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PUBLIC

To: Members of Pensions and Investments Committee

Tuesday, 16 January 2024

Dear Councillor,

Please attend a meeting of the **Pensions and Investments Committee** to be held at **10.30 am** on **Wednesday, 24 January 2024** in the Council Chamber, County Hall, Matlock, the agenda for which is set out below.

Yours faithfully,

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. Minutes (Pages 1 - 6)

   To confirm the non-exempt minutes of the meeting of the Pensions and Investments Committee held on 6 December 2023.

4. Climate Risk Management Report (Pages 7 - 74)

5. Local Government Pension Scheme Investment Pooling (Pages 75 - 80)

6. Governance Policy and Compliance Statement (Pages 81 - 96)

7. Derbyshire Pension Fund Risk Register (Pages 97 - 114)

8. Exclusion of the Public

   To move "That under Regulation 21 (1)(b) of the Local Authorities (Executive Arrangements) (Access to Information) (England) Regulations 2000, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972"

**<u>PART II - EXEMPT ITEMS</u>**

9. Climate Risk Management Exempt Report (Pages 115 - 216)

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**MINUTES** of a meeting of **PENSIONS AND INVESTMENTS COMMITTEE** held on Wednesday, 6 December 2023 in the Council Chamber, County Hall, Matlock,.

## PRESENT

Councillor D Wilson (in the Chair)

Councillors P Smith, N Atkin, C Ashby (Derby City Council), B Bingham, M Foster and M Yates.

Also in attendance was A Fletcher (Independent Investment advisor), N Read (Trade Union representative) and S Ambler and L Seeley (Pension Board members via MS Teams)

Apologies for absence were submitted for Councillors G Musson and L Care (Derby City Council).

### 55/23 TO RECEIVE DECLARATIONS OF INTEREST (IF ANY)

There were no declarations of interest.

### 56/23 MINUTES

The minutes of the meeting held on 25 October 2023 were confirmed as a correct record.

### 57/23 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 the presented by the Fund's Investments Manager who explained the rationale for the recommendations for each asset class set out in the report.

Members of the Committee asked several clarifying questions regarding the economic outlook, the performance of global sustainable equities and about the growth of renewable energy production.

**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 of the Director of Finance & ICT; and
c) Approves the IIMT recommendations outlined in the report.

**58/23** **STEWARDSHIP REPORT**

The Committee was provided with an overview of the stewardship activity that had been carried out by the Pension Fund's external investment managers in the quarter ended 30 September 2023. The following two reports would ensure that the Committee was aware of the engagement activity that had been carried out by Legal & General Investment Manager (LGIM) and by LGPS Central Limited (LGPSC):

- Q3 2023 LGIM ESG Impact Report
- Q2 2023-24 LGPSC Quarterly Stewardship Report

The Committee was informed that LGPSC currently had four stewardship themes, agreed in collaboration with the eight Partner Fund of the LGPS Central Pool, in respect of Climate Change, Plastic, Human Rights Risk, and Fair Tax Payment & Tax Transparency. The Partner Funds and LGPSC believed that identifying material core themes would help direct engagement and send a clear signal to companies of the areas that Partner Funds and LGPSC were likely to be concerned with during engagement meetings.

The themes were subject to review every three years and LGPS Central Limited had proposed updating the themes to Climate, Natural Capital, Human Rights and Controversial Activities. The In-House Investment Management Team had discussed the proposed themes with LGPSC and supported the updated choice of stewardship themes. Members of the Committee had been provided with an opportunity to feedback on the updated themes.

**RESOLVED** that the Committee notes the stewardship activity of LGIM and LGPSC.

**59/23** **STRATEGIC ASSET ALLOCATION BENCHMARK AND INVESTMENT STRATEGY STATEMENT**

Following the receipt of the formal March 2022 actuarial valuation, the Fund's Strategic Asset Allocation Benchmark (SAAB) had been reviewed, taking into consideration the further improvement in the funding level and the proposed changes were highlighted.

The proposed final SAAB included a 5% switch from Growth Assets to Income Assets, reflecting the improvement in the Fund's funding position. It was proposed that the majority of the recommended 5% increase was allocated to infrastructure, taking the asset class weighting from 10% to 13%. The proposed final SAAB also included a change in the composition of the Fund's equity exposure.

Given the proposed changes to the Fund's SAAB as set out in the report, a revised Investment Strategy Statement had been prepared, a copy of which was set out at Appendix 2 to the report.

It was intended to consult with scheme members, scheme employers, members of Derbyshire Pension Board, and other stakeholders on the revised Investment Strategy Statement and the results of the consultation would be reported to Committee at the March 2024 meeting.

In response to a question, the Investments Manager confirmed that the proposed 5% switch from Growth Assets to Income Assets was expected to reduce the volatility of investment returns but was not expected to reduce the level of future returns based on forecast long term asset class returns.

**RESOLVED** that the Committee approves the draft revised Investment Strategy Statement attached at Appendix 2 to the report, which includes the proposed changes to the Find's Strategic Asset Allocation Benchmark, for consultation with the Pension Fund's stakeholders.

**60/23** **RESPONSIBLE INVESTMENT FRAMEWORK AND CLIMATE STRATEGY**

Approval was sought for a consultation exercise to be undertaken with the Fund's stakeholders in relation to the Fund's updated Responsible Investment Framework and updated Climate Strategy.

There were no significant proposed changes to the Fund's Responsible Investment Framework. A copy of the draft updated RI Framework was set out in Appendix 2 to the report and it would be amended to include LGPS Central Limited's updated stewardship themes when they had been finalised.

The Fund had made significant progress against the targets set out in the Fund's current Climate Strategy, as detailed below:

| Target | Target by end of 2025 | Actual on 31 March 2023 |
|---|---|---|
| Reduce the carbon footprint (Scope 1 & 2) of the Fund's listed equity portfolio by at least 30% relative to the weighted benchmark in 2020 by the end of 2025 | (30%) | (47%) |
| Invest at least 30% of the Fund portfolio in low carbon & sustainable investments by the end of 2025 | 30% | Invested: 29%<br>Committed:30% |

As a result of the progress, the Fund's proposed updated targets in respect of these two metrics showed a material increase relative to the Fund's current targets, and the Fund's In-House Investment Management Team (IIMT) believed that these were in line with the Fund's stated ambition of achieving a portfolio of assets with net zero carbon emissions by 2050.

The updated strategy also set out targets in respect of the Fund's stewardship and engagement activities in respect of climate change, together with a reference to Derbyshire County Council's corporate climate change strategy, which as the administering authority for Derbyshire Pension Fund, covered the Fund's corporate emissions.

It was noted that the target related to absolute financed emissions of the Fund's listed equity and investment grade bond portfolios in the updated strategy should be linked to the Fund's reported absolute financed emissions in 2020, rather than being linked to the Fund's weighted 2020 benchmark for those portfolios.

A copy of the Fund's draft updated Climate Strategy was set out at Appendix 3 to the report.

Members of the Committee asked questions about the expected future level of investment in companies with exposure to fossil fuels, the impact of engagement with investee companies and about the Fund's plans for highlighting the progress made to date against the climate-related targets.

**RESOLVED** that the Committee approves the draft updated Responsible Investment Framework and draft updated Climate Strategy, attached as Appendix 2 & Appendix 3 to the report, for consultation with the Fund's stakeholders.

61/23 **REVIEW OF THE ADMINISTERING AUTHORITY DISCRETIONS POLICY**

Approval was sought for the Statement of Policy on the Administering Authority's Discretions in respect of the Local Government Pension Scheme (LGPS), which was attached at Appendix 2 to the report.

Under the LGPS regulations there were a number of areas where administering authorities and employers were permitted a level of discretion in the way they applied the rules locally for LGPS members.

A review of the last statement of policy had identified that a number of minor technical amendments were required. Discretions which sat with the Adjudicator for appeals were no longer included in the Policy. Some discretions previously not included had been added to the Policy and reflected:

- Procedures applicable to Derbyshire Pension Board, including appointments and membership
- Approval for admission arrangements to take retrospective effect where necessary
- Exit arrangements for employers

**RESOLVED** that the Committee approves the draft Statement of Policy on Administering Authority LGPS Discretions included at Appendix 2 to the report.

62/23 **DERBYSHIRE PENSION FUND COMMUNICATIONS POLICY**

A detailed review of the Fund's approach to communicating with scheme members, employers and other stakeholders, and a summary of the Fund's strategy with regard to its communications for the three-year period from 2024 to 2027 was reflected in the draft revised Communications Policy, attached at Appendix 2 to the report. The Policy reflected developments and improvements achieved over the last two years, and the developments and improvements planned for the period 2024 to 2027.

One of the developments achieved over the last two years was the launch of the My Pension Online platform, and Members requested a demonstration of the system at a future meeting to views it functions and capabilities.

It was intended that progress in meeting the communications-related developments included in the three-year strategy, would be reviewed annually and reported in the Half-Year Pension Administration Performance Report. The Policy will be published on the Fund's website in a suitable format in consideration of its accessibility to all of the Fund's stakeholders.

In response to a question, it was noted that the Fund has the ability to add messages to the back of pension payslips, which were sent out three times a year to all pensioner members of the Fund.

**RESOLVED** that the Committee approves the draft revised Communications Policy attached at Appendix 2 to the report.

**FOR PUBLICATION**

**DERBYSHIRE COUNTY COUNCIL**

**PENSIONS AND INVESTMENTS COMMITTEE**

**WEDNESDAY, 24 JANUARY 2024**

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

# Climate Risk Management Report

## 1. Purpose

1.1 To present Derbyshire Pension Fund's (the Pension Fund/Fund) public Climate Risk Management Report dated January 2024, prepared by LGPS Central Limited, to the Pensions and Investments Committee.

## 2. Information and Analysis

### 2.1 Background

LGPS Central Limited (LGPSC) has prepared a Climate Risk Management Report (LGPSC Climate Risk Management Report) for the Fund, which sets out an anaylsis of the Fund's approach towards climate-related risks and oppourtunities.

The LGPSC Climate Risk Management Report is structured around the Department for Levelling Up, Housing and Communities (DLUHC) potential recommendations on climate-related risk management as set out in the DLUHC consultation document 'Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risks' dated September 2022.

The LGPSC Climate Risk Management Report uses the Taskforce on Climate-Related Financial Disclosures (TCFD) Maturity Map as a foundational framework for assessing an organisation's maturity in understanding, manageing and addressing the risks and oppourtunities relating to cliamte change.

This is the fourth Climate Risk Management Report (previously entitled Climate Risk Report) prepared by LGPSC, with the first, second and third reports being presented to the Pensions and Investments Committee in March 2020, November 2021 and January 2023, respectively.

Recognising that there is considerable uncertainty in the future development of climate risks and of the solutions for climate risks, LGPSC and the Fund's In-House Investment Management Team (IIMT) believe that using a variety of different carbon risk metrics and climate scenario analysis tools currently provides the most appropriate method of analysing and managing climate risk within an investment portfolio.

It is appropriate to consider the Fund's climate strategy and climate-related metrics alongside the Fund's long-term investment strategy, which is to maximise the returns from investments within acceptable levels of risk, contributing to the Fund having sufficient assets to cover accrued benefits, enabling employer contributions to be kept as stable as possible and limiting costs to local taxpayers. Furthermore, it is important to maintain access to a diversified portfolio of assets to reduce concentration risk and minimise performance volatility.

LGPSC's contractual arrangements with MSCI, the third-party provider of the carbon risk metrics data, prevents the publication of the full Climate Risk Management Report as the report contains some proprietary information in respect of individual investment manager and stock holding carbon metrics, which is subject to a non-disclosure clause. The full report will be presented in the restricted part of the Committee meeting. A public version of the report, which provides largely the same degree of overall portfolio and asset class information but omits the propriatary information noted above, is attached as Appendix 2.

## 2.1 LGPSC Climate Risk Management Report Findings

LGPSC notes that based on the Fund's current processes and disclosures, the Fund is well positioned to meet DLUHC's potential requirements on climate change governance and disclosures.

