

# Public Document Pack



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## PUBLIC

To: Members of the Pensions and Investments Committee

Tuesday, 11 October 2022

Dear Councillor,

Please attend a meeting of the **Pensions and Investments Committee** to be held at **10.30 am** on **Wednesday, 19 October 2022** in the Council Chamber, Council Chamber, County Hall, Matlock, the agenda for which is set out below.

Yours faithfully,

A handwritten signature in black ink that reads "Helen E. Barrington".

**Helen Barrington**  
**Director of Legal and Democratic Services**

## A G E N D A

### PART I - NON-EXEMPT ITEMS

1. Apologies for Absence
2. To receive declarations of interest (if any)
3. To confirm the non-exempt minutes of the meeting held on 7 September 2022 (Pages 1 - 4)
4. Derbyshire Pension Fund Annual Report (Pages 5 - 8)

5. Derbyshire Pension Fund Risk Register (Pages 9 - 26)
6. Half-Year Pension Administration Performance Report (Pages 27 - 50)
7. Local Government Pension Scheme Investment Pooling (Pages 51 - 72)
8. Exclusion of the Public

To move that under Section 100(a)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following item of business on the grounds that in view of the nature of the business, that if members of the public were present exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 would be disclosed to them and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

## **PART II - EXEMPT ITEMS**

9. To receive declarations of interest (if any)
10. LGPS Central Limited Investment Report (Pages 73 - 110)

## PUBLIC

**MINUTES** of a meeting of the **PENSIONS AND INVESTMENTS COMMITTEE** held on Wednesday, 7 September 2022 in the Council Chamber, County Hall, Matlock.

### **PRESENT**

Councillor D Wilson (in the Chair)

Councillors P Smith, R Ashton, B Bingham, L Care (Derby City Council), M Carr (Derby City Council), M Foster, G Musson and M Yates.

Apologies for absence were submitted for Councillor N Atkin.

#### **29/22 TO RECEIVE DECLARATIONS OF INTEREST (IF ANY)**

There were no declarations of interest.

#### **30/22 TO CONFIRM THE NON-EXEMPT MINUTES OF THE MEETING OF THE COMMITTEE HELD ON 8 JUNE 2022**

The non-exempt minutes of the meeting held on 8 June 2022 were confirmed as a correct record.

#### **31/22 INVESTMENT REPORT**

The Pension Fund's independent investment advisor, Anthony Fletcher, took the Committee through a presentation on the market background, the Fund's performance, the economic and market outlook, and on his asset allocation recommendations.

The Investment Report was then presented by the Fund's Assistant Fund Manager who explained the rationale for the recommendations for each asset class set out in the report.

One of the members expressed their concern over the 1 year underperformance against the Fund's benchmark and hoped that this was just a temporary situation. The Head of Pension Fund emphasised the importance of focusing on the investment performance over the longer term. The Fund's increasing reliance on the performance of external fund managers was also noted.

### **RESOLVED:**

That the Committee:

- a) Notes the report of the independent external advisor, Mr Fletcher;
- b) Notes the asset allocations, total assets and long-term performance analysis set out in the report; and
- c) Approves the IIMT recommendations as outlined in the report of the Director of Finance and ICT.

**32/22 STEWARDSHIP REPORT**

The Committee was provided with an overview of the stewardship activity that had been carried out by Derbyshire Pension Fund' external investment managers. The following two reports were presented to ensure that the Committee was aware of the voting and engagement activity that had been carried out by Legal & General Investment Management (LGIM) and by LGPS Central Limited, the Fund's pooling company:

- Q2 2022 LGIM ESG Impact Report (Appendix 2)
- Q1 2022-23 LGPSC Quarterly Stewardship Report (Appendix 3)

**RESOLVED:**

That the Committee notes the stewardship activity of LGIM and LGPSC.

**33/22 EXCLUSION OF THE PUBLIC**

To move that under Section 100(a)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following items of business on the grounds that in view of the nature of the business, that if members of the public were present exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 would be disclosed to them and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

**34/22 TO CONFIRM THE EXEMPT MINUTES OF THE MEETING OF THE COMMITTEE HELD ON 8 JUNE 2022**

The exempt minutes of the meeting held on 8 June 2022 were confirmed as a correct record.

The meeting finished at 12.10 pm



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**FOR PUBLICATION**  
**DERBYSHIRE COUNTY COUNCIL**  
**PENSIONS AND INVESTMENTS COMMITTEE**  
**WEDNESDAY, 19 OCTOBER 2022**  
**Report of the Director of Finance & ICT**  
**Derbyshire Pension Fund Annual Report**

**1. Purpose**

- 1.1 To seek approval for the Director of Finance & ICT, in conjunction with the Chair of the Committee, to approve the publication of the Pension Fund's Annual Report for 2021-22.

**2. Information and Analysis**

- 2.1 In accordance with the Local Government Pension Scheme Regulations 2013, the Administering Authority must prepare and publish an Annual Report for the Pension Fund (the Fund) on or before 1 December following the year end.
- 2.2 In line with CIPFA guidance, it is the Fund's standard practice to present a copy of the Annual Report to Committee prior to 1 December each year and seek approval to publish the Annual Report on the Fund's website. However, this is not possible again this year because of the timing of Committee meetings and the expected timing of the completion of the external audit in respect of both the County Council's (the Council) and Fund's 2021-22 Statement of Accounts. Whilst the Pension Fund's external audit is substantially complete, work is currently still on-going. Since the onset of the Covid pandemic, the timescales for completing the audit of both the Council's and the Fund's Statement of Accounts have become stretched.

- 2.3 The Council's audited accounts, which include the Fund's Statement of Accounts, have yet to be considered and approved by the Council's Audit Committee (scheduled to take place on 29 November 2022), albeit a pre-audit version of the Pension Fund's Statement of Accounts have been presented to the Audit Committee and no issues are expected at this stage. As a result, approval is sought for the Director of Finance & ICT, in conjunction with the Chair of the Committee, to approve the publication of the Fund's 2021-22 Annual Report at the first available opportunity following receipt of the external auditor's opinion on the Fund's Statement of Accounts. A copy of the Fund's 2021-22 Annual Report will be circulated to Committee in due course.
  
- 2.4 The Fund's Annual Report is typically in excess of 200 pages, and is split into a number of sections covering: an Introduction; Key Statistics; Fund Governance; Financial Performance; Investment (including the Fund's carbon risk metrics); Funding; Scheme Administration; and the Fund's Statement of Accounts. There are also several appendices comprised of previously published (and approved) documents, including copies of the Fund's: Governance Policy & Compliance Statement; Communication Policy; Investment Strategy Statement; Funding Strategy Statement; Actuarial Valuation Report; and a Schedule of Employees' and Employers' Contributions.

### **3. Implications**

- 3.1 Appendix 1 sets out the relevant implications considered in the preparation of the report.

### **4. Background Papers**

- 4.1 Working papers held by the Pension Fund Team.

### **5. Appendices**

- 5.1 Appendix 1 – Implications

**6. Recommendation(s)**

- a) Approval is sought for the Director of Finance & ICT, in conjunction with the Chair of the Committee, to approve the publication of the Pension Fund's Annual Report for 2021-22 at the first available opportunity after receipt of the external auditor's opinion on the Fund's Statement of Accounts.

**7. Reasons for Recommendation(s)**

7.1 The rational for recommendation 6.1 is set out in Section 2.

**Report** Neil Smith  
**Author:**

**Contact** [neil.smith2@derbyshire.gov.uk](mailto:neil.smith2@derbyshire.gov.uk)  
**details:**

**Appendix 1****Implications****Financial**

1.1 None

**Legal**

2.1 By not publishing the Annual Report by 1 December 2022 there is technically a legal risk in respect of non-compliance with the 2013 Regulations. However, the risk is mitigated by delegation to the Director of Finance and Chair of the Committee to approve publication of the Pension Fund's Annual Report for 2021-22 at the first available opportunity after receipt of the external auditor's opinion on the Fund's Statement of Accounts.

**Human Resources**

3.1 None

**Information Technology**

4.1 None

**Equalities Impact**

5.1 None

**Corporate objectives and priorities for change**

6.1 None

**Other (for example, Health and Safety, Environmental, Sustainability, Property and Asset Management, Risk Management and Safeguarding)**

7.1 None



**DERBYSHIRE COUNTY COUNCIL**  
**PENSIONS AND INVESTMENTS COMMITTEE**  
**WEDNESDAY, 19 OCTOBER 2022**  
**Report of the Director - Finance and ICT**  
**Derbyshire Pension Fund Risk Register**

**1. Purpose**

To consider the Derbyshire Pension Fund (the Fund) Risk Register.

**2. Information and Analysis**

The Risk Register identifies:

- Risk item
- Description of risk and potential impact
- Impact, probability and overall risk score
- Risk mitigation controls and procedures
- Proposed further controls and procedures
- Risk owner
- Target risk score
- Trend risk scores

The Risk Register is kept under constant review by the risk owners, with quarterly review by the Director of Finance & ICT. A detailed annual review of the Risk Register by Derbyshire Pension Board (the Board) was also introduced in early 2021. The Board reviewed the Risk Register at its February 2022 meeting and the identification of any new or increased risks facing the Pension Fund is discussed at meetings of the Pension Board. A copy of both the Summary and Main Risk Registers are attached to this report as Appendix 2 and Appendix 3 respectively. Changes from the Committee's last consideration of the Risk Register are highlighted in blue font.

## **2.1 Risk Score**

The risk score reflects a combination of the risk occurring (probability) and the likely severity (impact). Probability scores range from 1 (rare) to 5 (almost certain) and impact scores range from 1 (negligible) to 5 (very high). A low risk classification is based on an overall risk score of 4 or less; a medium risk score ranges between 5 and 11; and a high risk score is anything with a score of 12 and above.

The Risk Register includes a target score which shows the expected risk score once the proposed additional risk mitigation controls and procedures have been implemented. The difference between the actual and target score for each risk item is also shown to allow users to identify those risk items where the proposed new mitigation and controls will have the biggest effect. Trend risk scores going back to the first quarter of 2020-21 provide additional context.

## **2.2 Flexible Working Arrangements**

The Fund's activities continued to be maintained, and the services to employers and members continued to be delivered, while the majority of the Pension Fund team worked from home during the Covid pandemic. Following discussions with the team, it was agreed that staff would spend at least half of their working hours in the office to support the ongoing development of a cohesive team and to support both the structured and unstructured knowledge sharing/learning that takes place when colleagues work together in the office. The Fund has been allocated around 60% of its pre-Covid space as part of the Modern Ways of Working initiative which means that those members of the team who wish to spend more time in the office can be accommodated.

## **2.3 High Risk Items**

The Risk Register has the following five high risk items:

- (1) Systems failure/Lack of disaster recovery plan/Cybercrime attack (Risk No.13)
- (2) Fund assets insufficient to meet liabilities (Risk No.20)
- (3) LGPS Central Limited related underperformance of investment returns (Risk No.31)
- (4) Insufficient cyber-liability insurance relating to the pensions administration system (Risk No. 42)
- (5) Impact of McCloud judgement on administration (Risk No.46)

## **2.4 Systems failure/Lack of disaster recovery plan/Cybercrime attack & Insufficient cyber-liability insurance relating to the pensions administration system.**

The National Cyber Security Centre warned of a heightened cyber threat following Russia's attack on Ukraine and has advised organisations to bolster their online defences. Pension schemes hold large amounts of personal data and assets which can make them a target for cybercrime attacks. The trusted public profile of pension funds also makes them vulnerable to reputational damage.

Robust procedures are in place for accessing the systems used by the Fund and the Pension Fund's Business Continuity Plan includes the Business Continuity Policy and Business Continuity Incident Management Plan of Aquila Heywood (the provider of the Fund's pension administration system, Altair).

Detailed Data Management Procedures have been developed for the Fund which set out why members' data needs to be protected, how it should be protected (including a section on protecting against cybercrime) and what to do when things go wrong. These procedures have been rolled out to the Pension Fund team in a number of briefing sessions providing the opportunity for discussion and feedback.

A project has been started to map and document the Fund's data to ensure that it is understood where it is held, on what systems, how it is combined and how, and where, it moves; the related activities will be risk assessed as part of this process and a review of the information security arrangements of relevant suppliers to the Fund will be undertaken.

The contract with Aquila Heywood limits a cyber liability claim to a specified limit, unless a claim is based on an event caused by the contractor performing its services in a negligent manner. Separately, the Pension Fund is included in the Council's self-insurance arrangements with respect to managing cyber security risks, while the Council's cyber liability cover is being reviewed.

