering to ensure that it would allow the Fund to implement its investment strategy. The company's manager selection process was scrutinised by the Partner Funds and the Fund would initially continue to carry out its own due diligence on selected managers as confidence was built in the company's manager selection skills. The performance of LGPSC investment vehicles was monitored and reviewed jointly by the Partner Funds under the Investment Working Group (a sub-group of the Partner Funds' Practitioners' Advisory Forum) and by the Pool's Joint Committee.

Following the judgement in the McCloud case, and confirmation that remedies relating to that judgement would need to be made to all public service schemes, LGPS benefits accrued from 2014 may need to be enhanced so that all members, regardless of age, would benefit from the 'underpin', or restitution could be achieved in a different way, for example by paying compensation.

The Local Government Scheme Advisory Board announced, on 15 November 2019, that the remedy for the LGPS, was likely to involve the extension of some form of underpin to members in scope who were not currently offered protection. Therefore, a full history of part time hour changes and service break information from 1 April 2014 would be needed in order to recreate final salary service. It was also likely that, in order to ensure reverse discrimination did not occur, all leavers since 2014 would need to be checked against a new underpin.

The SAB has had discussions with the Government Actuary's Department (GAD) around the mechanics of how a remedy might work in the LGPS including the range of potential issues (both retrospective and ongoing) which could arise from the application of some form of underpin to a wider membership. A remedy was not expected to be implemented before the end of financial year 2020-21.

GAD had estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. The Fund's actuary had adjusted GAD's estimate to better reflect Derbyshire Pension Fund's local assumptions. The revised estimate as it applied to the Fund was that total liabilities (i.e. the increase in active members' liabilities expressed in terms of the employer's total membership) could be around 0.4% higher as at 31 March 2019, an increase of approximately £26.7m.

The uncertainty caused by the McCloud judgement was reflected on the Risk Register under two separate risks for clarity, one under Funding & Investments and one under Administration, although the two risks were closely linked.

The funding risk related to the risk of there being insufficient assets within the Fund to meet the increased liabilities. In line with advice issued by the SAB, the Fund's 2019 actuarial calculations had been based on the current benefit structure, with no allowance made for the possible outcome of the cost cap mechanism or McCloud. However, an extra level of prudence had been introduced into the setting of employer contribution rates to allow for the potential impact of the McCloud case. This had been clearly communicated to the Fund's employers in the valuation letters.

In the short term, the impact of the uncertainty caused by the McCloud case was greatest for exit payments and credits as at a cessation event, the cost of benefits was crystallised. The draft 2020 Funding Strategy Statement included an allowance for a 1% uplift in a ceasing employer's total cessation liability for cessation valuations that were carried out before any changes to the LGPS benefit structure were confirmed.

The administration risk related to the enormous challenge that would be faced by administering authorities and employers in backdating scheme changes over such a significant period. Whilst the Fund already required employers to submit information about changes in part-time hours and service breaks, the McCloud remedy may generate additional queries about changes since 1 April 2014; employers had, therefore, been asked to retain all relevant employee records. The Fund would continue to keep up to date with news related to this issue from the Scheme Advisory Board, the Local Government Association, the Government Actuary's Department and the Fund's actuary.

No new items had been added to the Risk Register and no items had been removed from the Risk Register. It was suggested that a comment on trends in the Risk Register would be a helpful addition.

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

7/20 **INDEPENDENT INVESTMENT ADVISER OBJECTIVES** On 10 June 2019, the Competition and Markets Authority had published the Investment Consultancy and Fiduciary Management Market Investigation Order. The Order set out the mandatory guidelines for Pension Scheme Trustees in respect of the procurement and monitoring of Fiduciary Management Services.

The Order potentially had consequences for the LGPS Pools, but on 29 July 2019 the Department for Work and Pensions published a consultation entitled Trustee Oversight of Investment Consultants and Fiduciary Managers which sought to clarify that the Order did not apply to the LGPS with the exception of Remedy 7: Requirement to set strategic objectives for providers of investment consultancy. As a result of the Order, the Pension Fund was now required to set strategic objectives for its Independent Investment Adviser, Mr Fletcher of MJ Hudson Allenbridge, which in turn should be linked to the objectives of the Pension Fund. The proposed strategic objectives for the Pension Fund's Independent Investment Adviser were set out in Appendix 1 to the report. The proposed strategic objectives had been agreed with Mr Fletcher and were in line with the agreed Consultancy Agreement between the Pension Fund and the Independent Investment Adviser.

RESOLVED that the proposed strategic objectives set out in the report for the Pension Fund's Independent Investment Adviser be approved.

8/20 **ADMISSION, CESSATION AND BULK TRANSFER POLICY** The draft Admission, Cessation and Bulk Transfer Policy (the Policy) sets out the Fund's approach to the risks involved in the admission of new employers to the

Pension Fund and how it deals with possible bulk transfers and employers ceasing their participation in the Fund. The purpose of this Policy is to ensure that only appropriate bodies are admitted to the Fund and that the financial risk to the Fund and other employers in the Fund is identified, minimised and managed accordingly.

The Policy interacts with the Pension Fund's Funding Strategy Statement (FSS). The draft Policy has been prepared in liaison with the Fund's actuary, Hyman Robertson LLP.

RESOLVED to approve the draft Derbyshire Pension Fund Admission, Cessation and Bulk Transfer Policy attached at Appendix 1 to the report.

9/20 **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 consider the exempt report of the Director of Finance and ICT on Investment in Infrastructure (contains information relating to the financial or business affairs of any particular person (including the Authority holding that information))