LGPSC concludes that on average, using an assessment based on the TCFD Maturity Map, the Fund is disclosing at a Moderate level. The TCFD Maturity Map ranks disclosures into three categories: Limited, Moderate and Full Disclosure, although LGPSC notes that, based on its analysis, no single peer is able to achieve leader status (i.e. Full Disclosure) across all elements. LGPSC further notes that the Fund does have the potential to move towards leader status in several elements and is most advanced within its disclosure of its governance structures, including climate training and inclusion of climate considerations within the Funding Strategy/Valuation Report.

The LGPSC Climate Risk Management Report includes a number of considerations and recommendations, several of which were addressed in the Fund's updated Climate Strategy (currently subject to consultation with the Fund's stakeholders). The remaining recommendations, largely relating to governance and reporting are currently being considered by the Fund.

## 2.3 Carbon Risk Metrics

Carbon risk metrics analysis on the Fund's listed equities (51.0% of total investment assets on 31 March 2023) and listed investment grade bonds (5.7% of total investment assets on 31 March 2023) portfolios considers:

- Portfolio carbon footprint (Scope 1 & 2 – Scope 1 covers emissions from sources that an organisation owns or controls directly, whereas Scope 2 covers emissions that a company causes indirectly and come from where the energy it purchases and uses is produced): the weighted average carbon intensity (WACI) of the portfolio
- Total financed emissions (Scope 1 & 2): a measure of absolute tons of $CO_2$ emissions for which an investor is considered responsible
- Total normalised emissions (Scope 1 & 2): normalised by a portfolio's AUM to provide a measure of carbon intensity
- Portfolio Scope 3 carbon footprint: Scope 3 covers emissions released through the value chain of the company, both upstream and downstream
- Fossil fuel exposure: the proportion of the portfolio with exposure to companies with fossil fuel reserves

- Thermal coal exposure: the proportion of the portfolio with exposure to companies with thermal coal reserves
- Coal power exposure: the proportion of the portfolio which relates to utilities which derive more than 30% of their energy mix from coal power
- Clean Technology exposure: the proportion of the portfolio invested in companies whose products and services include clean technology
- Data Quality: a score between 1 and 5; with 1 being the most preferred and relating to actual audited data and 5 being the least preferred and relating to estimated data with limited evidential support
- Engagement: the proportion of financed emissions which are covered by direct or indirect LGPSC engagement, excluding any engagement carried out by the Fund's other investment managers/engagement providers
- Low Carbon Transition: the proportion of financed emissions associated with a company with an above median score in respect of the management of risks and oppourtunities related to the low carbon transition. The metric is scored between 1 and 10, with 0 (worst) and 10 (best)
- Implied Temperature Rise in the year 2100 or later: the proportion of financed emissions within a portfolio with an Implied Temperature Rise of 2ºC or lower
- Science-Based Targets: the proportion of financed emissions which are accounted for by portfolio companies with a science based target, which indicates that a company commits to a medium and/or long-term net zero target that are considered science-based (i.e. in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement)
- Paris Alignment: the proportion of financed emissions which are considered to be Paris Aligned based on: the company has a Low Carbon Transition score greater than 5, as well as either an Implied Temperature Rise of 2ºC or lower, or a Science-Based Target

LGPSC notes that climate data is an evolving field, with methodologies being continuously updated by governments, data providers and companies. The data used by LGPSC (as supplied by MSCI) is subject to frequent revisions, as data coverage expands, and estimated data gets replaced by reported data. To the extent possible, the LGPSC Climate Risk Management Report, has restated the Fund's climate metrics for prior years to incorporate the most current information (the Restated Basis).

The IIMT notes that these restatements can be significant and indicate that the climate metrics set out in the LGPSC Climate Risk Management Report should not be considered as definitive, and ongoing improvement in the consistency, comparability and quality of climate-related data is likely to have further impact (either positive or negative) in the future.

The key highlights of the carbon risk metrics analysis are as follows:

**Listed Equities:**

- Carbon footprint is 47.0% more carbon efficent than the 2020 Weighted Benchmark, rising to 49.8% on a Restated Basis
- 35.1% reduction in the carbon footprint between 31 July 2019 and 31 March 2023, rising to 41.6% on a Restated Basis
- 34.9% reduction in total financed emissions between 31 July 2019 and 31 March 2023, falling to 31.5% on a Restated Basis
- 44.6% reduction in total normalised financed emissions between 31 July 2019 and 31 March 2023
- Total Scope 3 carbon footprint 18.5% lower than the 2023 benchmark. Top 10 investee companies account for 43.6% of total Scope 3 emissions
- 5.7% of the portfolio invested in fossil fuel companies on 31 March 2023, 460 basis points lower than on 31 July 2019 (370 basis points lower on a Restated Basis), and 280 basis points lower than the 2023 benchmark
- 38.5% of the portfolio invested in companies with exposure to clean technology, in line with the 2023 benchmark, and up from 30.4% on 31 July 2019 (29.7% on a Restated Basis)
- Average Data Quality score of 2.1, with a WACI coverage of 96.6%
- 63.5% of total financed emissions covered by direct or indirect LGPSC engagement
- Low Carbon Transition percentage of 39.0%, compared to a FTSE All World average of 32.6%
- Implied Tempreture Rise Percentage of 28.1%, compared to a FTSE All World average of 12.3%
- Science-Based Targets Percentage of 32.4%, compared to a FTSE All World average of 8.1%
- Paris Alignment Percentage of 22.1%, compared to a FTSE All World average of 11.5%

The LGPSC Climate Risk Management Report reports that the Total Listed Equities weight in fossil fuels reserves was 5.7% on 31 March 2023. The difference between this reported weight in fossil fuel reserves and the IIMT's quoted internal estimate of around 2.5% reflects two key drivers:

- The LGPSC figure is the percentage weight of the Total Listed Equities portfolio, whereas the IIMT estimate is the percentage weight of the Fund's total investment portfolio; listed equities only account for 51% of the total investment portfolio.

- The IIMT's esimate includes the Fund's actual holdings in the widely recognised oil producing majors (ExxonMobil; Chevron; Total Energies; BP; Shell; ConocoPhillips; and Eni). The methodology used in the LGPSC Climate Risk Report to calculate the weight in fossil fuel reserves includes the full weight of any company which has either fossil fuel reserves, thermal coal reserves or derives more than 30% of its energy mix from coal power, regardless of how much those activities/reserves represent of the company's total operations.

As noted in the LGPSC Climate Risk Management Report, when apportioned by revenue, only 2.0% of the Total Listed Equities portfolio (3.8% at a benchmark level) derives revenue from fossil fuel reserves, indicating that most of companies with fossil fuel reserves are diversified businesses, including exposure to clean technology.

**Listed Investment Grade Bonds:**

- Carbon footprint including sovereigns is 10.4% less carbon efficent than benchmark
- 31.4% reduction in total absolute financed emissions between 31 March 2022 and 31 March 2023 on a restated basis, following a rise in the previous year
- 5.2% reduction in total normalised financed emissions between 31 July 2019 and 31 March 2023
- Total Scope 3 carbon footprint 39.5% lower than the 2023 benchmark. Top 10 investee companies account for 65.2% of total Scope 3 emissions
- 4.4% of the portfolio invested in fossil fuel companies on 31 March 2023, 190 basis points lower than benchmark
- 22.3% of the portfolio invested in companies with exposure to clean technology, 660 basis points lower than the benchmark
- Average Data Quality score of 2.2, with a WACI coverage of 87.3%
- 51.6% of total financed emissions are covered by direct or indirect LGPSC engagement
- Low Carbon Transition percentage of 26.1% (benchmark not available)
- Implied Tempreture Rise Percentage of 38.9% (benchmark not available)
- Science-Based Targets Percentage of 39.7% (benchmark not available)
- Paris Alignment Percentage of 24.4% (benchmark not available)

It should be noted that the measure for clean technology exposure should be treated with some caution as there appears to be a moderate positive correlation in the dataset between sectors that have a high carbon intensity and those that have a higher weight in clean technology. Furthermore, the analysis takes no account of the Fund's unquoted onshore & offshore, solar and hydro renewable energy infrastructure investments. These investments and commitments amounted to more than £250m on 31 March 2023.

### 2.4 Climate Strategy Targets

The Fund developed a standalone Climate Strategy which was approved by Committee in November 2020. The Climate Strategy sets out the Fund's approach to addressing the risks and opportunities related to climate change, including a statement that the Fund supports the ambitions of the Paris Agreement, and aims to achieve a portfolio of assets with net zero carbon emissions by 2050.

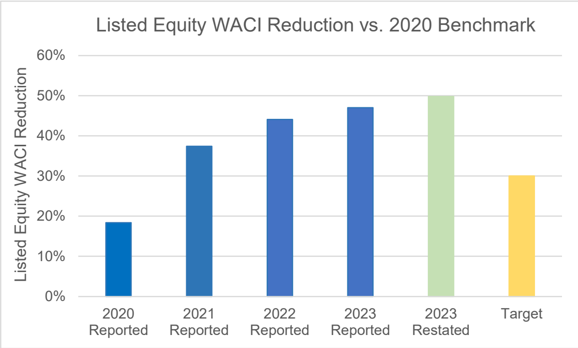
The Climate Strategy included two targets: (i) reduce the carbon footprint (Scope 1 & 2) of the Fund's listed equity portfolio by at least 30% relative to the weighted benchmark in 2020 by the end of 2025; and (ii) invest at least 30% of the Fund portfolio in low carbon & sustainable investments by the end of 2025.

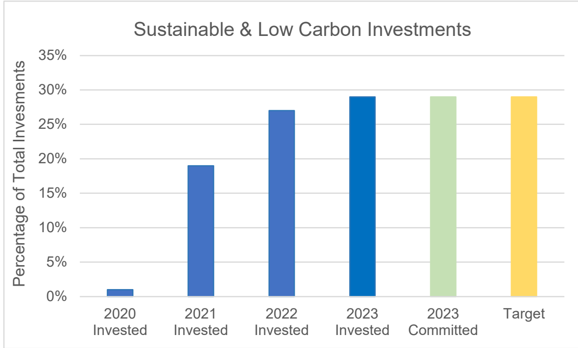
The table below, shows the progress to date in respect of the two targets:

| Target | Target by end of 2025 | Actual on 31 March 2023 |
|---|---|---|
| Reduce the carbon footprint (Scope 1 & 2) of the Fund's listed equity portfolio by at least 30% relative to the weighted benchmark in 2020 by the end of 2025 | (30%) | Reported: (47%) (1)<br>Restated: (50%) (1) |
| Invest at least 30% of the Fund portfolio in low carbon & sustainable investments by the end of 2025 | 30% | Invested: 29%<br>Committed: 30% |

(1) The 'Reported' reduction is relative to the 2020 Weighted Average Benchmark (182.8tC02e/SM Revenue) as reported by LGPSC in its first Climate Risk Management Report published in February 2020, whereas the 'Restated' reduction is relative to the restated 2020 Weighted Average Benchmark (192.8tC02e/$M Revenue) as reported by LGPSC in its fourth Climate Risk Management Report published in January 2024

The year-on-year trend in the Fund's progression towards the targets is shown below:




The Fund has already achieved the first target and has met its second target on a committed basis. As highlighted above, ongoing improvement in the consistency, comparability and quality of climate-related data is likely to have an impact (either positive or negative) on the Fund’s carbon metrics relative to the targets noted above.

The Fund’s climate related targets are expected to show a sizeable increase once the updated Climate Strategy is finalised.

## 2.5 Other Asset Classes

The carbon metrics in the LGPSC Climate Risk Management Report relate to the Fund’s listed and investment grade bond portfolios, representing 56.7% of the Fund’s total investment assets on 31 March 2023. The poor availability of data in asset classes other than listed equities and investment grade bonds (e.g. Sovereign Bonds, Infrastructure, Property, Private Equity, etc) prevents a more complete analysis at the present time. The IIMT notes that several of these asset classes are naturally tilted towards lower carbon industries (e.g. Infrastructure and Private Equity) or supported by national net zero commitments (e.g. Sovereign Bonds), albeit like other assets, they are not immune to climate risk, particularly those with a growth tilt. The majority of the Fund’s underlying asset managers have made net zero commitments and are working towards reduced carbon emissions in line with the Paris Agreement.