Given the heightened cybercrime threat and the review of the Council's cyber liability cover, the probability scores for both of the cyber related risks were increased in April 2022 from 2 (unlikely) to 3 (possible). The impact scores for both risks remained at 4 (high), giving total risk scores for both risks of 12.

In May 2022, the Council was subject to a significant cyber-attack. The attack was quickly identified and steps were taken to contain any potential damage. Forensic analysis was conducted, supported by Microsoft's Detection and Response Team. The Information Commissioner was informed immediately about the attack in view of the potential loss of data. However, at this time

there is no evidence that any data was compromised. The Pension Board received a report on the incident at its meeting in September 2022 and Board members have asked to receive the lessons learnt report on the incident when it has been finalised.

## **2.5 Fund assets insufficient to meet liabilities**

There is a risk for any pension fund that assets may be insufficient to meet liabilities; 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 undertakes an actuarial valuation 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. The last valuation was completed in March 2020 based on the assets and liabilities at 31 March 2019. Work is currently being undertaken for the 31 March 2022 actuarial valuation and the preliminary whole fund result is expected shortly.

As part of the valuation exercise, the Pension Fund's Funding Strategy Statement (FSS) is reviewed, to ensure that an appropriate funding strategy is in place. The FSS sets out the funding policies adopted, the actuarial assumptions used and the time horizons considered for each category of employer.

The Fund was 97% funded at 31 March 2019, with a deficit of £163m, up from 87%, with a deficit of £546m at 31 March 2016. The funding level provides a high-level snapshot of the funding position at a particular date and can be very different the following day on a sharp move in investment markets.

Whilst the Fund has a significant proportion of its assets in growth assets, the last two reviews of the Strategic Asset Allocation Benchmark have introduced a lower exposure to growth assets and a higher exposure to income assets with the aim of protecting the improvement in the Fund's funding position.

## **2.6 LGPS Central Limited**

The Fund is expected to transition the management of a large proportion of its investment assets to LGPS Central Limited (LGPSC), the operating company of the LGPS Central Pool (the Pool), over the next few years. The Fund has so far transitioned around 10% of its assets into LGPSC active products and a further 5% into an LGPSC enhanced passive product. By March 2024, the Fund is forecast to have transitioned over 40% of its assets into LGPSC products.

The performance of LGPSC's active funds against their benchmarks has been mixed since the company launched its first investment products in April 2018.

There is a risk that the investment returns delivered by the company will not meet the investment return targets against the specified benchmarks.

The Fund continues to take a meaningful role in the development of LGPSC, and has input into the design and development of the company's product offering to ensure that it will allow the Fund to implement its investment strategy. The company's manager selection process is scrutinised by the Pool's Partner Funds and the Fund will continue to carry out its own due diligence on selected managers as confidence is built in the company's manager selection skills.

The performance of LGPSC investment vehicles is 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. LGPS Central Limited is presenting to Committee today on the performance of its Emerging markets Equity Active Multi Manager Fund and its Global Active Investment Grade Corporate Bond Multi Manager Fund.

The Fund is also likely to maintain a large exposure to passive investment vehicles in the long term which will reduce the risk of total portfolio underperformance against the benchmark.

## **2.7 McCloud Judgement**

The McCloud case relates to transitional protections given to scheme members in the judges' and firefighters' schemes which were found to be unlawful by the Court of Appeal on the grounds of age discrimination. The Department for Levelling Up, Housing and Communities (DLUHC, formerly MHCLG) published its proposed remedy related to the McCloud judgement in July 2020.

The proposed remedy involves the extension of the current underpin protection given to certain older members of the Scheme when the LGPS benefit structure was reformed in 2014. The underpin will give eligible members the better of the 2014 Scheme CARE or 2008 final salary benefits for the eligible period of service.

The changes will be retrospective, which means that benefits for all qualifying leavers since 1 April 2014 will need to be reviewed to determine whether the extended underpin will produce a higher benefit. This will have a significant impact on the administration of the Scheme. Analysis by Hymans Robertson (the Fund's actuary) suggested that around 1.2m members of the LGPS, roughly equivalent to a quarter of all members, may be affected by the revised underpin. Locally it has been estimated that around 26,000 members of the Fund would likely fall into the scope of the proposed changes to the underpin.

An amendment included in the Public Service Pensions and Judicial Offices Act 2022 (received Royal Assent in March 2022), the enabling legislation for the implementation of the McCloud remedy, has subsequently increased the number of records that will need to be reviewed. It brought the LGPS into line with the other public service pension schemes by extending the scope of the McCloud remedy to include members who were not active on 31 March 2012 but who have LGPS membership before that date and returned within five years and meet all other qualifying criteria. The criteria for a disqualifying break in service was also relaxed.

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

The risk score for the impact of the McCloud judgement on funding has been reduced, as detailed below. The administration risk relates to the enormous challenge that will be faced by administering authorities and employers in backdating scheme changes over such a significant period; this risk has been recognised by the LGPS Scheme Advisory Board.

Whilst the Fund already requires 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 have, therefore, been asked to retain all relevant employee records. Information has also been requested from employers on the data supplied to the Fund since 2014 with respect to changes in part-time hours and service breaks.

Aquila Heywood has provided the Fund with McCloud related tools for testing on the Altair pension administration system which would be used to identify, and subsequently bulk load, any required additional service history.

A McCloud Project Board has been set up to formalise the governance of this major project. The Fund will continue to keep up to date with news related to the McCloud remedy from the Scheme Advisory Board, the Local Government Association, the Government Actuary's Department and the Fund's actuary and with the development of relevant tools by Aquila Heywood.

## **2.8 New & Removed Risks/Changes to Risk Scores/Updated Risk Narratives**

No risks have been removed from the Risk Register since it was last presented to Committee in May 2022. There has been one change to an existing risk score and the narrative for a number of risks has been updated (highlighted on the Risk Register in blue).

**Risk No.33: Failure to maintain liquidity in order to meet projected cash flows.** The narrative for the description of this risk has been updated to reflect the risk of counterparties failing to make timely repayments, and to reflect potential cash management related reputational damage. The risk score of 6 (impact score of 3 and probability score of 2) has been reviewed and remains appropriate.

The Pension Fund has a strategic allocation to cash of 2%, with a permitted range of 0-8%. In recent years, the Fund has had an overweight allocation to cash; the weighting at 31 August 2022 was 3.7%. The Fund's cash is managed in line with the Pension Fund's Treasury Management Strategy (TMS) which is approved by the Committee.

The Fund's objective when investing cash is to strike a balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Security of capital and liquidity is placed ahead of investment return. In accordance with the Pension Fund's TMS, it can invest its surplus funds with any of the counterparty types in the table set out below, subject to the cash limits (per counterparty) and the time limits shown.

Sector	Time Limit	Counterparty Limit	Sector Limit
UK Government	Unlimited	Unlimited	Unlimited
Local Authorities & Other Government Bodies	13 months	£30m	Unlimited
Banks (unsecured)	13 months	£30m	£100m
Building Societies (unsecured)	13 months	£30m	£50m
Money Market Funds (MMF)	n/a	£30m	Unlimited
Short Term Pooled Bond Funds	n/a	£50m	£100m

At 31 August 2022, the Pension Fund had loans of £30m to Thurrock Council, made up of six loans of £5m each, out of £80m of loans to Local Authorities at that point. Following the government's appointment of Essex County Council to the role of Commissioner and Best Value Inspector at Thurrock Council in response to concerns about the financial management of the council, a number of press enquires were received about the loans made by Derbyshire County Council and by the Pension Fund to Thurrock Council and the loans were quoted in a number of press articles.

The Fund has been lending to Thurrock Council for several years and all loans and interest have been repaid when they fell due. Loans to Local Authorities are considered to have minimal credit risk with loans backed by the revenues of the relevant Local Authority and all Local Authorities able to access the

Public Works Loan Board lending facility for the purposes of refinancing. All of the loans to Thurrock Council have now been repaid to fund investment commitments and liquidity requirements.

Given the material fall in the level of the Fund's cash balance over the last year as cash has been invested, it is likely that individual loans to Local Authorities will be on a smaller scale going forward to ensure appropriate diversification. The advice of Arlingclose Limited, the Council's Treasury Management adviser, will continue to be monitored and taken into consideration with respect to loans to Local Authorities.

**Risk No. 38: Impact of McCloud judgement on funding.** The McCloud funding risk relates to the risk of there being insufficient assets within the Fund to meet the increased liabilities related to the McCloud remedy. In line with advice issued by the LGPS Scheme Advisory Board (SAB), the Fund's 2019 actuarial calculations made no allowance for the possible outcome of the cost cap mechanism or McCloud. However, an extra level of prudence was introduced into the setting of employer contribution rates to allow for the potential impact of the McCloud case.

It was announced in July 2022, that there will be no changes to member benefits and/or contribution rates as a result of the 2016/17 LGPS Cost Cap valuations which have now been concluded taking into consideration the Government's preferred approach for remedying McCloud.

A March 2022 letter from DLUHC to all LGPS administering authorities, set out an expectation of how the McCloud remedy should be allowed for when valuing past service liabilities and setting employer contribution rates at the March 2022 triennial valuation.

Following clarity regarding the outcome of the LGPS Cost Cap valuation and confirmation of the treatment of the McCloud remedy in the March 2022 triennial valuation, it is appropriate to reduce the risk score for the funding impact of McCloud. The impact score remains at 3 (medium) and the probability score has been reduced to 3 (possible) from 4 (probable), giving an overall risk score of 9, down from 12.

### **3. Implications**

Appendix 1 sets out the relevant implications considered in the preparation of the report.

### **4. Background Papers**

Papers held by the Pension Fund.

## **5. Appendices**

- 5.1 Appendix 1 – Implications
- 5.2 Appendix 2 – Summary Risk Register
- 5.3 Appendix 3 – Main Risk Register

## **6. Recommendation**

That Committee notes the risk items identified in the Risk Register.

## **7. Reasons for Recommendation**

One of the roles of Committee is to receive and consider the Fund's Risk Register.

**Report Author:** Dawn Kinley

**Contact details:** [dawn.kinley@derbyshire.gov.uk](mailto:dawn.kinley@derbyshire.gov.uk)

**Implications**

**Financial**

1.1 None

**Legal**

2.1 None

**Human Resources**

3.1 None

**Information Technology**

4.1 None

**Equalities Impact**

5.1 None

**Corporate objectives and priorities for change**

6.1 None

**Other (for example, Health and Safety, Environmental, Sustainability, Property and Asset Management, Risk Management and Safeguarding)**

7.1 None

## Derbyshire Pension Fund Risk Register

Date Last Updated

06-Oct-22

Changes highlighted in blue font.

Objectives	
The objectives of the Risk Register are to:	
<ul style="list-style-type: none"> <li>I identify key risks to the achievement of the Fund's objectives;</li> <li>I consider the risk identified; and</li> <li>I assess the significance of the risks.</li> </ul>	

Risk Assessment	
<ul style="list-style-type: none"> <li>I Identified risks are assessed separately and assigned a risk score. The risk score reflects a combination of the risk occurring (probability) and the likely severity (financial impact).</li> </ul>	
<ul style="list-style-type: none"> <li>A low risk classification is based on a score of 4 or less; a medium risk score ranges between 5 and 11; and a high risk score is anything with a score of 12 and above.</li> </ul>	
<ul style="list-style-type: none"> <li>The Risk Register also includes the target score; showing the impact of the risk occurring once the planned risk mitigations and controls have been completed.</li> </ul>	

Risk Assessment		Impact	Probability
Level 1	Negligible	Rare	
Level 2	Low	Unlikely	
Level 3	Medium	Possible	
Level 4	High	Probable	
Level 5	Very High	Almost certain	

Officer Risk Owners	
DoF	Director of Finance & ICT
HoP	Head of Pension Fund
TL	Team Leader
IM	Investments Manager

Summary of Risk Scores	
Low Risk	5
Medium Risk	39
High Risk	5
<b>Total Risks</b>	<b>49</b>