## 2.6 Climate-Related Disclosures

The Fund prepares and publishes an annual Climate-related Disclosures Report (the Disclosures Report), which includes:

- information on the Fund’s governance of climate risk
- information on the Fund’s climate-relate stewardship activities
- the high level results of climate scenario analysis

- carbon risk metrics analysis in respect of the Fund's listed equity and investment grade bond portfolios
- progress against the Fund's Climate Strategy targets
- an overview of the climate-related risks and responsibilities in respect of the Fund's asset classes other than listed equities and investment grade bonds

The annual publication of a Disclosure Report represents best practice and the Fund plans to issue an updated Disclosure Report by the end of June 2024, following the finalisation of the Pension Fund's updated Climate Strategy in March 2024.

**3. Implications**

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

**4. Background Papers**

4.1 Papers held by the Pension Fund.

**5. Appendices**

5.1 Appendix 1 – Implications
5.2 Appendix 2 – LGPSC Climate Risk Management Report

**6. Recommendation(s)**

That Committee:

a) notes the Climate Risk Management Report attached as Appendix 2

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

7.1 The Committee is responsible for reviewing and approving the Pension Fund's statements, strategies and policies, including the Fund's Climate Strategy and monitoring progress against the Fund's carbon-related decarbonisation reduction targets.

| **Report Author:** | **Neil Smith** | **Contact details:** | **neil.smith2@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

DERBYSHIRE PENSION FUND

# Climate Risk Management Report



FOURTH EDITION • JANUARY 2024 • PUBLIC

PREPARED BY LGPS CENTRAL LIMITED

LGPS Central Limited

# About this Report

This report represents the fourth edition of the Derbyshire Pension Fund's ("The Fund" or "DPF") analysis of its approach towards climate-related risks and opportunities. Previously titled the "Climate Risk Report," the name has been altered to "Climate Risk Management Report" in this edition to avoid any confusion with the Department of Levelling Up, Housing, and Communities' (DLUHC) climate-related disclosure requirement also named the "Climate Risk Report." This iteration follows the same structure as the previous editions released by DPF since 2020.

Section 1 of the report assesses the Fund's climate risk management framework and disclosure practices. It aims to evaluate the Fund's alignment with DLUHC recommendations on climate-related risk management. Additionally, it examines the Fund's maturity in handling these risks within its investment portfolio.

This analysis references DPF's 2023 Climate-Related Disclosure report[1] and public policy documents such as the Fund's Investment Strategy Statement,[2] Funding Strategy Statement,[3] and UK Stewardship Code 2020 Signatory Application (Stewardship Code Application).[4] DPF has also provided us with a copy of its draft updated Climate Strategy, which is currently subject to public consultation.[5] Emphasising compliance, the Fund's Climate-Related Disclosure report meets Task Force on Climate-Related Financial Disclosures (TCFD) guidelines, satisfying DLUHC's annual Climate Risk Report requirement. Recommendations from prior Climate Analysis Reports are included for continuity where relevant.

Section 2 of this report explores the Fund's climate metrics more extensively, notably highlighted within its Climate-Related Disclosure report. This section is specifically devoted to conducting a thorough analysis of the Fund's carbon footprint indicators. Serving as a comprehensive information hub, it illuminates the Fund's various initiatives geared towards improving its carbon footprinting activities.

Peak District National Park, Derbyshire

[1] Derbyshire Pension Fund - Climate-related Financial Disclosures report
[2] Derbyshire Pension Fund investment strategy statement
[3] Derbyshire Pension Fund - Funding Strategy Statement
[4] Derbyshire Pension Fund - The UK Stewardship Code 2020 Signatory Application
[5] The latest Climate Strategy refers to the Fund's Draft 2024 Climate Strategy, which at time of writing is currently in a draft format, subject to a public consultation.

# Executive Summary

## Climate Analysis

### Summary of Recommendations and Considerations:

#### Governance

- Consider providing disclosure of climate discussions at working groups within, or outside of its pool.
- Consider enhanced disclosure relating to the climate related training undertaken by the Committee.
- Integrate 'climate solutions' data into the CRMS once an industry-agreed definition is available.
- Establish a Net Zero Stewardship Programme. This includes mapping the Fund's financed emissions to existing engagements, creating a Net Zero Voting Policy, establishing an alignment framework, and defining a policy advocacy programme.

#### Strategy

- The Fund should continue to commission Climate Scenario Analyses as recommended by DLUHC, with an awareness that the content of these analyses will develop in line with industry best practice.
- Consider disclosing additional information regarding the choice of scenarios included within the scenario analysis and also consider including information specifically addressing how climate risks are managed/mitigated.
- While the Fund's Investment Strategy Statement provides signposting to the Fund's Climate Strategy, the Fund could consider including climate considerations within the Investment Strategy Statement itself.
- The Fund could consider disclosing case studies of advocacy as recommended by DLUHC.
- Using the analysis from this Climate Scenario Analysis and the overall Climate Risk Report, DPF is on track to get a better understanding of the portfolio's capacity to transition into a low carbon economy. We recommend using this analysis to evolve DPF's sustainable investment targets to include more ambitious climate objectives.

#### Risk Management

- The Fund could provide additional detail on the management of risks outside of stewardship activities.
- Consider preparing further disclosure of details relating to the identification and assessment of specific risks associated with climate change.
- Further integration of climate risk management could be included within the Fund's Investment Strategy Statement, or through the publication of a Risk Management Framework.

#### Metrics & Targets

- Future iterations of the TCFD report should include the four metrics required by DLUHC. Where necessary the Fund should include an explanation to restated values.
- The Fund should seek to formalise the climate data availability targets and other appropriate targets included within the Fund's Draft 2024 Climate Strategy.
- The Fund could consider providing additional information on the climate metrics included, such as use cases and added value.
- Consider detailing the metrics and targets which correspond to the Fund's engagement activities.

# Executive Summary *(continued)*

## Climate Metrics

Equities Weighted Average Carbon Intensity (WACI):

**96.8 $\text{tCO}_2\text{e}/\$\text{M}$ Revenue**

↓ 49.8% vs 2020 weighted benchmark (restated)

↓ 36.9% vs Reference Index

**Invested 30%**

of the portfolio in low carbon and sustainable investments:

→ 30% Strategic Asset Allocation

→ 29% DPF (30% on a committed basis)

Equities Financed Emissions:

**183,713 $\text{tCO}_2\text{e}$**

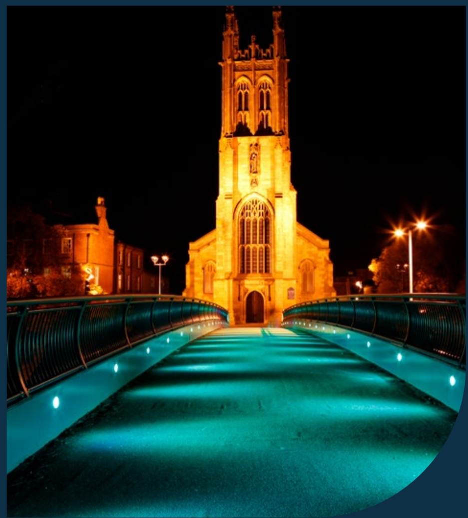
↓ 33.9% vs Reference Index

**22.1%**

of Equities financed emissions from companies which are 'Aligned' or 'Aligning' to Paris

↑ 10.6 pps vs FTSE AW

Page 21



# Contents



Front Cover: Morning Mist in Peak District National Park, Derbyshire
Images (Clockwise): The Great Ridge, Peak District National Park, Derbyshire
St Mary's Church, Derby, Derbyshire
Hardwick Hall, Derbyshire

Section 1

# Climate Analysis

Page 22

Landscape near Mam Tor Edale, Derbyshire

# Introduction

The Fund has taken proactive steps in its climate-related reporting, voluntarily publishing annual reports aligned with the TCFD since March 2020. This demonstrates a strong commitment to addressing climate risks, even ahead of the anticipated mandate from DLUHC. The mandate is expected to require Local Government Pension Scheme administering authorities to identify, assess, and manage climate-related risks, aligning with TCFD recommendations.



The section's primary emphasis is on pinpointing pathways for advancing the Fund's action and disclosure regarding climate-related risks and opportunities. Our approach involves a thorough analysis of potential regulatory requirements and industry best practices to benchmark the Fund's existing approach. This process yields various observations and recommendations, providing actionable insights for the Fund's consideration and potential implementation.

This report adheres to the structure of the TCFD, with each section analysed according to the framework outlined above. Throughout this analysis, we identify best practices that often go beyond the scope of DLUHC requirements. It's essential to note that some other pension schemes and financial institutions are already ahead in implementing climate-related practices due to varying regulatory frameworks. While we recognise that the Fund may be considered ahead of the curve compared to other LGPS schemes, the primary purpose of this report is to drive further progress and improvement.

Autumn on the River Derwent, Derbyshire

# Introduction *(continued)*

In our evaluation, we have undertaken several key steps to assess the Fund's preparedness for potential regulatory requirements:

### Step 1

We scrutinised the consultation document released by DLUHC on 1 September 2022,[6] using it as a valuable reference for our analysis. While awaiting the final decision from DLUHC, we leveraged the information within the consultation to inform our assessment.

Page 24

### Step 2

Using the TCFD Maturity Map[7] as a foundational framework, we assessed the Fund's current climate reporting. This evaluation aims to pinpoint opportunities for enhancing the Fund's reporting, progressing towards best practice. The TCFD maturity map is a framework for gauging an organisation's maturity in understanding, managing, and addressing climate change matters. Although not industry-specific, this map helps assess how well an organisation has implemented the four pillars of TCFD recommendations—Governance, Strategy, Risk Management, Metrics, and Targets—along with identifying improvement opportunities over time. The matrix categorises maturity into three levels: Limited, Moderate, and Full.

### Step 3

To gain broader insights, we reviewed TCFD reports published by diverse organisations within the Financial Services industry. This review encompasses both asset owners and asset managers, allowing us to gauge industry best practices and actions taken to achieve 'full disclosure' status within the TCFD Maturity Map. We use these actions as benchmarks to measure the Fund's progress.

### Step 4

We conducted an in-depth analysis of the Fund's public disclosures, scrutinising its approach to identifying, assessing, and managing climate-related risks and opportunities. This analysis was based on the Fund's publicly accessible information, including but not limited to its Investment and Funding Strategy Statements, Responsible Investment Framework, Climate Strategy, and its most recent climate-related disclosure.

### Step 5

Based on this assessment, we offer recommendations and considerations to guide the Fund in advancing its climate-related management and reporting. This ensures it remains well-prepared to meet potential regulatory requirements and aligns with industry best practices.

[6] https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks

[7] TCFD Maturity Map, The Prince's Accounting for Sustainability Project. Found here: https://www.tcfdhub.org/resource/tcfd-maturity-map/

# Governance

## Proposed DLUHC Requirements

Administering Authorities ("AA") will be expected to establish and maintain, on an ongoing basis, oversight of climate related risks and opportunities. They must also maintain a process or processes by which they can satisfy themselves that officers and advisors are assessing and managing climate-related risks and opportunities.

Page 25

## Disclosure Maturity Map

**GOVERNANCE DISCLOSURE**

| LIMITED DISCLOSURE | MODERATE DISCLOSURE | FULL DISCLOSURE |
|---|---|---|
| • The board's oversight of climate-related risks and opportunities.<br>• Management's role in assessing and managing climate-related risks and opportunities.<br>• A published policy or commitment statement on climate change. | • A statement on how the board is actively considering climate-related risks and opportunities on a regular basis.<br>• Measures to increase board knowledge on climate-related risks and opportunities such as compulsory training or use of an expert advisory board.<br>• A named individual or committee responsible for climate change at board level.<br>• Clear consideration of physical, transition and liability risks.<br>• Commitment to reducing or avoiding impact on, and of, climate change, with short-, medium- and long-term targets. | • Capacity and competence of the board to respond to climate-related risks and opportunities effectively.<br>• Climate-related risks and opportunities are integrated into standard board agendas.<br>• Full and clear consideration of physical, transition and liability risks over short-, medium- and long-term time horizons.<br>• Financial incentives for executives on progress towards achieving short-, medium- and long-term climate targets. |

# Governance *(continued)*

## Industry Best Practices

### Signposting

Several asset managers such as abrdn, Royal London and Schroders included website links to specific sections of their annual report in the TCFD. The annual report contains the profiles of these asset managers' board of directors, including their competency in environmental, social and governance (ESG) issues such as climate. This signposting practice enhances accessibility and facilitates the reader's navigation of relevant information.

### Governance Structures

Most financial institutions either have a specific board-level sustainability committee or discuss climate-related risks at the board's audit and risk committee. Liontrust also named a specific Non-Executive Director responsible for all ESG matters. Whilst not compulsory, establishing a dedicated board committee for climate-related matters provides expertise, accountability, strategic alignment, transparency, risk mitigation, opportunity identification, regulatory compliance, stakeholder engagement, and a long-term perspective. This proactive approach ensures organisations effectively address climate challenges and opportunities while fulfilling their responsibilities to stakeholders and society.

### Transparency

To demonstrate how climate-related risks are integrated into board agendas on a regular basis, Scottish Widows summarised topics discussed, and key decisions made on climate matters throughout the year. Including examples and case studies in a report enhances reader engagement by providing real-world, practical illustrations that make complex concepts more accessible and relatable. It adds credibility, inspires, and fosters problem-solving, making the content more informative and actionable.

### Remuneration

Financial institutions which are listed on the stock exchange are required to disclose its Key Management Personnel's (KMP) remuneration. There are various examples of the climate-related metrics that these institutions use to measure KMP's performance for remuneration purposes. Most include climate-related metrics in their long-term incentive plans, but Royal London include ESG metrics in both short- and long-term incentive plans. While we believe this disclosure is reflective of industry best practice, we also acknowledge that this measure is neither feasible nor appropriate for an LGPS pension fund.

# Governance *(continued)*

## DPF Current Disclosures and Practices

### Governance Structures

The Fund's TCFD report provides transparency and accountability of the key decision-making body within the Fund, the Fund's Pensions & Investments Committee (Committee), which is responsible for approving the Fund's Investment Strategy Statement, Responsible Investment Framework and Climate Strategy. The Fund's Committee receives annual Climate Risk Reports provided by LGPS Central Limited (LGPS Central or LGPSC) and receives ongoing responsible investment and climate-related risks and opportunities training. The Committee is also supported by an Independent Investment Advisor who provides advice on climate-related risks and opportunities. As the Fund's Committee is ultimately responsible for the Fund's approach to climate risks, disclosures regarding climate orientated training and access to resources demonstrates the credentials of the Committee and an ability to challenge the Fund's approach to climate risk.

Additional details regarding the training received by the Fund's Committee are disclosed within the Fund's Stewardship Code Application. This report contains examples of recent training sessions, including Global Sustainable Equities, Climate Stewardship, Responsible Investment Framework, and Introduction to New Climate Strategy. The inclusion of the additional training details provides credibility to the Committee's ability to understand and manage climate related risks within the Fund.

### Signposting

The Fund's Governance Policy and Compliance Statement provides a greater level of information regarding the organisational structure of the Fund, the specific responsibilities of the different bodies within the Fund (e.g., Pensions and Investments Committee and Derbyshire Pension Board) and how the day-to-day management of the Fund is delegated. This is signposted within DPF's TCFD reporting, complementing the report and providing additional transparency and accountability to the Fund's governance.

DPF has demonstrated integration of climate consideration through the publication of their Responsible Investment Framework and Climate Strategy, which are both signposted within the Investment Strategy Statement, as well as the publication of other climate orientated reports. Climate risk and TCFD reporting is also briefly discussed within the Funding Strategy Statement.

## Considerations and Recommendations

Although a climate-specific sub-committee may not be appropriate for an LGPS pension fund, we acknowledge the Fund's active participation in the Practitioners' Advisory Forum Responsible Investment Working Group for the LGPS Central Pool. This working group engages in discussions related to climate matters, allowing the Fund to broaden its understanding of these issues. Similarly, we recognise the Fund's membership in the Institutional Investors Group on Climate Change (IIGCC), as disclosed in the Fund's TCFD report. The Fund also participates in working groups arranged by the IIGCC and has discussed its current draft Climate Strategy and targets with the IIGCC. Enhanced disclosure of these discussions and the topics discussed during these working groups would help demonstrate the Fund's collaborative approach to managing climate risk.

The Fund discusses climate training within the TCFD report. However, it does not include the level of detail that is disclosed within their Stewardship Code Application. We also recognise that the Stewardship Code Application discloses the Pensions and Investments Committee members' attendance, including participation in training sessions. The Fund could consider disclosing which members attended training sessions with climate considerations, as well as highlighting any other climate credentials members may have. This would not need to be included in the TCFD report but could be signposted from within the report.

### Carried Over Recommendations and Considerations

Integrate 'climate solutions' data into the Climate Risk Management Service (CRMS) once an industry-agreed definition is available.

Establish a Net Zero Stewardship Programme. This includes mapping the Fund's financed emissions to existing engagements, creating a Net Zero Voting Policy, establishing an alignment framework, and defining a policy advocacy programme.

# Strategy

## Proposed DLUHC Requirements

AAs will be expected to identify climate-related risks and opportunities on an ongoing basis and assess their impact on their funding and investment strategies.

AAs will be required to carry out two sets of scenario analysis. This must involve an assessment of their investment and funding strategies. One scenario must be Paris-aligned (meaning it assumes a 1.5 to 2 degree temperature rise above pre-industrial levels) and one scenario will be at the choice of the AA. Scenario analysis must be conducted at least once in each valuation period.

Page 28

## Disclosure Maturity Map

| | LIMITED DISCLOSURE | MODERATE DISCLOSURE | FULL DISCLOSURE |
|---|---|---|---|
| STRATEGY DISCLOSURE | • Operational greenhouse gas ("GHG") emission reductions. | • Climate-related risks and opportunities the organisation has identified over the short-, medium- and long-term.<br>• The impact of climate related risks and opportunities on the organisation's businesses, strategy and financial planning.<br>• Involvement in domestic and international efforts to mitigate climate change. | • The potential impact of different climate scenarios, including a 4°C, a 2°C and a 1.5°C scenario, on the organisation's businesses, strategy and financial planning.<br>• The organisation's internal carbon pricing strategy.<br>• Vocal advocacy for action on climate change and collaboration with peers and other stakeholders to achieve change. |

# Strategy *(continued)*

## Industry Best Practices

### Climate Scenario Analysis

USS's climate scenario analysis discussed the impact of climate change to both its investment and funding strategies. The rationale behind the chosen scenarios and time horizons were clearly described. Further, USS also illustrated how climate change impacts their defined contribution members' investments returns. While we understand that scenario analysis remains an evolving tool, it still provides a valuable insight into how climate change could impact investment returns under different scenarios, highlighting the importance of conducting and disclosing the findings of climate scenario analysis. As this tool is still evolving it is important to demonstrate an understanding and provide a justification of the parameters surrounding the analysis, including the scenarios chosen and time horizons, which should be clearly defined.

### Industry Collaboration and Engagement

Partnerships, initiatives and collaborations were discussed in plenty of detail in Scottish Widows' TCFD report. They also produced a case study of a collaborative engagement on the topic of deforestation. Collaborative engagement allows funds to pool their influence as to drive change in the industry, it is considered industry best practice to not only collaborate in these initiatives, but to also demonstrate the impact derived from these collaborative engagements through case studies.


Sunrise along The Great Ridge, Peak District National Park, Derbyshire

# Strategy *(continued)*

## DPF Current Disclosures and Practices

### Climate Scenario Analysis

The Fund commissioned scenario analysis during 2020 and 2022 and has disclosed the estimated impact to the Fund's holdings under a Failed Transition, Orderly Transition, and Rapid Transition scenario, in the Fund's TCFD report, aligning with full disclosure. The Fund provides clear definitions of the scenarios utilised and examples of the short-, medium- and long-term risks, demonstrating an understanding of how climate risks can materialise in the Fund. While the Fund believes the use of carbon risk metrics and climate scenario analysis currently provides an appropriate method to support a strategy to integrate climate risk into investment decisions, DPF also recognises the challenges of utilising climate scenario analysis for investment strategy decisions, demonstrating an appropriate and measured approach to this relatively nascent analysis.

The Fund has incorporated climate-related risks within the funding strategy, considering the resilience of the strategy through climate scenario stress testing which contributes to the modelling exercise during the 2022 valuation. This disclosure also briefly discusses the findings of this exercise. Further to this, the Fund's 2022 Valuation Report recognises climate-related risks as a significant source of funding risk and discloses the results of the climate scenario analysis. These disclosures demonstrate the Fund's integration of scenario analysis beyond the investment strategy, exhibiting strong progress towards industry best practice and readiness for future mandatory reporting.

### Engagement

The Fund's Climate Strategy describes how engagement fits within the Fund's strategy. The Fund's TCFD report, Responsible Investment Framework and Stewardship Code Application provides additional disclosures on this topic including detailing the Fund's stewardship partners/collaborative engagements. Overall, these publications demonstrate the Fund's ability to integrate engagement into the Fund's strategy and participate in collaborative engagements. The Fund's Stewardship Code Application also provides examples of the Fund's engagement via their managers and through collaborative engagements, providing credibility to their engagement strategy.


Peak District National Park, Derbyshire

# Strategy *(continued)*

## Considerations and Recommendations

The Fund should be commended for its use of scenario analyses, both looking at the impacts of climate on its investments but also on its funding. The Fund should consider including this information within the Fund's TCFD report, or signposting to where this information can be found. From a more long-term perspective, the Fund should consider updating its climate policies to reflect impacts on its funding as well as investments. This is in line with a direct recommendation provided by DLUHC.

The Fund could also consider providing additional information regarding the choice of the scenarios as well as an explicit focus on how climate related risks and opportunities can best be mitigated or exploited, this would help the Fund move towards industry best practice. Regular horizon scanning may be an effective way to identify emerging climate risks. This analysis could be linked to the Fund's risk register and further incorporated into its Climate Stewardship Plan.

While the Fund's Responsible Investment Framework and Climate Strategy discuss climate considerations in detail, the Fund's Investment Strategy Statement only provides signposting to these documents. The Fund could consider integrating a greater level of detail into the Investment Strategy Statement.

Finally, full disclosure according to DLUHC includes a summary of the Fund's advocacy for action and collaboration on climate change. Although the Fund does list its collaborative partners on topics including climate change, this could be reinforced with concrete examples of climate advocacy. Such disclosures are often found in stewardship reports, which, although third party sources are frequently referenced by the Fund, could be made more explicit as part of its wider climate disclosures.

## Carried Over Recommendations and Considerations

Using the analysis from this Climate Scenario Analysis and the overall Climate Risk Report, DPF is on track to get a better understanding of the portfolio's capacity to transition into a low carbon economy. We recommend using this analysis to evolve DPF's sustainable investment targets to include more ambitious climate objectives. Please note that this recommendation was included in the Fund's 2022 Climate Risk Report. While this recommendation has not yet been fully satisfied, the Fund has included more ambitious targets within the Fund's Draft 2024 Climate Strategy.

Matlock Bath, Peak District National Park, Derbyshire

# Risk Management

## Proposed DLUHC Requirements

AAs will be expected to establish and maintain a process to identify and manage climate-related risks and opportunities related to their assets. They will have to integrate this process into their overall risk management process.

Page 32

## Disclosure Maturity Map

| | LIMITED DISCLOSURE | MODERATE DISCLOSURE | FULL DISCLOSURE |
|---|---|---|---|
| RISK MANAGEMENT DISCLOSURE | • Acknowledgement of the need to assess and respond to climate-related risks. | • The organisation's processes for identifying and assessing climate-related risks.<br>• The organisation's processes for managing climate-related risks. | • How processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management. |

# Risk Management *(continued)*

## Industry Best Practices

### Risk Management Policy and Transparency

Schroders' risk management section clearly outlines how climate risk fits in its three lines of defence, the risk owners at each line, and how its oversight structure works – from business unit to its board audit and risk committee. Schroders also details its actions to identify, assess and manage climate-related risks. Inclusion of these details provides accountability and transparency with regard to risk management and demonstrates the funds' ability to identify and mitigate climate risks through appropriate practices.