Risk Score	
0 - 4	Low Risk
5 - 11	Medium Risk
12 and above	High Risk

Risk Ranking	Main Risk Register No	Identification			Risk Owner	Impact	Probability	Target Score	Actual Minus Target Score	Trend Scores									
		Risk Area	High Level Risk	Current score						Q1 20-21	Q2 20-21	Q3 20-21	Q4 20-21	Q1 21-22	Q2 21-22	Q3 21-22	Q4 21-22	Q1 22-23	Q2 22-23
1	13	Governance & Strategy	Systems failure/Lack of disaster recovery plan/Cybercrime attack	4 3 12	HoP/IM/TL	4	2	8	4	8	8	8	8	8	8	8	12	12	
2	20	Funding & Investments	Fund assets insufficient to meet liabilities / Decline in funding level / Fluctuations in assets & liabilities	4 3 12	HoP/IM	4	2	8	4	12	12	12	12	12	12	12	12	12	12
3	31	Funding & Investments	LGPS Central related underperformance of investment returns - failure to meet investment return targets against specified benchmarks	4 3 12	HoP/IM	4	2	8	4	12	12	12	12	12	12	12	12	12	12
4	42	Pensions Administration	Insufficient cyber-Liability Insurance relating to the pensions administration system	4 3 12	HoP	4	2	8	4	8	8	8	8	8	8	8	12	12	
5	46	Pensions Administration	Impact of McCloud judgement on administration	3 4 12	HoP	2	4	8	4	12	12	12	12	12	12	12	12	12	12
6	1	Governance & Strategy	Failure to implement an effective governance framework	5 2 10	DoF/HoP	5	1	5	5	10	10	10	10	10	10	10	10	10	10
7	2	Governance & Strategy	Failure to recruit and retain suitable Pension Fund staff/Over reliance on key staff	3 3 9	HoP	3	2	6	3	9	9	9	9	9	9	9	9	9	9
8	4	Governance & Strategy	Pensions & Investments Committee (PIC)/Pension Board (PB) members lack of understanding of their role & responsibilities leading to inappropriate decisions	3 3 9	HoP/IM/TL	3	2	6	3	9	9	9	9	9	9	9	9	9	9
9	14	Governance & Strategy	Failure to comply with General Data Protection Regulations (GDPR)	3 3 9	HoP/IM/TL	3	2	6	3	9	9	9	9	9	9	9	9	9	9
10	15	Governance & Strategy	Failure to communicate with stakeholders	3 3 9	HoP	3	2	6	3	9	9	9	9	9	9	9	9	9	9
11	17	Governance & Strategy	Risk of challenge to Exit Credits Policy/Determinations	3 3 9	HoP/TL	3	2	6	3	9	9	9	9	9	9	9	9	9	9
12	19	Governance & Strategy	Failure to meet accessibility requirements	3 3 9	HoP/IM	3	2	6	3	9	9	9	9	9	9	9	9	9	9
13	25	Funding & Investments	Covenant of new/existing employers. Risk of unpaid funding deficit	3 3 9	HoP/TL	3	2	6	3	9	9	9	9	9	9	9	9	9	9
14	30	Funding & Investments	LGPS Central Ltd fails to deliver the planned level of long term cost savings	3 3 9	HoP	3	2	6	3	9	9	9	9	9	9	9	9	9	9
15	38	Funding & Investments	Impact of McCloud judgement on funding	3 3 9	HoP/TL	3	2	6	3	9	9	9	9	9	9	9	9	9	9
16	41	Pension Administration	Insufficient controls relating to the governance of the pension administration system	3 3 9	HoP/TL	3	2	6	3	9	9	9	9	9	9	9	9	9	9
17	44	Pensions Administration	Delayed Annual Benefit Statements and/or Pension Savings Statements (also known as Annual Allowance Statements)	3 3 9	HoP/TL	3	2	6	3	9	9	9	9	9	9	9	9	9	9
18	3	Governance & Strategy	Failure to comply with regulatory requirements for governance	4 2 8	HoP	4	1	4	4	8	8	8	8	8	8	8	8	8	8
19	5	Governance & Strategy	An effective investment performance management framework is not in place	4 2 8	HoP/IM	4	2	8	0	8	8	8	8	8	8	8	8	8	8
20	10	Governance & Strategy	Pension Fund financial systems not accurately maintained	4 2 8	HoP	4	1	4	4	8	8	8	8	8	8	8	8	8	8
21	16	Governance & Strategy	Failure of internal/external suppliers to provide services to the Pension Fund due to business disruption	4 2 8	HoP/IM	4	2	8	0	8	8	8	8	8	8	8	8	8	8
22	18	Governance & Strategy	Risks arising from a potential significant acceleration of the academisation of schools.	2 4 8	HoP/IM	2	4	8	0	8	8	8	8	8	8	8	8	8	8
23	21	Funding & Investments	Mismatch between liability profile and asset allocation policy	4 2 8	HoP/IM	4	2	8	0	8	8	8	8	8	8	8	8	8	8
24	22	Funding & Investments	An inappropriate investment strategy is adopted/Investment strategy not consistent with Funding Strategy Statement/ Failure to implement adopted strategy and PIC recommendations	4 2 8	HoP/IM	4	2	8	0	8	8	8	8	8	8	8	8	8	8
25	23	Funding & Investments	Failure to correctly assess the potential impact of climate change on investment portfolio and on funding strategy	4 2 8	HoP/IM	4	2	8	0	8	8	8	8	8	8	8	8	8	8
26	24	Funding & Investments	Failure to consider the potential impact of Environmental, Social and Governance (ESG) issues on investment portfolio	4 2 8	HoP/IM	4	2	8	0	8	8	8	8	8	8	8	8	8	8
27	28	Funding & Investments	The LGPS Central investment offering is insufficient to allow the Fund to implement its agreed investment strategy	4 2 8	HoP/IM	4	1	4	4	8	8	8	8	8	8	8	8	8	8
28	29	Funding & Investments	The transition of the Fund's assets into LGPS Central's investment vehicles results in a loss of assets/and or excessive transition costs	4 2 8	HoP/IM	4	1	4	4	8	8	8	8	8	8	8	8	8	8
29	49	Pensions Administration	Administration issues with AVC provider	2 4 8	HOP/TLS	2	2	4	4	8	8	8	8	8	8	8	8	8	8

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## Derbyshire Pension Fund Risk Register

Date Last Updated 06-Oct-22

Changes highlighted in blue font.

Risk Number	Description	Description of risk and potential impact	Current score			Risk Mitigation Controls & Procedures			Risk Owner	Target Score			Trend Scores										
			Impact	Probability	Current Score	Current	Proposed	Risk Owner		Impact	Probability	Target Score	Actual Minus Target Score	Q1 20-21	Q2 20-21	Q3 20-21	Q4 20-21	Q1 21-22	Q2 21-22	Q3 21-22	Q4 21-22	Q1 21-23	Q2 22-23
<b>Governance &amp; Strategy</b>																							
1	Failure to implement an effective governance framework	Failure to provide effective leadership, direction, control and oversight of Derbyshire Pension Fund (DPF) leading to the risk of poor decision making/lack of decision making, investment underperformance, deterioration in service delivery and possible fines/sanctions/reputational damage . This risk could be amplified during a period of business disruption.	5	2	10	Derbyshire County Council (DCC) is the administering authority for the Pension Fund, responsible for managing and administering the Fund. Responsibility for the functions of the Council as the administering authority of DPF is delegated to the Pensions & Investments Committee (PIC). A Local Pension Board assists the Council with the governance and administration of the Fund (PB). Day to day management of the Fund is delegated to the Director of Finance & ICT (DoF) who is supported by the Head of Pension Fund (HoP) and in house investment and administration teams. The governance arrangements for the Fund are clearly set out in the Fund's Governance Policy and Compliance Statement which is reviewed each year. Both PIC & PB have detailed Terms of Reference. The Commissioning, Communities & Policy Scheme of Delegation sets out authorising levels for officers. The management team (POM) of the Pension Fund meets weekly and a Pension Fund Plan documents the ongoing workload of the Fund. A Pension Fund performance Dashboard has been developed to provide performance management information for POM; it is also reviewed on a quarterly basis by the Finance & ICT Management Team and at meetings of the Pension Board. A detailed Business Continuity Plan sets out the arrangements for maintaining the critical activities of the Fund during a period of business disruption. Arrangements have been developed to facilitate virtual PIC and virtual PB meetings for occasions when physical meetings are not possible. As part of DCC's Modern Ways of Working (MW), the Fund has been allocated a Team Zone which will accommodate approximately 60% of the team on a daily basis. Following discussions with the Team, it has been agreed that staff will spend at least half of their working hours in the office to support the ongoing development of a cohesive team to efficiently deliver services to members and employers and to support both the structured and unstructured knowledge share/learning that takes place when colleagues work together in	The structure of the Pension Fund Team is being reviewed to enable it to support an agile, customer focussed operating model and to ensure appropriate management and stewardship of the Fund's investments assets, with the aim of providing development opportunities which will build the skills and resilience required for the future.	DoF/HoP	5	1	5	5	N/A	10	10	10	10	10	10	10	10	10	10
2	Failure to recruit and retain suitable Pension Fund staff/Over reliance on key staff.	Lack of planning, inadequate benefits package, remote location leads to failure to recruit and retain suitable investment and pension administration staff leading to the risk of inappropriate decision making, investment underperformance, deterioration in service delivery, over reliance on key staff and possible fines/sanctions/reputational damage. The risks related to over-reliance on key staff are amplified during a period of business disruption.	3	3	9	Knowledge sharing takes place through Pension Fund governance groups including: Pension Officer Manager (POM); Regulation Update Meeting (RUM); Data Management; and Performance & Backlog Management, targeted internal training sessions, team briefings, internal communications and My Plans. The Fund also works with the LGA to support the development of Fund training and utilizes Heywood's TEC online training facilities. A Pension Fund Plan is available to all members of POM and includes a brief summary of the main ongoing and forecast activities of the Fund. The investment staffing structure was reviewed post the implementation of investment pooling. Market supplements for the HoP and the IM were extended from December 2019. A new Assistant Fund Manager joined the Fund at the beginning of May 20. Following the lifting of Covid restrictions, members of the Fund's team are working flexibly (partly at home and partly in the office) and managers are in regular contact with their teams.	m	HoP	3	2	6	3	N/A	9	9	9	9	9	9	9	9	9	9
3	Failure to comply with regulatory requirements for governance	Failure to match-up to recommended best practice leads to reputational damage, loss of employer confidence or official sanction.	4	2	8	DPF maintains current PIC approved versions of: Administering Authority Discretions; Admission, Cessation & Bulk Transfer Policy; Communications Policy Statement; Exit Credits Policy; Governance Policy & Compliance Statement; Funding Strategy Statement; Investment Strategy Statement; Pension Administration Strategy. Detailed Data Management Procedures in place together with procedures to deal with statutory breaches. Lessons learnt from any breaches discussed at relevant governance group. Governance framework includes PIC and Pension Board. Appointment of third party advisor and actuary. Annual Report and Accounts mapped to CIPFA guidance. Fund membership of LAPFF. Internal and External Audit. Member training programme.	Regular review / Maintenance of central log of governance policy statements for the whole Fund. Ensure lessons learnt from any breaches are considered by appropriate governance group and any resulting changes in procedures are implemented.	HoP	4	1	4	4	4	4	4	4	4	4	4	4	4		
4	PIC / Pension Board members lack of knowledge & understanding of their role & responsibilities leading to inappropriate decisions	Change of membership (particularly following elections), lack of adequate training, poor strategic advice from officers & external advisors leads to inappropriate decisions being taken.	3	3	9	Implementation of Member Training Programme including induction training for new members of PIC & PB / Attendance at LGA training program / Advice from Fund officers & external advisors. Annual issuance of skills self-assessment forms to members of PIC & PB. Subsequent training plan based on responses.	On-going roll out of Member Training Programme in line with CIPFA guidance. Training for 2023 will be based on responses to skills self-assessment questions issued to members of PIC & PB in Oct 22.	HoP	3	2	6	3	9	9	9	9	9	9	9	9			
5	An effective investment performance management framework is not in place	Poor investment performance goes undetected / unresolved.	4	2	8	PIC training; external performance measurement is reported to committee on a quarterly basis; Pension Board oversight of the governance of investment matters; My Plan Reviews. Review of the Pension Fund performance Dashboard.		HoP/IM	4	2	8	0	6	6	6	6	8	8	8	8	8		
6	An effective pensions administration performance management framework is not in place	Poor pensions administration performance / service goes undetected / unresolved.	3	2	6	PIC training; Half year pension administration KPI reporting in line with Disclosure Regulations reviewed by PIC and PB; My Plan Reviews. A Pension Fund performance Dashboard has been developed to provide performance management information for POM; it will also be reviewed on a quarterly basis by the Finance & ICT Management Team and at meetings of the Pension Board.		HoP/TL	3	2	6	0	6	6	6	6	6	6	6	6			
7	An effective PIC performance management framework is not in place	Poor PIC performance goes undetected / unresolved.	3	2	6	Defined Terms of Reference; PIC training .Support from suitably qualified officers and external advisor; Monitoring of effectiveness of PIC by Pension Board. A Pension Fund performance Dashboard has been developed to provide performance management information for POM; it will also be reviewed on a quarterly basis by the Finance & ICT Management Team and at meetings of the Pension Board.	Training as above (Risk No. 4).	HoP/IM	3	2	6	0	6	6	6	6	6	6	6	6			
8	Failure to identify and disclose conflicts of interest	Inappropriate decisions for personal gain.	3	1	3	Members' Declaration of Interests. Officer disclosure of personal dealing and hospitality. Investment Compliance incorporated into updated Investments Procedures & Compliance Manual. Fund Conflicts of Interest Policy (COI) approved by PIC in November 2020 and fully implemented.		HoP	3	1	3	0	3	3	3	3	3	3	3	3			
9	Failure to identify and manage risk	Failure to prepare and maintain an appropriate risk register results in poor planning, financial loss and reputational damage.	3	2	6	Risk Register maintained, reviewed on a regular basis, discussed at formal and informal POMs and reported to PIC and to PB. Risk Register subject to annual 'deep dive' by the Pension Board.		HoP/IM	3	2	6	0	6	6	6	6	6	6	6	6			
10	Pension Fund financial systems not accurately maintained	Increased risk of fraud, financial loss and reputational damage if financial systems are not accurately maintained.	4	2	8	Creation and documentation of internal controls; internal/external audit; monthly key control account reconciliations; on-going training & CIPFA updates.	Development of Fund-wide Procedures Manual.	HoP	4	1	4	4	6	6	6	6	8	8	8	8			

## Funding & Investments



## Pensions Administration

Risk Number	Description			Risk Mitigation Controls & Procedures						Trend Scores																
	High Level Risk	Description of risk and potential impact		Current score			Current		Proposed		Risk Owner	Impact	Probability	Target Score	Actual Minus Target Score	Q1 20-21	Q2 20-21	Q3 20-21	Q4 20-21	Q1 21-22	Q2 21-22	Q3 21-22	Q4 21-22	Q1 22-23	Q2 22-23	
		Impact	Probability	Current Score	Impact	Probability	Impact	Probability	Impact	Probability	Target Score	Actual Minus Target Score														
40	Failure of pensions administration systems to meet service requirements/information not provided to stakeholders as required	Replacement pensions administration system leads to implementation related work backlogs, diminished performance and complaints.	3	2	6	The Altair system has achieved 'Business as Usual' status. SLAs are in place with the provider as well as an established fault reporting system, regular client manager meetings and a thriving User Group (CLASS). The provider has a robust business continuity plan.	Ensure the company's Business Continuity Plan is subject to regular review and continue to take an active part in the CLASS user group.	HoP/TL	3	1	3	3					9	6	6	6	6	6	6	6	6	6
41	Insufficient controls relating to the governance of pension administration system	Risk that insufficient controls relating to the governance of the pension administration system undermines confidence in the integrity of the system and increases the opportunity for erroneous transactions.	3	3	9	To access Altair, the pensions administration system, a user needs to be set up on PingOne and also on Altair, both require the user to successfully log on with a password. Monthly reports are run to monitor access to Altair, and any suspicious logons would be investigated. The same access controls are applied to the test environment. If a team member leaves the authority, access is removed promptly. On receipt of a new release of Altair the Fund completes rigorous testing of any updated calculations and new functionality detailed in the relevant Altair Release Guide. The Fund also regression test a varied sample of calculations. This testing is completed in the test environment prior to any update into the live environment. If any part of the release is deemed unsatisfactory then the update to live will not be authorised. In some exceptional circumstances, it is necessary to create a test record in the live system to provide additional assurance and to support the efficient and accurate delivery of the service. Any test record is documented on a spreadsheet and deleted at the earliest opportunity. Data from any test records is deleted from performance information. <u>Procedures have been developed to strengthen the controls related to the creation and use of test records in the live environment. A review of user profiles has been undertaken, with member copy functionality removed where appropriate.</u> On an annual basis the Fund completes a year end exercise for active members which checks the data reasonableness in comparison to the previous year, and also identifies any records which have not had any pay or contributions posted for the current year. These records are referred back to the employer for further investigation.	Procedures will be developed to strengthen the controls related to the creation and use of test records in the live system. The number of test records in the live system will be limited to one which will be clearly documented and its test status will be easily identifiable. Only certain documented members of the team will be able to edit this record.  In addition, a review of user profiles will be completed to access whether roles need 'member copy' functionality. User roles will be amended accordingly following the review.	HoP/TL	3	2	6	3					N/A	9	9							
42	Insufficient cyber-liability insurance relating to the pensions administration system	The contract with the system supplier limits a cyber liability claim to a specified amount, unless a claim is based on an event caused by the contractor performing its services in a negligent manner. A catastrophic breach where scheme members' data is used fraudulently could lead to a claim in excess of the insurance cover.	4	3	12	DCC Internal Audit has carried out detailed testing of the supplier's data security arrangements. Liability cover in place via the supplier and <u>separately the Pension Fund is included in DCC's self-insurance arrangements with respect to managing cyber security risks.</u> The supplier is required to carry £5m of professional indemnity insurance as part of the contract.	Ongoing feedback to the new supplier on the level of supplier liability insurance. Further enhancement of procedures to protect against cyber risk.	HoP	4	2	8	4					8	8	8	8	8	8	8	12	12	
43	Data quality inadequate	Incorrect benefit calculations, inaccurate information for funding purposes leading to possible complaints/ fines/reputation damage/uninformed decision making.	3	2	6	Apply current and short term measures in the Data Improvement Plan. A Data Management Working Group has been formed, and Terms of Reference agreed, with responsibility for the ongoing consideration and implementation of the Data Improvement Plan.	Continue to cleanse data; implement longer term measures in the Data Improvement Plan. Maintain regular meetings of the Data Management Group.	TL	3	2	6	0					6	6	6	6	6	6	6	6	6	
44	Delayed Annual Benefit Statements and/or Pension Savings Statements (also known as Annual Allowance Statements)	Risk of complaints, TPR fines or other sanctions/reputational damage caused by delays in issuing Annual Benefit Statements/Pensions Savings Statement. Possible delays caused by late employer returns, systems bulk processing issues, administration backlogs, and the roll-out of the member-self service system 'My Pension Online' (MPO).	3	3	9	Improved processes, clear messages to support employers to provide prompt accurate information, more efficient processing of ABSs on replacement system, exercise to trace addresses for missing deferred beneficiaries. Robust roll out plan for member self service system and back up plans in place for printing paper ABSs.	Continue work with employers to ensure better data quality, complete address checking exercise and reduce additional backlogs caused by migration. Improve process for identifying non-standard cases of annual pension savings breaches. Achieve MPO roll out targets.	HoP/TL	3	2	6	3					9	9	9	9	9	9	9	9	9	
45	Insufficient technical knowledge	Failure to develop, train suitably knowledgeable staff leading to risk of negative impact on service delivery and risk of fines/sanctions together with risk of reputational damage.	3	2	6	Updates from LGA/LGPC, quarterly EMPOG meetings/on-site training events. The Fund has procured an additional service from the provider of the new pension administration system which provides flexible learning on demand.	Skills gap audit / formal training programme / Staff Development group/My Plan reviews.	HoP	3	2	6	0					6	6	6	6	6	6	6	6	6	
46	Impact of McCloud judgement on administration	The LGPS SAB recognises the enormous challenge that could be faced by administering authorities and employers in potentially backdating scheme changes over a significant period. A full history of part time hour changes and service break information from 1st Apr 14 will be needed in order to recreate final salary service. Implementation of the remedy could divert Fund resources and affect service delivery levels. See Risk No. 37 for further information on the McCloud judgement.	3	4	12	Keeping up to date with news from the Scheme Advisory Board, the LGA, the Government Actuary's Department and the Fund's Actuary. Liasing with the provider of the Fund's pension administration system as they develop their bulk processes for implementing the McCloud remedy. Although the Fund has continued to require employers to submit information about changes in part-time hours and service breaks, the McCloud remedy may generate additional queries about changes since 1 Apr 14; employers have, therefore, been asked to retain all relevant employee records. A McCloud Project Team has been set up with initial workstreams of: governance; case identification; staffing/resources; & communications. The Fund has identified the likely members in scope of the proposed remedy. A response to the MHCLG consultation on Amendments to the Statutory Underpin was submitted by the Fund. Tools have been provided by Aquila Heywood for testing on Altair which would be used to identify and subsequently bulk load any required additional service history.	Formulate a detailed plan of how to deal with the scheme changes as soon as they are confirmed and it is clear what bulk processes the provider of the pension administration system will be putting in place.	HoP	2	4	8	4					12	12	12	12	12	12	12	12	12	
47	Lack of two factor authentication for Member Self Service	The Fund is implementing a member self-service solution (MSS) to improve the quality and efficiency of the service it provides to its members. MSS will allow members to view certain parts of their pension information (including Annual Benefit Statements), to undertake a restricted number of data amendments and to carry out benefit projections on-line. The member self-service solution provided by Aquila Heywood does not currently utilise a two-factor authentication method.	3	2	6	Robust registration and log-on procedures have been developed which have been approved by the Council's Information Governance Group (IGG). A further report on the setting of security questions has been taken to IGG for noting.	The Fund will continue to encourage Aquila Heywood to introduce two factor authentication for MSS (it has been introduced for the core Altair product).	HoP/Ts	3	2	6	0					N/A	N/A	6	6	6	6	6	6	6	6
48	Implications of Goodwin ruling.	Following the Walker v Innospec Supreme Court ruling, the government decided that in public service schemes, surviving male same-sex and female same-sex spouses and civil partners of public service pension scheme members will, in certain cases, receive benefits equivalent to those received by widows of opposite sex marriages. A recent case brought in the Employment Tribunal (Goodwin) against the Secretary of State for Education highlighted that these changes may lead to direct sexual orientation discrimination within the Teachers' Pension Scheme, where male survivors of female scheme members remain entitled to a lower survivor benefit than a comparable same-sex survivor. The government concluded that changes are required to the TPS to address the discrimination and believes that this difference in treatment will also need to be remedied in those other public service pension schemes, where the husband or male civil partner or a female scheme member is in similar circumstances. A consultation will take place on the required regulatory changes for the LGPS. It is expected that the fund will need to investigate the cases of affected members, going back as far as 5 December 2005 when civil partnerships were introduced which will provide administration challenges.	2	3	6	The Fund is keeping up to date with developments on the implications of this ruling for the LGPS.	Further mitigating controls/procedures will be developed when more is known about this recently emerged risk.	HoP/Ts	2	3	6	0					N/A	N/A	6	6	6	6	6	6	6	6
49	Administration issues with AVC provider.	Following the implementation of a new system, the Fund's AVC provider, Prudential, has experienced delays in processing contributions, providing valuations and paying out claims which could lead to knock-on delays for the Fund in processing members' retirements. There is also a risk of associated reputational damage for the Fund which has appointed Prudential as its AVC provider.	2	4	8	The Fund is in regular correspondence with Prudential regarding the outstanding issues and is working with the company to try to ensure that any issues which could delay members' retirement dates are dealt with first. This matter is also on the agenda of the officer group of local LGPS funds' (EMPOG).	The Fund will continue to work closely with Prudential to support the resolution of outstanding issues.	HoP/Ts	2	2	4	4					N/A	N/A	N/A	N/A	8	8	8	8	8	

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**FOR PUBLICATION**

**DERBYSHIRE COUNTY COUNCIL**

**PENSIONS AND INVESTMENTS COMMITTEE**

**WEDNESDAY, 19 OCTOBER 2022**

**Report of the Director of Finance & ICT**

**Half-Year Pension Administration Performance Report  
1 April 2022 to 30 September 2022**

**1. Purpose**

- 1.1 To notify the Pensions and Investments Committee (the Committee) of the administration activity undertaken by the Pension Administration Team (the Team) of Derbyshire Pension Fund (the Fund), and the performance levels achieved, in the first half of 2022/2023.

**2. Information and Analysis**

**2.1 Half-year report**

This report relates to the first half of 2022/2023 covering the period 1 April 2022 to 30 September 2022 and provides a summary of the Fund's performance in key areas of pension administration activity.

Maintaining efficient administration is important towards retaining the confidence and trust of scheme members and employers. The impact of poor administration can be reputational but may also include additional expenditure through the payment of inaccurate pension benefits, interest on late payments and delays in collecting contributions from employers. This report aims to provide the Committee with assurance that such risks are being managed adequately.

## 2.2 The Administration Team

The Administration Team's core role is to ensure that pension benefits are paid to members accurately and in a timely manner, and to provide clear information on pension options to members to help their planning for retirement.