### Asset-specific Risk Management

Abrdn included a table that maps its existing climate tools against asset classes to give a view of the applicability of tools for various investments strategies. This also assists in demonstrating the Fund's industry best practices to identify and mitigate climate risks.

## DPF Current Disclosures and Practices

### Risk Management Policy and Transparency

The Head of the Pension Fund and Investments Manager hold responsibility for the identification and management of climate-related risks, and implementation of the Fund's Climate Strategy. This is disclosed within the Fund's Climate Strategy and provides accountability and transparency regarding the responsibility of climate-related risk management within the Fund.

The Climate Strategy also discloses how the Fund identifies climate related risks, including the use of a suite of carbon metrics, providing both top-down and bottom-up analysis, provided by LGPS Central. As the Fund is largely externally managed, the implementation of identification and management of climate related risks is delegated to the external portfolio managers. As the Fund discloses within their TCFD report, external managers are assessed on their approach to integrate climate considerations into investment decisions during the initial selection process. The Fund continues to monitor these managers on a regular basis. These practices demonstrate an appropriate level of risk management.

### Asset-specific Risk Management

The Fund manages company-specific risk through stewardship including working alongside several selected stewardship partners which are disclosed within the Fund's TCFD Report. The Fund also utilises voting as to influence portfolio companies. As the Fund is primarily externally managed, voting activity is largely carried out by the external managers and stewardship partners, such as EOS. The Fund has also developed a Climate Stewardship Plan, as to focus the Fund's engagement resources. These disclosures demonstrate the Fund's appropriate management of company level risks.

The Fund's robust approach to stewardship was recognised in 2023 when the Fund became a signatory to the 2020 UK Stewardship Code.

## Considerations and Recommendations

While the Fund disclosures how climate risks are identified, the Fund could consider providing a greater level of detail regarding how these risks are mitigated and managed outside of stewardship activities.

Consider preparing further disclosure of details relating to the identification and assessment of specific risks associated with climate change (i.e., the time horizon of specific risks and how these may materialise in a portfolio) could support the Fund's approach to management of climate risk.

The Fund may also wish to consider incorporating its existing climate risk management processes into its Investment Strategy Statement, or publishing a Risk Management Framework which includes these considerations.

# Metrics and Targets

## Proposed DLUHC Requirements

AAs will be expected to report on metrics as defined in supporting guidance. The proposed metrics are set out below.

- Metric 1 will be an absolute emissions metric. Under this metric, AAs must, as far as able, report Scope 1, 2 and 3 greenhouse gas (GHG) emissions.
- Metric 2 will be an emissions intensity metric. We propose that all AAs should report the Carbon Footprint of their assets as far as they are able to. Selecting an alternative emissions intensity metric such as Weighted Average Carbon Intensity (WACI) will be permitted, but AAs will be asked to explain their reasoning for doing so in their Climate Risk Report.
- Metric 3 will be the Data Quality metric. Under the Data Quality metric, AAs will report the proportion the value of its assets for which its total reported emissions were Verified, Reported, Estimated or Unavailable.
- Metric 4 will be the Paris Alignment Metric. Under the Paris Alignment Metric, AAs will report the percentage of the value of their assets for which there is a public net zero commitment by 2050 or sooner.

Metrics must be measured and disclosed annually.

AAs will be expected to set a target in relation to one metric, chosen by the AA. The target will not be binding. Progress against the target must be assessed once a year, and the target revised if appropriate. The chosen metric may be one of the four mandatory metrics listed above, or any other climate related metric recommended by the TCFD.

# Metrics and Targets *(continued)*

## Disclosure Maturity Map

Page 35

METRICS AND TARGETS DISCLOSURE

| LIMITED DISCLOSURE | MODERATE DISCLOSURE | FULL DISCLOSURE |
|---|---|---|
| • Scope 1 and Scope 2 GHG emissions. | • Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions, and the related risks.<br>• Measurement methodologies for these are clearly defined and in line with recognised guidance.<br>• The organisation's quantified targets to reduce GHG emissions in relative or absolute terms (Scopes 1, 2 and/or 3) and performance against these. | • The metrics used to assess climate-related risks and opportunities in line with strategy and risk management process.<br>• The targets used to manage climate-related risks and opportunities, including use of science-based targets, and performance against these targets.<br>• Assurance of reported GHG emissions under International Standard on Assurance Engagements (ISAE) 3410, Assurance Engagements on GHG Statements. |

# Metrics and Targets *(continued)*

## Industry Best Practices

### Discussion of Metrics, Methodology and Limitations

USS discussed its data sourcing and methodology in great detail and included an explanation of data limitations. In its report, USS also reviewed the organisations climate performance against its net zero target pathway. Disclosing information regarding the methodologies, data limitations, and how metrics should be interpreted demonstrates an understanding of the data challenges and provides credibility to the findings derived from the data. This information also means the data can be more easily interpreted by the reader.

### Transparency around Restated Data

Schroders explained its annual emissions recalculation process and highlighted data that is restated. As data coverage and reliability continues to evolve it is important to ensure the most accurate data is reported. However, this can lead to data being restated. As this can lead to a lack of consistency as reported data is retrospectively amended, it is important for the Fund to disclose how data has been restated and the purpose of the restatement, minimising inconsistency from one report to the another.

### Data Assurance

Abrdn included an independent assurance statement that provides limited assurance of its selected sustainability performance indicators. This statement is included in the company's sustainability disclosures, providing reported metrics with additional credibility and reliability.

Derwent Dam, Derbyshire

# Metrics and Targets *(continued)*

## DPF Current Disclosures and Practices

### Discussion of Metrics, Methodology and Limitations

The Fund's TCFD Report includes the Fund's carbon metrics for both listed equities and investment grade bonds. The report proceeds to provide definitions, limitations and explanations on how key metrics should be interpreted, demonstrating a strong understanding of the data as well as providing ease of interpretation for the reader. Where appropriate, the Fund has further demonstrated an understanding of the climate metrics by providing analysis on the values presented.



The Fund's TCFD Report includes the Fund's climate targets which were established alongside the Fund's 2020 Climate Strategy. The Fund's current targets are concerned with the reduction of the Fund's weighted average carbon intensity and proportion of NAV invested in low carbon & sustainable investments, as well as a Net Zero 2050 ambition. The TCFD report provides progress on these targets against the initial baseline. The Fund demonstrates good practice by reviewing these climate targets at least every three years, ensuring targets remain appropriate and aligned with the Net Zero 2050 ambition.

The Fund's latest Climate Strategy (which is currently in draft format subject to public consultation) demonstrates the progress made in regard to the Fund's climate metrics. The draft Climate Strategy includes a greater ambition for the Fund's carbon intensity reduction and low carbon and sustainable investments exposure targets, following the progress made on existing targets. The draft Climate Strategy also includes additional targets for absolute emissions, engagement coverage and data availability. While not formalised, these proposed targets demonstrate the Fund's commitment to managing climate risk in the long term.

### Transparency around Restated Data

The Fund's TCFD report acknowledges current data limitations, and while not specifically discussing the restating of climate data the Fund recognises changes in data quality and availability can have the potential to materially impact the Fund's progress towards targets. This demonstrates a strong understanding of climate data and the importance of data quality, which is a key consideration within DLUHC recommendations. Detailed metrics which present a more complete picture of the fund's exposure to climate risk are presented in Section 2 (Climate Metrics) of this report.

## Considerations and Recommendations

Future iterations of the TCFD report will include the four metrics required by DLUHC. These should be reported in addition to the metrics which have been reported over previous years, adding further context and nuance to the Fund's climate analysis. Metrics provided within this report will be subject to retrospective amendments, while an explanation to these restated values is provided below, the Fund should consider including this explanation where necessary in other climate reporting.

The Fund's latest Climate Strategy includes specific targets regarding climate data availability, as the Fund recognises the importance of measuring and improving climate data. The Fund should consider formalising this, and other appropriate targets included within the Fund's Draft 2024 Climate Strategy.

The Fund has successfully included definitions, interpretations and drawbacks of metrics presented within the TCFD Report. The Fund should consider adding more detail in this area, including the use case of the metrics, the value added from the inclusion of each metric, additional detail around drawbacks and why these metrics were initially chosen.

While the Fund discusses their approach to engagement and stewardship in other sections of the report, inclusion of engagement statistics within the TCFD report could add value to the Fund's climate reporting.

# Other Requirements / Recommendations

## Proposed DLUHC Requirements

| | DLUHC Requirement | LGPS Central Proposals |
|---|---|---|
| **Disclosure** | AAs will be expected to publish an annual Climate Risk Report. This may be a standalone report, or a section in the AA's annual report. The deadline for publishing the Climate Risk Report will be 1 December, as for the AA's Annual Report, with the first Climate Risk Report due in December 2024. | The Fund has been complying with this recommendation since the publication of its first climate report in 2020.<br>We propose that scheme members are informed that the Climate Risk Management Report is available in an appropriate way. |
| **Scheme Climate Report** | DLUHC proposes that the Scheme Advisory Board (SAB) should prepare an annual Scheme Climate Report including a link to each individual AA's Climate Risk Report (or a note that none has been published) and aggregate figures for the four mandatory metrics. | This exists in the consultation, and could have implications for the Fund's carbon risk analyses going forwards.<br>While this is more relevant for the SAB than the Fund in particular, we feel it is important for the Fund to remain aware of any developments in this area as it may have implications for the Fund's future carbon reporting. |
| **Proper Advice** | DLUHC proposes to require that each AA take proper advice when making decisions relating to climate-related risks and opportunities and when receiving metrics and scenario analysis. | Although this section requires no concrete action at this time, we recommend that the Fund remains aware of potential future developments.<br>The Fund may wish to conduct a review of its provision of advice to ensure that its metrics and scenario analyses remain 'proper', as per DLUHC requirements. |

# Conclusion

## The Fund's Overall Readiness / Maturity

Based on its current processes and disclosures, we consider that the Fund is well positioned to meet DLUHC's potential requirements on climate change governance and disclosures. The items in the table below would push the Fund towards full compliance.

On average the Fund is disclosing at Moderate level when assessed against the TCFD Maturity Map. The TCFD Maturity Map ranks disclosures into three categories, Limited, Moderate and Full, although it should be noted that, based on our analysis, no single peer is able to achieve leader status (i.e., full disclosure) across all elements. The Fund does have the potential to move towards leader status in several elements, and is most advanced within its disclosure of its governance structures, including climate training and inclusion of climate considerations within the Funding Strategy/Valuation Report.

Please note, some considerations and recommendations have been carried forward from the previous climate risk report. Finally, it should be restated that some of the observations discussed in the section above may not require action from DPF as best practice of investment managers is not always appropriate for local government pension funds. These observations were included to flag best practice and to ensure the Fund remains cognisant of emerging best practices.