The pension administration function covers a range of activities including:

- calculation, processing and payment of members' and survivors' pension benefits
- employer services, including data and contribution collection functions
- maintenance and development of the pension administration system (Altair), the Fund's website and the online member self-service provision (My Pension Online)
- implementation and communication of regulatory and procedural changes
- engaging with members and employers to answer queries, provide relevant accessible information and develop understanding of the LGPS

## 2.3 Covid-19 impact

Following the relaxing of Covid-secure measures and the implementation of Derbyshire County Council's (the Council) Modern Ways of Working project, the Fund's administration team has established a hybrid working model which provide for all members of the team dividing their working time between home and the offices at County Hall.

The Fund's robust procedures and business continuity plans ensured that service provision was maintained across the range of administration activities during the Covid pandemic, however, the return to office working has particularly enabled the full resumption of in-person training and opportunities for unstructured learning.

## 2.4 Workload data

The Fund's management team reviews performance reports for key processes on a monthly basis.

The information in this report provides a summary of the Fund's administrative activity during the period 1 April 2022 to 30 September 2022, including where applicable key performance targets.

## 2.5 Membership numbers

The table shows the Fund's membership totals at half-yearly intervals during the last two years.

Membership	30 Sept 2020	31 March 2021	30 Sept 2021	31 March 2022	30 Sept 2022
<b>Actives</b>	37,274	37,996	37,390	38,067	37,053
<b>Deferred</b>	30,083	30,807	31,052	31,640	32,327
<b>Pensioners</b>	31,484	31,930	32,618	33,178	33,848
<b>Work in Progress</b>	6,426	5,992	6,248	5,984	5,759
<b>Totals</b>	<b>105,267</b>	<b>106,725</b>	<b>107,308</b>	<b>108,869</b>	<b>108,987</b>

The membership figures shown reflect the total number of separate pension records. This includes scheme members with more than one pension record.

The actual number of individual members as at 30 September 2022 was 92,390 who between them had 108,987 membership records.

- **Active** members are those who are in employment and continuing to contribute to the scheme
- **Deferred** members are those who have ended their active participation as contributing members, but have yet to access their pension benefits
- **Pensioner members** are those who are already in receipt of pension benefits

The '**Work in Progress**' total of memberships includes:

- cases where active memberships have ended, and work is currently being undertaken to reassign them to deferred or pensioner membership
- recent and frozen refunds where active memberships have ended after a short period which is insufficient to qualify for a pension, and work is

ongoing to contact members and arrange payment of a refund of contributions

- aggregation cases where a member's pension records for different jobs may be combined, but the work to complete the aggregating of records has yet to be completed

The active membership in the Fund is currently spread amongst 337 participating employers.

As at 30 September 2022, approximately **62% (23,055)** of the active membership were employed by the five largest employers (by membership numbers) in the Fund.

- Derbyshire County Council   **14,429 (38.94%)**
- Derby City Council                 **4,135 (11.16%)**
- University of Derby                 **1,889 (5.10%)**
- Derbyshire Constabulary         **1,617 (4.36%)**
- Chesterfield Borough Council    **985 (2.66%)**

## 2.6 Pensioner deaths

During the first half of 2022/23 there were a total of **338** deaths reported of pensioner members. The number of pensioner deaths reported to the Fund in 2021/22 was 758 which returned the total to a level consistent with pensioner deaths before the pandemic. The total reported in 2020/21 had been 920.

The Fund does not record the reason for a member's death, therefore, it is not possible to confirm whether the 2020/21 increase in deaths had been Covid related.

Administration following a pensioner's death includes several processes including:

- reviewing eligibility for a death grant payment and survivor benefits
- gathering data of eligible beneficiaries for death grant and survivor benefits
- verifying beneficiaries' eligibility
- calculating ongoing benefits where a survivor pension is payable
- in those cases, preparing a separate pension record

## 2.7 Achievement against standards

The following table shows cases in selected key areas of work which were actioned in the period 1 April 2022 to 30 September 2022 and the amount completed within legislative timescales included in *The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013*.

Case type	Total number of cases	Target for completion (months)	Target achieved	Target missed	Target achieved %	Overall 2021/2022 Total Cases & Target achieved %
Retirement Benefits paid	1,033	1	1,030	3	99.7%	1,963 (98.7%)
Death cases	519	2	506	13	97.5%	1,063 (97.3%)
Transfer Out quotes	314	3	311	3	99.0%	661 (96.8%)
Transfer Out paid	27	3	27	0	100%	81 (96.3%)
Transfer in	77	3	73	4	94.8%	128 (89.8%)
Estimate requests	435	2	435	0	100%	895 (99.8%)
Refunds paid	724	2	705	19	97.4%	1,601 (87.0%)

The following provides a brief description of the cases included in the figures shown in the table. A completed case reflects the completion of data gathering, calculation, documentation, processing, and payment (where applicable).

**Retirement Benefits Paid** –member retirements (voluntary, redundancy or business efficiency, ill-health, flexible and deferred).

**Death cases** – deaths of all members (active, deferred, pensioner and survivor beneficiaries).

**Transfer Out quotes** – provision of transfer values to deferred members who have applied for the value of the benefits with a view to transferring to a different pension arrangement.

Transfer out quotes are also provided on request to active members, however, are not guaranteed due to their employment continuing.

**Transfer Out paid** – completion of transfers where deferred members wish to proceed with their transfer to a different pension arrangement.

**Transfer In** – completion of transfers where new active members decided to transfer membership from other LGPS funds or a different pension scheme which is part of the Public Sector Transfer Club. The Fund currently only accepts transfers in from other ‘Club’ schemes.

**Estimate requests** – provision of:

- written estimates of pension benefits for members considering accessing their pension benefits at a future date and
- shortfall costs for employers considering redundancies or business efficiencies

**Refunds paid** – completion of refund payments to members whose active membership ended before they qualified for pension benefits.

## 2.8 Quantity of work – incoming and completed

The administration team has continued to experience consistently high workload levels but has been able to achieve casework turnaround times within the disclosure target timescales in the vast majority of cases, as reflected in the previous table.

These services, including transfers into and out of the Fund, refund actions, retirement quotes and aggregations, are included in the figures below which represent the total number of new work items received in the half year and overall actions completed in the same period.

For comparison purposes, the totals for the two 6 month periods in 2021/22 are included.

**Number of work items processed**

	<b>Apr-Sept 2021/2022</b>	<b>Oct-March 2021/2022</b>	<b>Apr-Sept 2022/2023</b>
New work items becoming due in the period	27,363	25,333	33,534
Work items completed during the period	23,510	27,713	30,955
Open cases at end of period	13,313	12,680	13,088

At the end of September 2022, a total of **13,088** work items were identified as remaining open and in progress. The table below summarises the main areas of open work, included in the above total:

<b>Work area</b>	<b>Open cases as at 30 September 2022</b>
Undecided leavers	1,835
Aggregations	1,972
i-Connect enquiries with employers	1,628
Other enquiries with employers	820
Address traces	5
Notification of deferred benefits	1,715
Refund quotes	924
Refunds to payment	228
Retirement quotes	305
Death administration (in progress)	195
Retirements (in progress)	43
Transfer In	39
Transfer Out quotes	47
Transfers Out to payment	12
Others	3,320
<b>Total</b>	<b>13,088</b>

The following provides a brief description of some of these work areas.

**Undecided leavers** – members who have left their employment but have not been moved to deferred status as leavers. This normally

relates to cases where information from the employer remains outstanding.

**Aggregations** – the combining of previously accrued benefits in the LGPS with a new or ongoing active pension record.

**i-Connect enquiries** – individual data enquiries with employers who have implemented the i-Connect secure data transmission service for the monthly submission of member data.

**Other employer enquiries** – ongoing queries with employers relating to:

- information on members whose active membership has ended and
- outstanding enquiries from year-end returns

**Notification of deferred benefits** – the calculation of a member's pension benefits at the point of ending active membership and becoming a deferred member.

**Address traces** – outstanding enquiries with tracing services for members' home addresses, where the Fund has not been notified of a change of home address.

## 2.9 Data quality

The Pension Regulator acknowledges that complete, accurate scheme records are a vital part of the administrative function. The Regulator defines two types of data held in scheme records:

**Common Data** used to identify scheme members and would include names, addresses, national insurance number and date of birth.

**Conditional Data** essential to calculate benefit entitlements such as, member contributions, pensionable pay, service history.

To measure the Fund's data quality, the latest available common and conditional data results prepared by the software provider, Heywood Pension Technologies, for 2020/2021 are shown in the table below together with the results for the previous 3 years:

Year	Common data	Conditional data
2017/2018	95%	85%

2018/2019	97.6%	92.3%
2019/2020	98%	92.5%
2020/2021	98.2%	93.5%
2021/2022	Not yet determined	Not yet determined

The data quality scores for 2021/2022 have yet to be determined by Heywood and will be reported to the Committee in the next half-yearly report, and also in the Fund's Annual Report.

The scores are also reported annually to The Pensions Regulator.

## 2.10 Backlog Management Project

An ongoing project to reduce and ultimately eliminate the numbers of backlog cases in two key areas (aggregations and deferred membership) of pension administration has continued throughout the first half of 2022/23.

Numbers of new aggregation cases have continued at high levels. Differing levels of complexity in aggregation cases means that there is not a consistent timescale in the actioning of each case.

The reduction of the backlog is part of the Fund's ongoing data cleansing work which supports preparations for the following developments in LGPS administration which are expected to be introduced in the next two years:

- the LGPS remedy following the 'McCloud' judgement in relation to rectifying age discrimination from the protections originally applied only to members closer to retirement when public sector schemes changed from final-salary to career average arrangements in 2014 (for the LGPS) and 2015 (for other public sector schemes), and
- the planned introduction of a national pensions dashboard to enable individuals to identify all of their pension provision in one place

The current backlog situation for each area is set out below.

**Aggregations** –the combining of previously accrued benefits in the LGPS with a new or ongoing active pension record. An aggregation

process becomes a backlog case if it is not completed within 12 months.

At the end of March 2021, the total of backlogged aggregations was 1,797. The total had reduced to 963 by the end of March 2022.

The latest total as at 30 September 2022 had further reduced to **102**.

**Deferred membership** – These relate to non-active memberships where the member, has qualified for pension benefits, but cannot access them yet due to age or has chosen not to access them. Details about a member's deferred membership should be provided within 2 months of leaving active membership. Therefore, cases where the 2 months has been exceeded become backlog cases.

At the end of March 2020, the total of deferred backlog cases was 1,991. Significant progress was made during 2020/2021 and the outstanding total at the end of March 2021 had reduced significantly again to 168.

The total by the end of March 2022 had increased to 685. This has mainly been due to ongoing work with large Fund employers to identify and submit missing leaver details for members whose active membership had ended in previous years, and for which confirmation of leaver details had been outstanding.

The latest total as at 30 September 2022 had increased to **987**.

The available resource for working on the backlog of deferred cases during the latest half year period has been limited due to a significant additional workload caused by the requirement to recalculate and revise pension benefits for members who retired during 2021/22 and subsequently received arrears of pay following the late agreement to the pay award backdated to 1 April 2021.

## **2.11 Monthly contribution returns**

The continuing payment of pension contributions remained a core priority for employers throughout the pandemic with payment and contribution reports having to be received by the Fund by the 19<sup>th</sup> of the month following payment.

The Fund has continued to work with employers who have experienced difficulties with completing payments and submitting contribution reports.

Full data relating to contribution payments and reports from employers is currently only available to July 2022, however, the current averages for employer submissions received by the Fund by the monthly deadline reflect that during 2022/2023 to July 2022 **92.8%** of contribution payments, and **88.1%** of related contribution reports were received on time.

The Fund has continued to work collaboratively with employers to help them avoid problems with late payments/submission of data and is continuing to engage with a small number of employers who have experienced ongoing difficulties particularly relating to staff turnover following the pandemic.

The Fund also monitors underperformance relating to consistently late payment of contributions/submission of data and has issued a charge for additional administration caused by non-compliance to one employer during the latest half-year period.

Regulation 70 of The Local Government Pension Scheme Regulations 2013 enables the administering authority to recover costs for additional administration caused by an employer's non-compliance. The Fund's application of this regulation is included in the Pension Administration Strategy which is available on the Fund's website and regularly signposted to employers.

## **2.12 New academies, admission bodies, designating employers and other employer details**

### **Academies**

When a Local Authority maintained school converts to an academy, it automatically becomes a scheduled body in the LGPS. Scheduled bodies are required to provide LGPS membership to their eligible employees.