## Summary of Considerations / Recommendations

| Section | Considerations / Recommendations |
|---|---|
| **Governance** | – Consider providing disclosure of climate discussions at working groups within, or outside of its pool.<br>– Consider enhanced disclosure relating to the climate related training undertaken by the Committee.<br>**Carried Over Recommendations and Considerations**<br>– Integrate 'climate solutions' data into the CRMS once an industry-agreed definition is available.<br>– Establish a Net Zero Stewardship Programme. This includes mapping the Fund's financed emissions to existing engagements, creating a Net Zero Voting Policy, establishing an alignment framework, and defining a policy advocacy programme. |
| **Strategy** | – The Fund should continue to commission Climate Scenario Analyses as recommended by DLUHC, with an awareness that the content of these analyses will develop in line with industry best practice.<br>– Consider disclosing additional information regarding the choice of scenarios included within the scenario analysis and also consider including information specifically addressing how climate risks are managed/mitigated.<br>– While the Fund's Investment Strategy Statement provides signposting to the Fund's Climate Strategy, the Fund could consider including climate considerations within the Investment |

# Conclusion *(continued)*

| Section | Considerations / Recommendations |
|---|---|
| **Strategy (continued)** | Strategy Statement itself.<br>– The Fund could consider disclosing case studies of advocacy as recommended by DLUHC.<br>**Carried Over Recommendations and Considerations**<br>– Using the analysis from this Climate Scenario Analysis and the overall Climate Risk Report, DPF is on track to get a better understanding of the portfolio's capacity to transition into a low carbon economy. We recommend using this analysis to evolve DPF's sustainable investment targets to include more ambitious climate objectives. Please note that this recommendation was included in the Fund's 2022 Climate Risk Report. While this recommendation has not yet been fully satisfied, the Fund has included more ambitious targets within the Fund's Draft 2024 Climate Strategy. |
| **Risk Management** | – The Fund could provide additional detail on the management of risks outside of stewardship activities.<br>– Consider preparing further disclosure of details relating to the identification and assessment of specific risks associated with climate change.<br>– Further integration of climate risk management could be included within the Fund's Investment Strategy Statement, or through the publication of a Risk Management Framework. |

Page 40

| Section | Considerations / Recommendations |
|---|---|
| **Metrics and Targets** | – Future iterations of the TCFD report should include the four metrics required by DLUHC. Where necessary the Fund should include an explanation to restated values.<br>– The Fund should seek to formalise the climate data availability targets and other appropriate targets included within the Fund's Draft 2024 Climate Strategy.<br>– The Fund could consider providing additional information on the climate metrics included, such as use cases and added value.<br>– Consider detailing the metrics and targets which correspond to the Fund's engagement activities. |

Section 2

# Climate Metrics

FYE 31 March 2023

Page 41

Ladybower Reservoir, Upper Derwent Valley, Derbyshire

# Climate Metrics

Page 42

## Scope of Analysis

The following Climate Metrics offer a detailed, bottom-up analysis with the following objectives:

**Observing** climate transition risks and opportunities within the portfolio.

**Identifying** opportunities for engagement with companies.

**Facilitating** the monitoring of climate risk management by managers.

This analysis encompasses public market investments reported by the Fund as of 31 March 2023. It includes holdings in listed equity and fixed income funds. The exclusion of unlisted asset classes is due to limited data availability. The assets under management (AUM) within the report's scope totalled approximately £3.3bn (56.6% of total investment assets) as of that date, with the specific funds outlined in the chart below. Initial analysis encompassed funds totalling approximately £3.9bn in AUM (66.4% of investment assets). However, two UK gilt funds (conventional and index-linked sovereign bonds), were found to have limited data coverage. To be included within aggregation, portfolios must meet a threshold of 60% data availability when calculating financed emissions. The Fund's investment assets totalled £6.0bn on 31 March 2023.

LGPS Central has been calculating carbon footprint metrics for Derbyshire Pension Fund since 2020. The scope of analysis has expanded over time as the Fund effected asset allocation decisions during this period. This report summarises the evolution of the Fund's carbon footprint up to 31 March 2023.

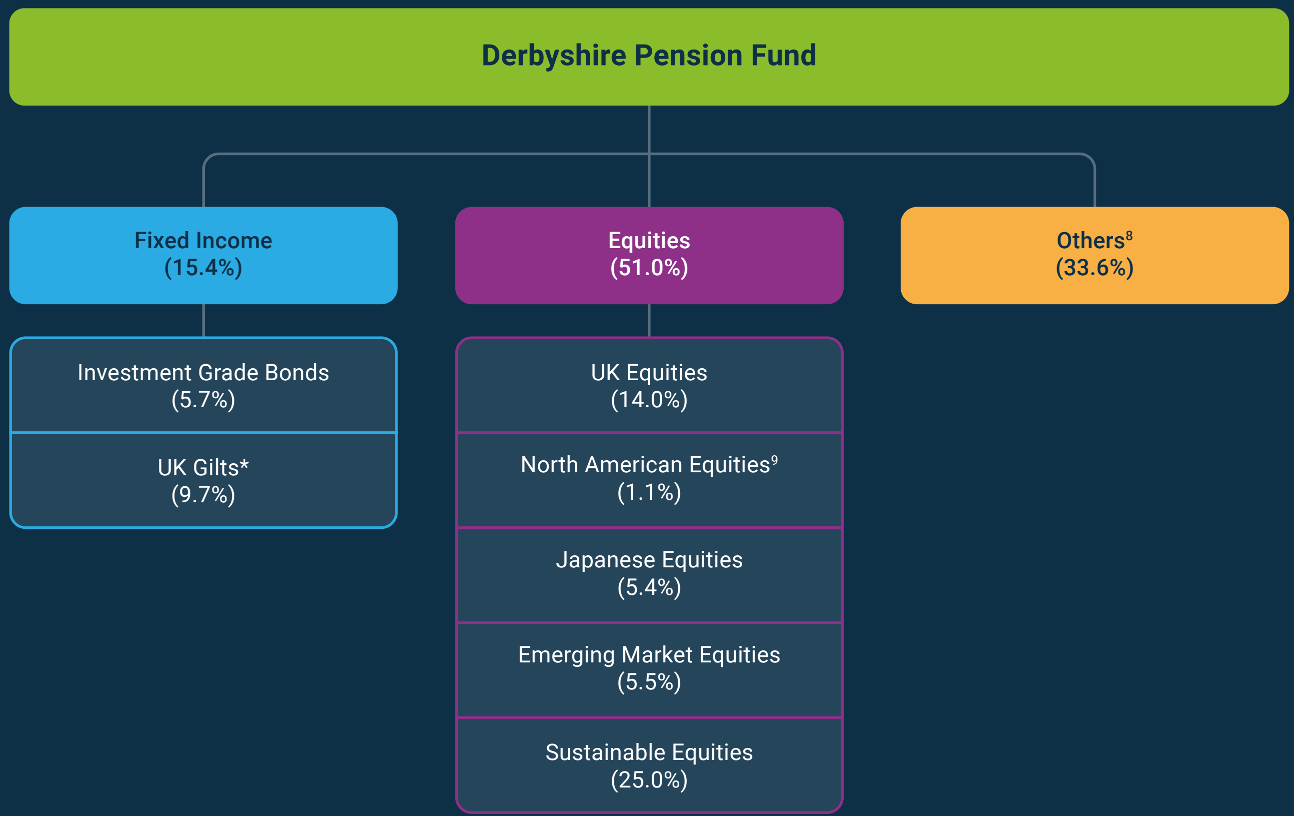
As an asset owner, it is crucial to consider all financially significant risks and opportunities that impact investment decisions. The Fund already integrates risks and opportunities associated with climate change into its investment decisions, in accordance with its Investment Strategy Statement.

The Pensions and Investments Committee has agreed a long-term investment strategy that aims to maximise the returns from investments within acceptable levels of risk, contributes to the Fund having sufficient assets to cover the accrued benefits, and enables employer contributions to be kept as stable as possible.

Woodland in Derbyshire

# Climate Metrics *(continued)*

FIGURE 1: BREAKDOWN OF FUNDS INCLUDED IN THE ANALYSIS




Page 43

* Data availability for the funds are below the threshold of 60% and is not included in the aggregation.

[8] All other assets include private credit, infrastructure, private credit, diversified multi-asset credit, property, and cash. These are not included in the carbon risk analysis due to insufficient data coverage. LGPSC is engaging with the data providers to be able to include this analysis in future reports.

[9] Subsequent to 31 March 2023, the Fund has fully divested of its holdings in North American Equities.

# Climate Metrics *(continued)*

The analysis is based on a dataset provided by MSCI ESG Research LLC (MSCI).[10] We utilised data that was downloaded from MSCI on 1st September 2023. The table on pages 51-56 provides an overview of the types of carbon metrics utilised.

Page 44

Carbon footprint metrics were selected to comply with the results of Department for Levelling Up, Housing & Communities' consultation,[11] which were published in September 2022. That document sets out an expectation that AAs report on four proposed metrics:

**Absolute emissions metric –** financed emissions.

**Emissions intensity metric –** normalised financed emissions and weighted average carbon intensity (WACI).

**Data quality metric.**

**Paris alignment metric.**

Mam Tor, Peak District National Park, Derbyshire

[10] Certain information @ 2023 MSCI ESG Research LLC. Reproduced by permission. Attention is drawn to Section 8.0 Important Information.

[11] https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks

# Climate Metrics *(continued)*

On top of the headline DLUHC-proposed metrics, we also calculate multiple other metrics as listed in the definition table. We believe carbon footprint metrics apply only one lens, whereas additional metrics – including fossil fuel exposure, clean tech exposure, and carbon risk management – provide a deeper and broader assessment of climate risk and opportunity. Further detail of these metrics can be found on pages 51-56.

The analysis looks at the headline metrics first, before delving into asset class assessment.



## The Headline Metrics

**Carbon Footprint Metrics**

| Metrics | Financed Emissions | Normalised Financed Emissions | Weighted Average Carbon Intensity (WACI) |
|---|---|---|---|
| **Absolute / Intensity** | Absolute | Intensity | Intensity |
| **Definition** | Financed emissions calculates the absolute tonnes of CO2 equivalent for which an investor is responsible. | This metric measures the Financed Emissions for every £1 million invested. | WACI measures a portfolio's exposure to carbon-intensive companies. |
| **Question answered** | What is my portfolio's total carbon footprint? | What is my portfolio's normalised carbon footprint per million GBP invested? | What is my portfolio's exposure to carbon-intensive companies? |
| **Unit** | tCO2e | tCO2e / £m invested | tCO2e / $m revenue |
| **Comparability** | No; does not take size into account | Yes; adjusts for portfolio size | Yes |
| **Data needs** | Medium<br>• Notional amount invested<br>• Carbon emissions of issuer<br>• EVIC or Total Equity + Total Debt *(Sovereign: PPP-Adjusted GDP)* | Medium<br>• Notional amount invested<br>• Total portfolio AUM<br>• Carbon emissions of issuer<br>• EVIC or Total Equity + Total Debt *(Sovereign: PPP-Adjusted GDP)* | Low<br>• Portfolio weights<br>• Carbon emissions of issuer<br>• Sales of issuer *(Sovereign: Nominal GDP)* |

# Climate Metrics *(continued)*

## Data Quality Metric

Score between 1 and 5; with 1 being the most preferred which relates to actual audited data. Score 5 is the least preferred, which relates to estimated data with limited support.

This system enables reporting on financed emissions even if data is not available, whilst providing transparency over the accuracy of the information provided. The source of the score is MSCI.

Page 46

| | | |
|---|---|---|
| Certain 5%-10% error margin in estimations | Score 1 | Audited GHG emissions data or actual primary energy data |
| | Score 2 | Non-audited GHG emissions data or other primary data |
| | Score 3 | Averaged data that is peer/sub-sector specific |
| | Score 4 | Proxy data on the basis of region or country |
| Uncertain 40%-50% error margin in estimations | Score 5 | Estimated data with very limited support |

Source: The Global Carbon Accounting Standard for the Financial Industry: Draft version for public consultation (August 2020), Partnership for Carbon Accounting Financials (2020).


Rural Derbyshire

# Climate Metrics *(continued)*

## Paris Alignment Metric

A company will be considered at least Aligning to Paris Agreement by LGPS Central if:

The Company score above **Median** in **Low Carbon Transition score**

+ and it meets **one** of the following criteria: +

The Company has a **science-based target**

or

The Company has an **implied temperature rise** rating of 2.0°C or lower

Page 47

**Low Carbon Transition Score**

Score from 0 (worst) to 10 (best) measuring companies' exposure to and management of risks and opportunities related to the low carbon transition. Source of rating: MSCI. Score of more than 5 (median) required to be considered at least Aligning.

and

**Science-Based Target**

Issuer commits to a medium- and long-term net zero target that are considered science-based; i.e. in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement.

or

**Implied Temperature Rise**

Implied temperature rise (in the year 2100 or later) if the whole economy had the same over-/undershoot level of greenhouse gas emissions to the issuer. Below 2°C is required to be considered at least Aligning.