The creation of academies has significantly increased the number of LGPS scheduled bodies in recent years which has generated additional administrative challenges for LGPS funds as scheme members have become spread across a much wider pool of employers.

Although the number of academisations slowed from previous levels during the pandemic, the Secretary of State for Education presented a Schools White Paper, 'Opportunity for All', to Parliament in March 2022 confirming that it aims for all schools to be part of, or in the process of joining or forming a 'strong trust' by 2030. The White Paper also

included plans to allow councils to set up and run their own multi-academy trusts.

As at 30 September 2022 there were 310 schools still maintained by Derbyshire County Council and Derby City Council. The government's target of full academisation by 2030 would see the number of separate employers in the Fund almost double.

Although it is not possible at this stage to estimate a timetable, it is anticipated that the numbers of schools converting to academy status during the next few years will accelerate annually.

The Fund maintains separate records for each academy within a multi-academy trust on the advice of the Fund's actuary.

Three new academies joined the Fund as an individual LGPS employer in the period 1 April 2022 to 30 September 2022.

Following a total of 37 academy conversions in 2019/20, numbers during the pandemic had significantly reduced to 18 in 2020/21 and 8 in 2021/22.

Brief details of the recent 3 new academies are as follows:

<b>Employer Ref</b>	<b>Employer Name</b>	<b>Start Date</b>	<b>Academy Trust</b>
764	St George's CE Primary School (Church Gresley)	1 April 2022	Embark Multi-Academy Trust
765	Sale and Davys CE Primary School (Barrow-on-Trent)	1 May 2022	Derby Diocesan Academy Trust
767	William Allitt School (Swadlincote)	1 September 2022	Falcon Education Academies Trust

### **Admission Bodies**

An organisation normally becomes an admission body as a result of securing a contract to provide a service or function from an employer which participates in the Local Government Pension Scheme (LGPS) and involves the transfer via TUPE of LGPS eligible staff.

Applications from 7 organisations for Admission Body status, based on commencing a contract during the first half of 2022/23 with a scheme employer which includes the transfer of active scheme members, are currently being processed.

Six of the new applications relate to the transfer of arrangements to a new provider for caretaking and cleaning at schools maintained by Derbyshire County Council and Derby City Council.

The other application relates to Derby City Council's outsourcing of the running of leisure facilities at Moorways Sports Village

### **Designating employers**

Designating bodies are employers who can nominate employees for access to the LGPS, including Town and Parish Councils.

During the first half of 2022/23, one further Town Council commenced their active participation in the Fund.

<b>Employer Ref</b>	<b>Employer Name</b>	<b>Start Date</b>
255	Ripley Town Council	9 May 2022

### **Employer summary**

The number of employers actively participating and paying contributions to the Fund as at 31 July 2022 (i.e. the latest date at which a full summary is available) was **337**, broken down as follows:

<b>Type of Employer</b>	<b>Notes</b>	<b>Total</b>
<b>Main Councils</b>	County, City, District & Boroughs	<b>10</b>
<b>University &amp; FE Colleges</b>	University x 1, FE Colleges x 2	<b>3</b>
<b>Academies</b>	Individual academies, including those in MATs on a shared employer rate. Also includes 2 x Central MAT teams.	<b>207</b>
<b>Maintained Schools using an external payroll provider</b>	County & City Schools using external payroll providers (County x 4, City x 2)	<b>6</b>
<b>Housing Associations</b>	Scheduled x2 Admitted Bodies x 3 (2 x CAB, 1 x TAB)	<b>5</b>

<b>Other Scheduled Bodies</b>	<b>Peak District National Park Authority, Police, Fire, Chesterfield Crematorium</b>	<b>4</b>
<b>Admitted Bodies</b>	<b>TABs x 60, CABs x 4 (<i>not including Housing Assn's</i>)</b>	<b>64</b>
<b>Town &amp; Parish Councils</b>	<b>Pre 2001 Pool x 15 Post 2001 Pool x 23</b>	<b>38</b>
<b>Total</b>		<b>337</b>

Please note that the total of Admitted Bodies includes employers whose participation in the Fund commenced in an earlier period, but payments of contributions had been delayed until the Admission Agreement was finalised.

### **Exits from the Fund**

During the first half of 2022/23 the following employers' active participation in the Fund ended.

<b>Employer</b>	<b>Reason</b>	<b>Date of active participation ending</b>
Caterlink (catering provision at St Mary's Catholic Primary School, Chesterfield)	Employees transferred back to Derbyshire County Council	31 August 2022
Derby County Community Trust	Last active member left	31 August 2022

A change to scheme regulations, which were subject to a judicial review in 2021, introduced an additional role for administering authorities of determining whether an exit credit is payable, and to which organisation/body any exit credit should be paid, if a participating employer's pension liabilities have been overfunded when it leaves the Fund.

The Fund is gathering information from a number of exited employers and the relevant letting authorities to determine eligibility for an exit credit.

### **2.13 Complaints, compliments and appeals**

#### **Complaints and compliments**

**Complaints** and expressions of dissatisfaction about the provision of, or failure to provide an administration service, whether written or received verbally are monitored and recorded by the Fund.

During the first half of 2022/2023 a total of 10 cases identified as complaints were submitted to the Fund by members.

To date, following the Fund providing responses to the scheme member in each case, none of the members who had submitted a complaint had escalated their complaint to a formal appeal against the Fund via the Application for the Adjudication of Disagreements Procedure (AADP).

**Compliments** received from members and employers are also recorded by the Fund and shared with the team member who provided the service. During the first half of 2022/2023 a total of 16 compliments had been recorded as submitted by members and employers praising the level of service they had received.

### **Appeals**

Appeals via AADP can be made by scheme members when they are dissatisfied with a decision made regarding their LGPS benefits. The most common decision for which appeals are submitted relates to dissatisfaction with an employer's decision regarding eligibility for ill-health retirement.

There are two possible AADP stages:

#### **Stage 1**

AADPs submitted against an employer's decision are considered at the first stage by the adjudicator appointed by that employer.

AADPs submitted against a decision made by the Fund are considered at the first stage by the Fund's adjudicator.

#### **Stage 2**

Where a member remains dissatisfied following the determination of their Stage 1 appeal, they may submit a Stage 2 appeal which is considered by the administering authority.

The Committee delegated the determination of arrangements for the adjudication of Stage 2 appeals to the Director of Finance and ICT at the meeting held on 21 July 2021. Arrangements were subsequently agreed for appointing an appropriate Stage 2 adjudicator.

An annual report is provided to the Committee which summarises:

- appeals made against the Fund at Stage 1
- all appeals submitted to the administering authority at Stage 2

- cases which are subsequently escalated to The Pensions Ombudsman

### **AADP totals**

A brief summary of the numbers of appeal cases which have been determined during the latest six month period are included in each half-yearly report.

During the period 1 April 2022 to 30 September 2022 the totals of appeals determined at each stage are as follows:

- Stage 1 appeals submitted against the Fund – 0
- Stage 2 appeals submitted to the administering authority – 1

In addition to the case for which a determination was reached during the first half of 2022/23, a further 2 appeals at Stage 2 are currently awaiting consideration.

### **The Pensions Ombudsman (TPO)**

Where scheme members remain dissatisfied with the outcome of appeals submitted at AADP Stages 1 and 2, they have the right to refer their complaint to The Pensions Ombudsman to investigate by considering information from all the parties involved in a complaint before making a determination.

The Ombudsman's determinations are final, subject to a successful appeal to the courts on a point of law. They are binding on all the parties and enforceable in court.

Cases are initially considered at a Formal Opinion stage by the Ombudsman and may be escalated to the Formal Determination stage if either party involved in the complaint remains dissatisfied with the Formal Opinion.

During the first half of 2022/2023, one scheme member escalated their complaint to The Pensions Ombudsman. The case related to a complaint against the relevant employer and the member's dissatisfaction with the outcome of the reconsideration of their eligibility for ill-health retirement following the determination at AADP Stage 2 referring the case back to the employer to review their original decision.

In the same period The Pensions Ombudsman has provided a formal Opinion in two cases. Each case, neither of which was upheld, involved a complaint against the administering authority's application of scheme regulations. In one of the cases, the member has contested the

Ombudsman's Opinion and requested that it is escalated to Formal Determination stage.

In addition, there are a further three cases awaiting the Ombudsman's determination, one of which was submitted to the Ombudsman in 2019/20, one in 2020/21 and one in 2021/22. In each case, a determination has been delayed by a backlog of cases caused by the impact of the pandemic.

More information about each appeal and case escalated to the Ombudsman is included in an annual report which is provided to the Committee.

## **2.14 Communications and Training**

The Fund has maintained regular engagement with employers and scheme members during the first half of 2022/23.

### **Communications to employers**

During the first half of 2022/2023, the Fund issued the following newsletters to employers to highlight news items, information of important topics and reminders about upcoming deadlines.

<b>Date issued</b>	<b>Bulletin</b>	<b>Topics included</b>
27 April 2022	183	<ul style="list-style-type: none"> <li>• 2022 Valuation</li> <li>• My Pension Online</li> <li>• New LGPS member website and logo resources</li> <li>• Useful guide for i-Connect users</li> </ul>
25 May 2022	184	<ul style="list-style-type: none"> <li>• Year-End Return 2021/22</li> <li>• Employer responsibilities</li> <li>• Public Sector Exit Payments</li> </ul>
24 June 2022	185	<ul style="list-style-type: none"> <li>• Employer consultation: Pension Administration Strategy</li> <li>• 2022 Actuarial Valuation</li> <li>• Derbyshire Pension Board recruitment</li> <li>• Updated HR and Payroll Guides</li> </ul>
22 July 2022	186	<ul style="list-style-type: none"> <li>• Ill health retirement and employees with limited life expectancy</li> <li>• Do your employees know about the 50/50 Section?</li> <li>• My Pension Online</li> </ul>
26 August 2022	187	<ul style="list-style-type: none"> <li>• Cost of living crisis</li> <li>• Pension Administration Strategy</li> <li>• Actuarial Valuation 2022</li> </ul>
29 September 2022	188	<ul style="list-style-type: none"> <li>• Final pay - payment days reminder</li> <li>• Outsourcing</li> </ul>

		• i-Connect
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All Employer Newsletters are available on the Fund's website.

### **Pension Administration Strategy**

A revised and updated version of the Fund's Pension Administration Strategy was approved following a consultation exercise with all participating employers.

The main purpose of the revised Strategy was to confirm the Fund's secure monthly data submission service, i-Connect, as the required method for employers submitting data to the Fund.

The period of consultation with employers ran from 10th June 2022 to 10th July 2022. All employers were invited to respond to the consultation. Three responses from employers were received, each commending the Fund's i-Connect service which was the main purpose of the changes to the Strategy.

Having been delegated by the Committee to formally determine whether any changes needed to be applied following the consultation, the Chair of the Committee and Director of Finance & ICT approved the revised Strategy, and it was formally applied from 1 August 2022.

### **Communications with members**

#### **Annual Benefit Statements**

The issuance of an annual benefit statement to active and deferred scheme members is a regulatory requirement. Following the Fund's launch of the "My Pension Online" service in June 2021, annual benefit statements are issued to each member electronically via the My Pension Online.

Active and deferred members who have not yet registered to access the online service have been issued with a letter to their home address with information about the registration process and the opportunity to request a paper copy of their annual statement.

The Fund is unable to issue an annual benefit statement if the relevant employer has not submitted the member's individual data or if outstanding queries relating to a member's data have not been resolved.

As at 31 August 2022 the Fund had generated 62,159 annual benefit statements to members' My Pension Online records. This total reflects statements generated for both active and deferred members.

Within that total, the Fund was unable to notify 2,685 members that their statement was available to view. This was because either:

- the member had not registered for My Pension Online yet
- the Fund does not have confirmed home address details, or
- letters to an address held have been returned.

This is an issue specifically affecting deferred members who have not informed the Fund of a change to their home address.

Excluding those cases where the Fund has been unable to notify members that their statement is available, statements were issued and members notified of their availability to **94.3%** of all active and deferred members by 31 August 2022.

Paper copies of annual statements have been issued to 1,532 scheme members.

### **Active and Deferred Member Newsletters**

The Fund has continued its collaboration with other LGPS Funds who participate in a Joint Communications Group. The collaboration includes the preparation of annual newsletters to active and deferred members.

The newsletters provide updates on topical pension related matters and include space for each to include its own bespoke content.

Members receive their newsletter electronically to their My Pension Online account. They are also available on the Fund's website.

Topics included in the 2022 newsletters included;

- An update on McCloud
- Changes from April 2028 to the minimum age for LGPS members to access their pension benefits from 55 to 57
- Details on the updated national LGPS website for members
- Changes to transfer rules

### **i-Connect training**

During the first half of 2022/2023 the Fund has continued to progress with boarding employers onto the i-Connect system (**see 7.1**) and has undertaken virtual training sessions for those in the early phases of implementation.

The sessions have also provided employers with an understanding of the benefits of submitting member data via i-Connect for themselves, scheme members and the Fund.

As at 30 September 2022, 217 employers were live on i-Connect, accounting for approximately 80% of the Fund's active membership.

### **Other employer training**

Additionally, virtual training sessions, and bespoke meetings on specific topics to support employers have continued on a range of issues.

## **2.15 Projects**

### **i-Connect**

The project for employers to implement the i-Connect system, part of the functionality linked to the Altair pension administration system, has continued to develop throughout the first half of 2022/2023.

Following the implementation of the revised Pension Administration Strategy which confirms i-Connect as the required method of data submission by employers to the Fund, all employers are expected to have commenced their implementation of i-Connect by the end of 2022/23.

Implementation commenced at the start of 2020, and 217 employers are currently securely transmitting member data to the Fund via i-Connect.

When employers commence implementation, training is provided on using the i-Connect service. To replace site visits to employers, which had to be paused due to the Covid-19 pandemic, virtual training methods have been utilised.

The Fund engages with, and provides support for, each employer to ensure the accuracy and timeliness of their data transmissions.

### **Member Self-Service (My Pension Online)**

The implementation of the member self-service website, 'My Pension Online', a further functionality linked to Altair was launched in June 2021.

My Pension Online is available to all scheme members, with the main functionality being the member's ability to view certain parts of their pension information, to undertake changes to some of their personal

data and to carry out benefit projections online. Active members are able to undertake certain types of retirement estimates and adjust these instantly in line with varying estimated future retirement dates.

By the end of September 2022, a total of 18,028 members had completed their registration for My Pension Online. This represents 27.2 % of the overall total of active and deferred members. Of the overall totals 11,503 (30.7%) of the active membership are fully registered.

The experience of LGPS and other public sector pension funds has been that it takes time to build up registration rates on member self-service systems. The Fund is continuing to engage with employers to seek their assistance with encouraging scheme members to register.

### **McCloud Project**

A McCloud Project Group was set up in July 2020 to prepare for the implementation of the remedy in respect of the McCloud and Sargeant judgements. The McCloud judgement refers to the Court of Appeal's ruling that the government's public sector pension reforms unlawfully treated existing public sector scheme members differently based upon members' age on 1 April 2012. The judgement came after two Employment Tribunals concerning the pensions of judges' (McCloud) and firefighters' (Sargeant).

In May 2021, the government confirmed the key elements of the changes to scheme regulations which will be made in due course as a result of the McCloud judgement. The main points confirmed are that:

- underpin protection will apply to all who meet the revised qualifying criteria
- the maximum period of protection will apply from 1 April 2014 to 31 March 2022
- where a member stays in active membership beyond 31 March 2022, the comparison of their benefits will be based on their final salary when they leave the LGPS, or when they reach their final salary scheme normal retirement age, if earlier

The Public Service Pensions and Judicial Offices Bill (the Bill) which became law in March 2022 is the enabling legislation which will allow LGPS regulations to implement the McCloud remedy by extension of the underpin protection.

The draft LGPS regulations are expected to be published later in 2022 and should enable progress to be made on upgrading pension

administration systems to allow for the changes. The Fund is continuing to liaise with Heywood's, the software supplier, to ensure solutions are as effective as possible. The final regulations are expected to come into force on 1 October 2023.

The Fund is actively working with participating employers to ensure all of the necessary data is collected to be able to properly implement the anticipated remedy.

### **Pensions Dashboard**

*The Pension Schemes Act 2021* provided the legal framework for the development of a national pensions dashboard including the power to direct pension schemes to provide member information for the dashboard.

The government's aim is that a national pensions dashboard will revolutionise the way that pension scheme members interact with their retirement savings enabling them to view a comprehensive summary of all of their pension entitlements, including the State Pension, merged into one place and easily accessible online.

The Department of Work and Pensions has announced that public sector pension schemes, including the LGPS, are now expected to be required to connect to the national pensions dashboard by 30 September 2024. Schemes will be required to meet connectivity, security and technical standards by the new deadline, and also be in a position to respond to data requests from members by the same date.

## **2.16 Collaborations**

The Fund takes part in several regional and national groups with the aim of learning, sharing, influencing and networking with colleagues from other Funds and the wider pensions industry at meetings. Since March 2020, all of the following collaborative groups' meetings have been organised virtually.

### **East Midlands Pension Officers' Group (Quarterly)**

Officers from 5 East Midlands funds share and review current LGPS related issues including the interpretation of scheme regulations, the implementation of new and revised legislation, non-standard cases, and future developments. A representative from the Local Government Association also attends each meeting.

### **LGPS Joint Communications Group (Quarterly)**

Membership of this group enables the Fund to work with other LGPS Funds, and provides the opportunity chance to share best practice, communication resources and develop joint projects, such as newsletters for scheme members.

**LGPS Central - Strategic Administration Group (biannually)**

Officers from the LGPS Central Pool's 8 Partner Funds discuss strategic matters impacting on the scheme administration role.

**CLASS Local Authority Pensions Group**

Officers from funds using the Altair pension administration system discuss software and technical issues, including priority developments.

**3. Appendices**

**3.1 Appendix 1 – Implications**

Appendix 1 sets out the relevant implications considered in the preparation of the report.

**4. Recommendation**

That Committee notes the workloads and performance levels outlined in this report.

**5. Reasons for Recommendation**

The Committee reviews the Pension Fund's workloads and performance levels in respect of its administration activity on a half-yearly basis.

**Report Author:** Steve Webster      **Contact details:** Steve.Webster@derbyshire.gov.uk

**Appendix 1**

**Implications**

**Financial**

1.1 None

**Legal**

2.1 None

**Human Resources**

3.1 None

**Information Technology**

4.1 None

**Equalities Impact**

5.1 None

**Corporate objectives and priorities for change**

6.1 None

**Other (for example, Health and Safety, Environmental, Sustainability, Property and Asset Management, Risk Management and Safeguarding)**

7.1 None



**FOR PUBLICATION**

**DERBYSHIRE COUNTY COUNCIL**

**PENSIONS AND INVESTMENTS COMMITTEE**

**WEDNESDAY, 19 OCTOBER 2022**

**Report of the Director - Finance and ICT**

**Local Government Pension Scheme Investment Pooling**

**1. Purpose**

To update the Committee on matters in respect of Local Government Pension Scheme (LGPS) investment pooling.

**2. Information and Analysis**

**2.1 Background**

At a meeting of Council in February 2017, it was agreed that Derbyshire County Council would enter into an Inter-Authority agreement with Cheshire West and Chester Council, Leicestershire County Council, Nottinghamshire County Council, Shropshire County Council, Staffordshire County Council, Wolverhampton City Council and Worcestershire County Council to establish a joint pension fund investment pool, in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016; to be overseen by a Joint Committee established under s102 of the Local Government Act 1972 and a Shareholders' Forum made up of representatives from all the Shareholding Councils.

LGPS Central Limited (LGPSC/the company) has been established to manage investments on behalf of the pool of the eight LGPS funds across the Midlands, administered by the authorities listed above. These eight LGPS funds are referred to in this report as the Partner Funds.

**2.2 Shareholders' Forum September 2022**

Peter Handford, the Director of Finance & ICT, represented Derbyshire Pension Fund (the Fund) at the Shareholders' Forum (the Forum) held on 27 September 2022 ahead of the LGPSC AGM held later that day, to allow the

shareholder representatives (shareholders) to discuss the forthcoming company resolutions. Rachel Brothwood, Executive Director of Pensions at West Midlands Pension Fund, replaced Peter Handford as the Chair of the Forum under the usual annual rotation between Partner Funds.

Following discussions between the shareholders, it was noted that all of the resolutions at the AGM would receive unanimous support. The process for providing feedback to LGPSC's Remuneration Committee on the performance of the company's Executive Directors, a development that was agreed during the approval of the Executive Director Remuneration & Benefit Policy in April 2022, was also discussed.

### **2.3 LGPSC AGM September 2022**

At the LGPSC AGM on 27 September 2022, Joanne Segars, the Chair of the LGPSC Board, provided an update on the company's key themes: Fund Performance; Recruitment and Retention; Business Maturity; and The Future. An update was also provided on the recruitment of two Non-Executive Directors (NEDs) and on the governance arrangements of the company.

The Chairs of LGPSC's Audit, Risk and Compliance Committee, its Nomination Committee; and its Remuneration Committee also provided shareholders with updates on the work of their committees. Matters highlighted included:

- The successful completion of the AAF 01/20 report (an assurance report on the internal controls of the company) for the period from 1 Jan 2021 to 31 December 2021
- Annual Board effectiveness review
- NED succession planning and recruitment processes
- Annual review of Chair and NED 'Fit and Proper Assessments'
- Development of the Remuneration and Benefits Frameworks and Policies including assessment criteria

Mike Weston, the Chief Executive Officer of LGPSC, updated shareholders on progress against the company's six focus areas for 2022-33 which are:

- Effective management of existing assets
- Transitioning new assets into the Pool
- Increasing the effectiveness of the company's Partner Fund relationships
- Recruiting, motivating and retaining the 'One Central' team
- Extending, enhancing and embedding RI&E (Responsible Investment & Engagement) with a particular focus on Climate
- Continued enhancement of operational resilience

The Deputy Chief Executive Officer of LGPSC, John Burns, provided an update on the company's financial position and a review of the company's balance sheet, reporting that expenditure was being managed within the budget agreed by shareholders and that the level of regulatory capital currently held continues to be sufficient.

Eight resolutions were presented to shareholders for approval at the LGPSC Annual General Meeting:

- **22/13:** Adoption of the Company Report and Accounts for the year ended 31 March 2022
- **22/14:** Approval of the Re-appointment of Deloitte LLP as external Auditor of the Company
- **22/15:** Authorisation of the Board to agree the external Auditor's remuneration
- Approval of the re-election of Directors: **22/16:** Joanne Segars; **22/17:** Eithne McManus; **22/18:** Susan Martin; **22/19:** Mike Weston and **22/20:** John Burns.

All of the resolutions received unanimous approval.

#### **2.4 Investments in Collaborative Arrangements**

At the end of August 2022, the Fund had the following investments in LGPSC vehicles:

	<b>£m</b>
LGPS Central Global Active Corporate Bond Fund	340
LGPS Central All World Equity Climate Multi Factor Fund	310
LGPS Central Emerging Mkt Equity Active Multi Manager Fund	181
LGPS Central Credit Partnership II LP	8*
	<b>839</b>

\*Part of a commitment of £50m.

In addition to the assets managed by LGPSC, the following assets were managed through collaboratively procured arrangements:

	<b>£m</b>
Baillie Gifford Positive Change Fund	103
RBC Global Equity Focus Fund	404
LGIM MSCI World Low Carbon Target Index Fund	672
LGIM UK Equity Index Fund	733
LGIM Japan Equity Index Fund	217
LGIM Emerging Markets Equity Fund	109
	<b>2,238</b>

The percentage of total Fund assets invested in LGPSC products and via other collaboratively procured arrangements has now increased to just over **51%**, which represents good progress in the transition to pooled investment arrangements.

Due diligence is currently being carried out on the LGPS Central Global Sustainable Equity Active Broad Fund and Fund officers are contributing to the development of the mandates for LGPSC's proposed indirect property funds.

## **2.5 Climate Risk Report**

The Fund has received a draft 2022 Climate Risk Report from LGPSC. The report is currently being reviewed and will be presented to Committee in December 2022. Information from this report will contribute to the updating of the Fund's TCFD (Task Force on Climate-related Financial Disclosures) Report.

## **2.6 Mid-Year Business Planning**

A meeting has recently been held between LGPSC and Partner Funds to update on progress against the company's 2022-23 business plan and to determine the Partner Funds' priorities for their pooling company for 2023-24 to feed into next year's business plan.

## **2.7 2022 LGPS Central Pool Cost Savings Model**

A new simplified cost savings model has been developed for the Pool by Fund officers and has been reviewed by the other Partner Funds and by LGPS Central Limited. The new model will enable costs savings to be monitored more easily and on a more regular basis.

The output from the new cost savings model (the model) will be reported to the LGPS Central Joint Committee on 11 November 2022 and shared with Committee once it has been noted by the Joint Committee. Whilst the delivery of cost savings is one of the primary objectives of investment pooling, the model continues to demonstrate the importance of focusing on net investment performance returns.