The valley of the River Wye, Derbyshire

# Climate Metrics *(continued)*

## MSCI Low Carbon Transition Risk Assessment[12]

MSCI ESG Research's Low Carbon Transition Risk[13] assessment is designed to identify potential leaders and laggards by holistically measuring companies' exposure to and management of risks and opportunities related to the low carbon transition.

The final output of this assessment is two company-level factors as described below:

**1) Low Carbon Transition Category:**

This factor groups companies in five categories that highlight the predominant risks and opportunities they are most likely to face in the transition (Exhibit 1).

**2) Low Carbon Transition Score:**

This score is based on a multi-dimensional risks and opportunities assessment and considers both predominant and secondary risks a company faces. It is industry agnostic and represents an absolute assessment of a company's position vis-à-vis the transition.



### Calculation methodology

The LCT Categories and Scores are determined by a combination of each company's current risk exposure and its efforts to manage the risks and opportunities presented by the low carbon transition. The 3-step process followed by MSCI ESG Research is explained below.

**Step 1**

The first step towards measuring the Low Carbon Transition Risk Exposure for a company is the computation of its Carbon Intensity profile – which is informed by its Product Carbon Intensity, Operational Carbon Intensity and Total Carbon Intensity.

**Step 2**

MSCI assess a company's management of risks and opportunities presented by the low carbon transition. This assessment is based on policies and commitments to mitigate transition risk, governance structures, risk management programs and initiatives, targets and performance, and involvement in any controversies.

**Step 3**

Low Carbon Transition Risk Exposure Category and Score that was calculated in Step 1 are adjusted for the strength of management efforts calculated in Step 2. Following this adjustment, Low Carbon Transition Risk Exposure Score of companies with top or second quartile risk management improves and some top and second quartile companies may move up one category.

[12] Source: MSCI Climate Change Indexes Methodology, pp17-18
[13] For more details on MSCI Climate Change Metrics, please refer to https://www.msci.com/climate-change-solutions

# Climate Metrics *(continued)*

## Scope 3 Emissions

Scope 3 emissions refers to the emissions released indirectly through business activities. More specifically, Scope 3 represents the emissions released through the value chain of the company, both upstream and downstream, emissions which are not otherwise captured in scope 1 and 2. This would include the emissions produced by a company's supplier when producing a product brought by the company, or the emissions released by a customer through a product supplied by the company.



Due to the nature of this measurement, for many industries and assets the associated scope 3 emissions of the company will often be significantly greater than those of the scope 1 and 2. When aggregated at portfolio level, scope 3 emissions will also be subject to double counting, a term which refers to aggregating an observation multiple times, despite being a single observation. Double counting will often occur due to overlapping value chains, a simple example of this can be explained through the use of a vehicle with an internal combustion engine. In such an instance such, scope 3 emissions will be associated with both the provider of fuel for the vehicle, as well as the vehicle manufacturer as well. Double counting will also occur across scope 1 and 2, to 3, as one companies scope 1 and 2 emissions, will often be another company's scope 3.

Despite the flaws within this metric, a company's scope 3 emissions are important to account for, as without this metric many companies' emissions would be significantly understated.

## Engagement

Engagement can be observed in many different forms, but broadly refers to communication or interactions between investors and companies. Engagement figures included within this report are reflective of the engagement conducted directly or indirectly by LGPS Central. This will not include engagement conducted directly by the Fund, or by the managers which receive investment directly from the Fund, such as Legal & General Investment Managers (LGIM). This figure therefore serves as a minimum percentage of holdings within the Fund which are covered by some form of engagement program.

Mam Tor, Peak District National Park, Derbyshire

# Climate Metrics *(continued)*

| Headline Metrics | DPF FY2023 | |
|---|---|---|
| **Absolute emissions metric:**<br>– Financed emissions | Equities: | – Scope 1 and 2: 183,713 tCO2e<br>– Scope 3: 2,059,719 tCO2e |
| | Fixed Income: | – Scope 1 and 2: 17,036 tCO2e<br>– Scope 3: 83,014 tCO2e |
| **Emissions intensity metric:**<br>– Normalised financed emissions<br>– Weighted Average Carbon Intensity (WACI) | Equities: | Normalised Financed Emissions<br>– Scope 1 and 2: 63.2 tCO2e/£M Invested<br>– Scope 3: 712.6 tCO2e/£M Invested<br>WACI<br>– Scope 1 and 2: 96.8 tCO2e/$M Revenue |
| | Fixed Income: | Normalised Financed Emissions<br>– Scope 1 and 2: 71.3 tCO2e/£M Invested<br>– Scope 3: 349.0 tCO2e/£M Invested<br>WACI<br>– Scope 1 and 2 (excluding sovereign): 174.6 tCO2e/$M Revenue |
| **Data Quality metric:**<br>– Data availability<br>– MSCI data quality metric | Equities: | – Data availability: 96.6% *of AUM with data coverage for financed emissions calculation*<br>– Data quality: 2.1 *(Weighted Average of available data quality)* |
| | Fixed Income: | – Data availability: 71.8% *of AUM with data coverage for financed emissions calculation*<br>– Data quality: 2.2 *(Weighted Average of available data quality)* |
| **Paris Alignment metric:**<br>Combination of<br>– MSCI Low Carbon Transition Score<br>– Science-Based Target<br>– MSCI Implied Temperature Rating | Equities: | – LCT Score: 39.0% *of financed emissions has above median score*<br>– SBT: 32.4% *of financed emissions are covered by a science-based target*<br>– ITR: 28.1% *of financed emissions has an implied temperature of 2°C or below* |
| | Fixed Income: | – LCT Score: 26.1% *of financed emissions has above median score*<br>– SBT: 39.7% *of financed emissions are covered by a science-based target*<br>– ITR: 38.9% *of financed emissions has an implied temperature of 2°C or below* |

# Climate Metrics *(continued)*

## The Fund's Progress Against its Climate Targets

Derbyshire Pension Fund's Climate Strategy was approved by the Fund's Pension and Investment Committee in November 2020. The table below summarises the Fund's climate targets and the progress that the Fund has made to date.

### Targets

<table>
<tr><th>Target</th><th>Progress as of 31st March 2023</th></tr>
<tr><td>Reduce the Weighted Average Carbon Intensity (Scope 1 & 2) of the Fund's listed equity portfolio by at least 30% relative to the weighted benchmark in 2020 by the end of 2025.</td><td>WACI has decreased by 47.0% relative to the previously reported 2020 weighted benchmark and by 49.8% relative to the restated 2020 weighted benchmark.
<table>
<tr><th></th><th>2020 weighted benchmark (Previously reported)</th><th>2020 weighted benchmark (restated)</th><th>2023</th></tr>
<tr><td>WACI</td><td>182.8</td><td>192.8</td><td>96.8</td></tr>
</table></td></tr>
<tr><td>Invest at least 30% of the Fund portfolio in low carbon & sustainable investments by the end of 2025.</td><td>
<table>
<tr><th>Basis of Calculation</th><th>Allocation (%)</th></tr>
<tr><td>Strategic Asset Allocation</td><td>30%</td></tr>
<tr><td>DPF</td><td>29% (30% on a committed basis)</td></tr>
</table></td></tr>
</table>

Page 51

The Fund is currently in the process of updating its Climate Strategy. As discussed in Section 1 of the report, the Fund's Draft 2024 Climate Strategy includes more ambitious targets regarding the Fund's reduction of carbon intensity and exposure to low carbon and sustainable investments. The draft also includes targets regarding climate data availability, absolute emissions, and engagement coverage.

# Climate Metrics *(continued)*

## Our Approach to Climate Data

Climate data is an evolving field, and methodologies are continuously updated by governments, data providers, and companies. The data accessible through our data provider (MSCI) undergoes frequent revisions as estimated data gets replaced by reported data, estimations are refined for greater precision, and data coverage expands.



We recalculate our emissions annually and may revise previously reported greenhouse gas (GHG) data to incorporate the most current information. When possible, we align our holding period with the period in which emissions from the underlying issuer occurred. Consequently, there may be variations between data reported in previous documents and the figures presented in this report due to these restatements. The impact of these variations can be significant. Our metrics employ methodologies aligned with those used by the Partnership for Carbon Accounting Financials (PCAF) and MSCI.


Ladybower Reservoir, Peak District National Park, Derbyshire

# Climate Metrics *(continued)*

A summary of restated values are as follows:

### Total Equities

| Data | Data as of | Previously Reported Value | Previously Reported Benchmark | Restated Portfolio Value | Restated Benchmark Value | Change from Restatement (Portfolio) | Change from Restatement (Benchmark) |
|---|---|---|---|---|---|---|---|
| WACI | 31-Jul-19 | 149.2 | 182.8 | 165.7 | 192.8 | 11.1% | 5.5% |
| | 31-Mar-21 | 114.5 | 158.0 | 107.5 | 149.7 | -6.1% | -5.3% |
| | 31-Mar-22 | 102.2 | 137.6 | 91.7 | 151.7 | -10.3% | 10.3% |
| Financed Emissions | 31-Jul-19 | 282,355 | - | 261,547[14] | - | -7.4% | N/A |
| | 31-Mar-22 | 181,227 | - | 185,275 | - | 2.2% | N/A |
| Weight in Fossil Fuel Reserves | 31-Jul-19 | 10.3% | 11.7% | 7.8% | 9.4% | -250 bps | -232 bps |
| | 31-Mar-22 | 7.3% | 8.3% | 6.5% | 8.2% | -79 bps | -10 bps |
| Weight in Thermal Coal Reserves | 31-Jul-19 | 2.4% | 3.2% | 2.1% | 3.1% | -32 bps | -13 bps |
| | 31-Mar-22 | 2.6% | 3.4% | 2.9% | 3.1% | 35 bps | -31 bps |
| Weight in Coal Power | 31-Jul-19 | 0.5% | 1.2% | 0.1% | 0.2% | -40 bps | -97 bps |
| | 31-Mar-22 | 0.5% | 0.9% | 0.0% | 0.1% | -47 bps | -78 bps |
| Weight in Clean Technology | 31-Jul-19 | 30.4% | 33.2% | 29.7% | 33.0% | -65 bps | -22 bps |
| | 31-Mar-22 | 35.8% | 36.9% | 38.2% | 39.1% | 244 bps | 221 bps |

Page 53

[14] Previously reported 2019 financed emissions included exposure to Russian assets, which contributed 6,459 tCO2e. Due to the sanctions against Russia, our data provider has withdrawn its coverage of Russian issuers. Therefore, all restated values exclude data from Russian issuers. If we assume emissions from Russian issuers are unchanged at 6,459 tCO2e (as calculated during 2019), the restated financed emissions will be 268,006 tCO2e.

# Climate Metrics *(continued)*

## Investment Grade Corporate Bonds

| Data | Data as of | Previously Reported Value | Previously Reported Benchmark | Restated Portfolio Value | Restated Benchmark Value | Change from Restatement (Portfolio) | Change from Restatement (Benchmark) |
|---|---|---|---|---|---|---|---|
| WACI | 31-Mar-21 | 135.9 | 170.0 | 163.3 | 184.5 | 20.2% | 8.5% |
| | 31-Mar-22 | 217.4 | 177.9 | 200.5 | 163.4 | -7.8% | -8.1% |
| Financed Emissions | 31-Mar-22 | 18,336 | - | 24,825 | - | 35.4% | N/A |
| Weight in Fossil Fuel Reserves | 31-Mar-21 | 4.2% | 4.7% | 4.7% | 6.5% | 51 bps | 180 bps |
| | 31-Mar-22 | 4.8% | 4.3% | 5.9% | 6.7% | 110 bps | 240 bps |
| Weight in Thermal Coal Reserves | 31-Mar-21 | 0.6% | 0.6% | 2.4% | 1.4% | 184 bps | 82 bps |
| | 31-Mar-22 | 1.8% | 0.6% | 3.2% | 1.4% | 143 bps | 85 bps |
| Weight in Coal Power | 31-Mar-21 | 0.4% | 0.9% | 0.0% | 0.2% | -44 bps | -72 bps |
| | 31-Mar-22 | 2.1% | 0.9% | 0.1% | 0.2% | -196 bps | -69 bps |
| Weight in Clean Technology | 31-Mar-21 | 9.2% | 14.9% | 22.6% | 27.7% | 1340 bps | 1280 bps |
| | 31-Mar-22 | 11.6% | 14.5% | 22.9% | 29.0% | 1126 bps | 1450 bps |

# Equities

The below table shows the Fund's aggregated climate risk metrics for each portfolio in the equity asset class. Please see pages 51-56 for definitions of each of these metrics.