## **2.8 Presentation by LGPS Central Limited**

Mike Weston and Matt Jones (Chief Stakeholder Officer) from LGPSC will be attending Committee to provide an update on:

- the company
- the Pension Fund's investments in LGPSC products and the performance of those products
- product development
- responsible investment and engagement

The LGPSC presentation is attached as Appendix 2.

Members of the LGPSC team will also be providing a more detailed update on the investment performance of the LGPS Central Global Active Investment Grade Corporate Bond Multi Manager Fund and the LGPS Central Emerging Market Equity Active Mult-Manager Fund in the closed part of the meeting.

### **3. Implications**

Appendix 1 sets out the relevant implications considered in the preparation of the report.

### **4. Background Papers**

Papers held by the Pension Fund.

### **5. Appendices**

5.1 Appendix 1 – Implications

5.2 Appendix 2 – LGPSC Presentation

### **6. Recommendation(s)**

That Committee notes the contents of the report.

### **7. Reasons for Recommendation(s)**

One of the roles of Committee is to oversee the Pension Fund's involvement in investment pooling.

**Report** Dawn Kinley  
**Author:**

**Contact** [dawn.kinley@derbyshire.gov.uk](mailto:dawn.kinley@derbyshire.gov.uk)  
**details:**

## **Appendix 1**

### **Implications**

#### **Financial**

1.1 The Pension Fund pays for a share of LGPSC's budget via company recharges for governance, operator and product development costs in addition to paying LGPSC investment management charges. The forecast share of LGPSC costs for 2022-23 was included in the Fund's budget for the current year which was approved by Committee in March 2022 as part of the Pension Fund's Service Plan.

#### **Legal**

2.1 None

#### **Human Resources**

3.1 None

#### **Information Technology**

4.1 None

#### **Equalities Impact**

5.1 None

#### **Corporate objectives and priorities for change**

6.1 None

#### **Other (for example, Health and Safety, Environmental, Sustainability, Property and Asset Management, Risk Management and Safeguarding)**

7.1 None



# Derbyshire Pension Fund

## Update to Pensions and Investments Committee

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PRESENTED BY



MIKE WESTON  
CEO



MATT JONES  
Chief Stakeholder Officer

19 October 2022



Derbyshire  
Pension  
Fund



Member

# Agenda:

## AREAS FOR DISCUSSION

Page 58

- Company Update
- Investment Funds
  - DPF's investments in LGPS Central Funds
  - DPF's investment performance
  - Product Development
  - Responsible Investment and Engagement
- Staffing and Recruitment
- Summary



# LGPS Central – Key Themes for 2022/23



## FOUR AREAS OF FOCUS FOR LGPSC BOARD AND MANAGEMENT TEAM

Page 59



### Fund Performance



### Recruitment and Retention



### Business Maturity



### The Future

# LGPS Central Update



**£28.5bn**

Assets under our stewardship  
As at 30/06/2022

**£55.3bn**

Collective assets of Partner Funds  
As at 30/06/2022

**52%**

Pooled assets  
As at 30/06/2022

**£250m**

Projected net savings by 2033/34



**23 funds**

Launched since 2018

**13 funds**

Launched this financial year

**38**

External managers

**21.0%**

Staff Turnover



**100%**

Responsible Investment Integrated Status

**67**

Employees

**8**

Partner Funds

**Net Zero**

Commitment on assets under our stewardship 2050



**UK  
Stewardship  
Code 2020**

Signatory

**3,326**

Votes at meetings  
(engagement activity)

**TCFD**

Reports Prepared

**Diversity  
Project**

Member

# LGPS Central Funds Launched



23 PUBLIC AND PRIVATE MARKET FUNDS LAUNCHED SINCE 2018

Fund	Launched
UK Equity (Passive)	2018
Global Equity (Passive)	2018
Global Dividend Growth (Passive)	2018
Multi-Factor Fund (Passive)	2021
Climate Factor Fund (Passive)	2019
Global Equity Multi-Manager Fund (Active)	2019
EM Equity Multi-Manager Fund (Active)	2019
Corporate Bonds Multi-Manager Fund (Active)	2020
EM Fixed Income Multi-Manager (Active)	2020
Global MAC Multi-Manager Fund (Active)	2021
Global Sustainable Equity Broad (Active)	2022
Global Sustainable Equity Targeted (Active)	2022
Global Sustainable Equity Thematic (Active)	2022

Fund	Launched
Private Equity - 2018 Primary	2019
Private Equity - 2018 Co-Investment	2019
Private Equity - 2021 Primary	2021
Private Equity - 2021 Co-Investment	2021
Private Inflation Credit Fund	2021
Private Lower Credit Fund	2021
Private Higher Credit Fund	2021
Infrastructure Core Fund	2021
Infrastructure Value Add Fund	2021
Infrastructure JPMorgan Fund	2021

5 Passive funds launched since inception of LGPSC

8 Active funds launched since inception of LGPSC

GSE Fund launched May 2022

DPF have invested in these Funds

# DPF Investments in LGPS Central Funds



## ASSETS UNDER MANAGEMENT 31 AUGUST 2022

Asset Class	Fund	DPF's Assets	Total Fund AUM	DPF % of Fund
Passive Equity	LGPS Central Limited All World Equity Climate Multi Factor Fund	£310.1m	£4,221.1m	7.3%
Active Global Equity	LGPS Central Limited Emerging Market Equity Active Multi Manager Fund	£180.9m	£831.9m	21.7%
Fixed Income	LGPS Central Limited Global Active Investment Grade Corporate Bond Multi Manager Fund	£339.7m	£1,524.0m	22.3%
Private Credit	LGPS Central Credit Partnership II	£50m <sup>1</sup>	£1,025m <sup>1</sup>	4.9% <sup>1</sup>

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Over £850m assets invested with LGPSC

# DPF Investments in LGPS Central Funds



## CHALLENGING TIMES FOR ACTIVE MANAGEMENT

Annualised Performance Since Inception to 31 August 2022	Inception Date	Fund (% p.a.)	B'mark (% p.a.)	Within Tracking Error
<b>Passive ACS Funds</b>				
LGPS Central Limited All World Equity Climate Multi Factor Fund	October 2019	11.3	11.1	
<b>Active ACS Funds</b>				
LGPS Central Limited Emerging Market Equity Active Multi Manager Fund	July 2019	1.0	4.1	6.1
LGPS Central Limited Global Active Investment Grade Corporate Bond Multi Manager Fund	March 2020	-0.8	-0.8	0.1

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# Product Development:



## FUTURE FUND LAUNCHES

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### Private Debt

Two sleeves: one is investment grade infrastructure debt (inflation linked) and the other, sub-investment grade infrastructure debt and real-estate debt 1<sup>st</sup> close at the end of June, this will remain open-ended



### Targeted Return

Partner Funds engaged on strategies/managers to be included with launch expected Q1 2023



### Direct Property

Finalising legal documents and FCA application with launch anticipated end of November 2022



### Indirect Property

Agreement made to proceed with the Residential sleeve and an Overseas sleeve

# Responsible Investment & Engagement



## SIGNIFICANT JOINT ACHIEVEMENTS OVER THE LAST 6 MONTHS

Page 65

- Agreed Pool and Company Net Zero Targets
- Delivered Company Stewardship Code Report and assisted those Partner Funds that also wanted to report in Q1 2022
- Refreshed the Climate Risk Monitoring Service, with additional Net Zero Relevant Metrics
- RI due diligence on Private Market Fund Launches and ongoing monitoring of external managers
- Significant engagements
  - Credit Suisse and Glencore
  - Deforestation, Plastic pollution, Climate Change and Human Rights



# Responsible Investment & Engagement



## PRIORITIES FOR THE NEXT SIX MONTHS

Page 66

-  Complete Climate Risk Monitoring for SPF (including scenario analysis) later this year
-  Procurement of ESG tool and associated analysis
-  Finalize Net Zero Implementation Strategy and Metric Gathering
-  Extend Carbon Analysis to Private Markets
-  Recruitment to bring RI Team back to 6 people
-  Modern Slavery Statement



# Staff are our only Asset



## POSITIVE INFLUX OF NEW AND REPLACEMENT HIRES BUT RETENTION IS DIFFICULT

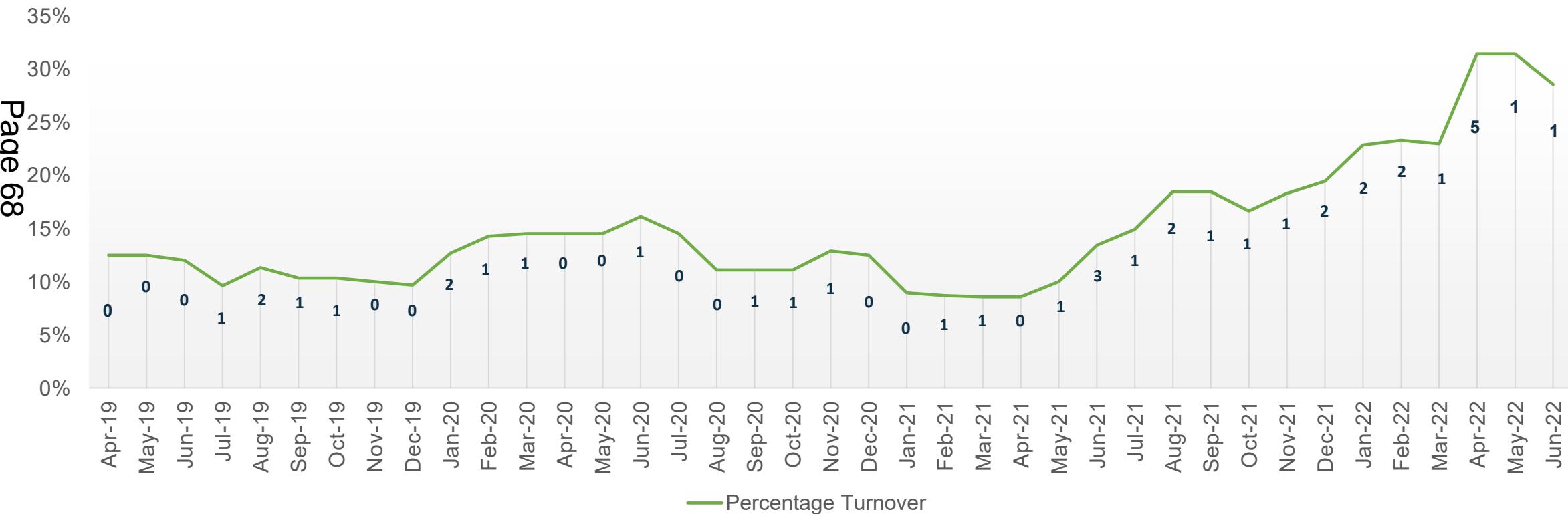
- Successful new hires that joined in September:
  - Chief Stakeholder Officer Matthew Jones
  - Chief Legal, Compliance & Risk Officer Struan Fairbairn
  - RI Integration Manager (FTC) Justin Sloggett
  - Compliance Manager Mohammed Nadeem
  - Investment Operations Manager Jaytin Patel
  - Admin Assistant Rhys Khan
- 3<sup>rd</sup> Graduate cohort started in early October
- Highly competitive recruitment market
  - Inward recruitment taking longer
  - The quality and skills of LGPSC Ltd staff make them attractive to alternative employers
  - Exit interviews consistently cite "Remuneration & Benefits" packages and "Location" as reasons for leaving

# Staff Turnover has Risen over the Last Year



COVID RE-EVALUATION, REMOTE WORKING AND 3-YEAR POINT ALL CONTRIBUTING

Rolling 12-Month Staff Turnover



Numbers below the line depict number of leavers in the month

Data calculation: number of leavers over a 12-month period over head count

# Summary

## CONTINUING PROGRESS IN A CHALLENGING ENVIRONMENT

Page 69

- Staff **retention** remains a key challenge and focus for the Board and Senior Management



- Responsibly achieved Investment **performance** is our top priority
- Continuing growth of **Private Markets** partnerships to facilitate increasing Partner Fund asset allocations
- **Cost savings** are being achieved

- Cumulative **breakeven** within sight
- **What next** once new fund launches and asset transitions plateau?

# DISCLAIMER:



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Share Class and Benchmark performance displayed in GBP.

Performance is shown on a Net Asset Value (NAV) basis, with gross income reinvested where applicable.

All information is prepared as of **06 October 2022**

This document is intended for **PROFESSIONAL CLIENTS** only.

“One Central team, working in partnership to invest with purpose and deliver superior returns”



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## Agenda Item 10

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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