FIGURE 2: EQUITIES CLIMATE DASHBOARD

| Equity | Multiple | Multiple | £3,013,069,302 | Blended | Q1 2023 |
|---|---|---|---|---|---|
| Asset Class | Fund Classification | Fund Manager | NAV | Reference Index | Period |

| Carbon Footprint Metrics | | | | | Data Availability | |
|---|---|---|---|---|---|---|
| | | Portfolio | Reference | Previous Year | Portfolio | Reference |
| Total Financed Emissions | Scope 1+2 | 183,713 | 277,979 | 185,275 | 96.6% | 98.3% |
| tCO2e | Scope 3 | 2,059,719 | 2,527,164 | 2,016,019 | 96.4% | 98.0% |
| Normalised Financed Emissions | Scope 1+2 | 63.2 | 93.7 | 62.6 | | |
| tCO2e/£M Invested | Scope 3 | 712.6 | 851.5 | 685.8 | | |
| Weighted Average Carbon Intensity | Exclude Sovereign | 96.8 | 153.4 | 91.7 | 96.6% | 98.3% |
| tCO2e/$M Revenue | Include Sovereign | 96.8 | 153.4 | 91.7 | 96.6% | 98.3% |



**Top 10 Emissions Contributors**

| Issuer | PF Weight | Ref Weight | % Financed Emission | | % WACI | | Scope 1+2 | Scope 3 | Engagement | Focus | Data | LCT | ITR | SBT |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SHELL PLC | 1.9% | 2.1% | 18.4% | 1 | 7.1% | 1 | 137.7M | 1,174.0M | Yes | Yes | 2 | 2.9 | 2.5 | No |
| Taiwan Semiconductor Manufacturing Co., Ltd. | 1.7% | 1.1% | 0.9% | 13 | 3.4% | 4 | 11.3M | 35.0M | Yes | Yes | 2 | 5.8 | 2.9 | No |
| BP P.L.C. | 1.0% | 1.2% | 4.3% | 3 | 1.6% | 9 | 35.5M | 640.7M | Yes | Yes | 2 | 2.8 | 2.4 | No |
| RIO TINTO PLC | 0.7% | 0.8% | 3.3% | 4 | 3.9% | 2 | 30.3M | 583.9M | Yes | No | 2 | 5.5 | 5.9 | No |
| EOG RESOURCES, INC. | 0.4% | 0.1% | 1.6% | 7 | 1.5% | 11 | 10.5M | 146.1M | No | No | 2 | 2.7 | 3.7 | No |
| ANGLO AMERICAN PLC | 0.4% | 0.4% | 1.4% | 9 | 1.6% | 10 | 13.3M | 335.2M | Yes | No | 2 | 5.8 | 5.5 | No |
| INTERCONTINENTAL HOTELS GROUP PLC | 0.3% | 0.1% | 1.4% | 10 | 2.9% | 5 | 2.5M | 3.5M | No | No | 2 | 5.3 | 4.9 | Yes |
| CRH PUBLIC LIMITED COMPANY | 0.3% | 0.4% | 5.7% | 2 | 3.6% | 3 | 33.8M | 22.4M | Yes | No | 2 | 4.9 | 1.8 | Yes |
| CEMEX, S.A.B. de C.V. | 0.1% | 0.0% | 2.7% | 6 | 1.7% | 8 | 39.3M | 14.8M | Yes | No | 2 | 4.0 | 1.9 | Yes |
| ULTRATECH CEMENT LIMITED | 0.0% | 0.0% | 1.2% | 12 | 2.4% | 6 | 62.5M | 5.3M | No | No | 2 | 1.8 | 3.7 | Yes |

**Recommendations / Observations**

- The Fund's equity investments are underweight to sectors which are difficult to abate, such as Materials and Energy, which led to substantial outperformance against the blended benchmark.
- YoY, slight increases in WACI and normalised financed emissions are associated with increased exposure to Energy and Consumer Discretionary. This increase was mitigated by the stock selection within the Materials sector.

| Worst YoY Contributors | Stewardship Focus |
|---|---|
| BP P.L.C. | Yes |
| CRH PUBLIC LIMITED COMPANY | No |
| EOG RESOURCES, INC. | No |

**High Impact Sectors / Climate Solutions Exposures (Portfolio vs Benchmark)**

| Fossil Fuel Exposure | Fossil Fuel Revenue | Thermal Coal Exposure | Coal Power Exposure | Cleantech Exposure | Cleantech Revenue |
|---|---|---|---|---|---|
| 5.7% \| 8.5% | 2.0% \| 3.8% | 1.9% \| 3.0% | 0.0% \| 0.1% | 38.5% \| 38.5% | 5.3% \| 5.2% |

**Portfolio Alignment & Engagement**

| Engagement | Data Quality | LCT | ITR | SBT | Alignment |
|---|---|---|---|---|---|
| 63.5% | 2.1 | 39.0% | 28.1% | 32.4% | 22.1% |

# Equities *(continued)*

## We analysed 16 funds totalling approximately £3.0bn in NAV as of 31 March 2023.



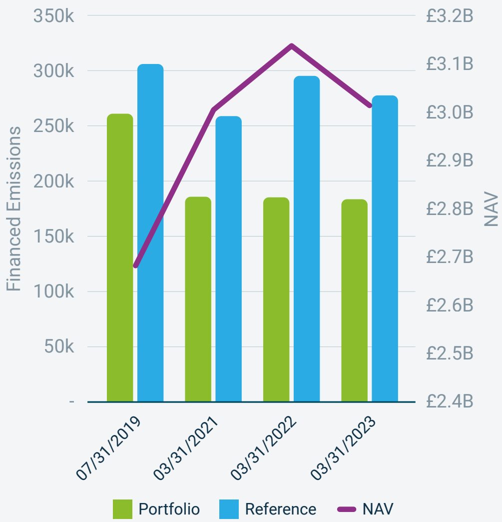
Since our initial analysis in 2019, the funds in scope of the analysis have changed significantly. The total count of equity funds in scope has decreased from 28 in 2019. Total NAV of the funds in scope has also increased from £2.6bn in the same period. Major additions during the period include LGIM MSCI World Low Carbon Target Index Fund, LGPSC Climate Multi Factor Fund, Baillie Gifford Positive Change Fund and RBC Global Equity Focus Fund. The reallocation to Global Sustainable Equity funds reflects the Fund's efforts to meet its climate targets (see above).

The carbon footprint of each fund is assessed based on the market index in which it primarily invests. The table below provides a summary of the reference indices we have used for this evaluation.

| Strategic Asset Allocation Benchmark | Reference Index |
|---|---|
| **UK Equities** | FTSE UK All Share Index |
| **Japan Equities** | FTSE Japan Index |
| **Emerging Markets Equities** | FTSE Emerging Index |
| **Global Sustainable Equities** | FTSE All-World Index |
| **North American Equities** | FTSE All-World Index |

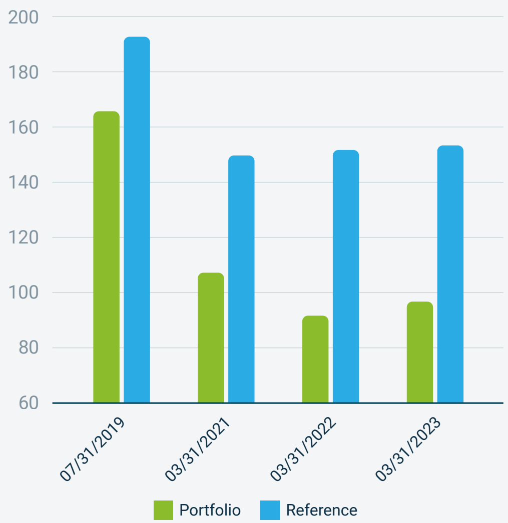
## Carbon Footprint Metrics

**Equities: Financed Emissions Over Time**




**Equities: Normalised Financed Emissions Over Time**


**Equities: WACI Over Time**



# Equities *(continued)*

Since 2019, financed emissions has declined by 29.8% despite an 12.3% increase in AUM in scope. As a result, financed emissions normalised by AUM has declined by 44.6% in the same period. Financed emissions dipped in 2020 and 2021 – attributable to the slowdown in economic activities due to the COVID-19 pandemic – and has since rebounded. AUM increased at a similar rate which led to normalised financed emissions curve staying relatively flat since 2021.

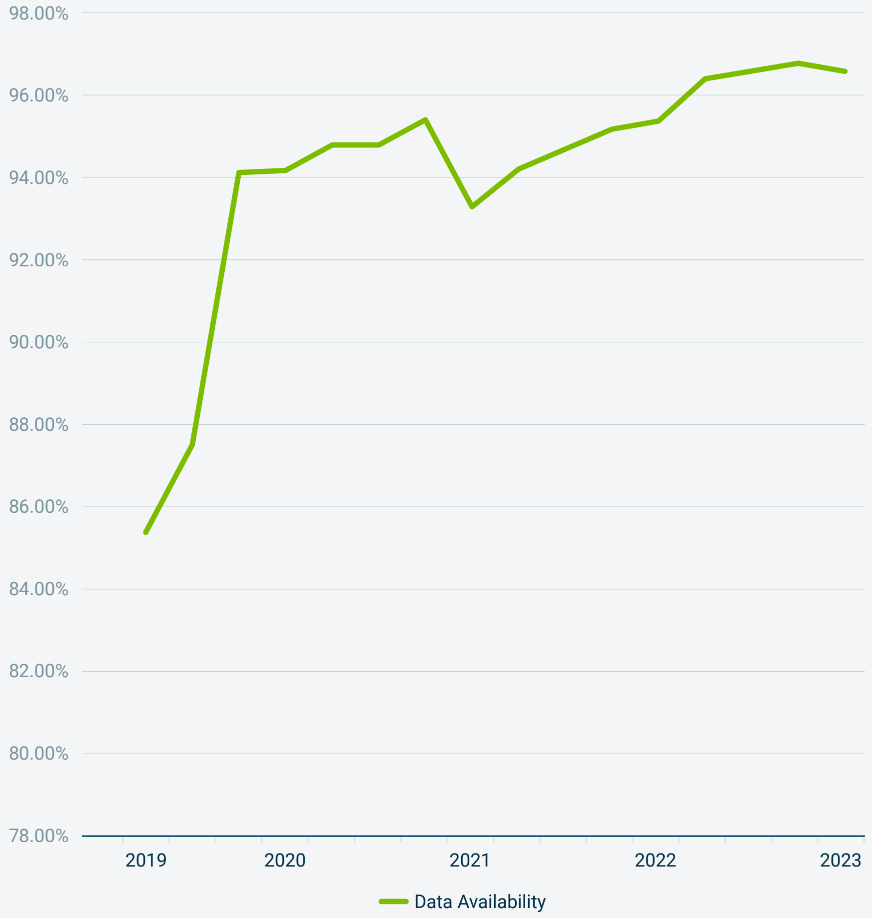


Equities' exposure to carbon intensive companies also declined since 2019. This is evidenced by WACI, which declined by 41.6%. Allocation to hard-to-abate sectors is relatively stable during the period. Weight in Energy, Materials and Utilities declined by approximately 30bps, 50bps and 20bps, respectively. These are somewhat offset by the weight in Industrials which increased by approximately 120bps. During the same period, average carbon intensities of companies within high emitting sectors declined, partially driven by revenue growth that outstripped emissions growth.

Nonetheless, carbon metrics for equities have consistently outperformed its reference indices. All actively managed portfolios have lower carbon metrics compared to its market index. This suggests that delegated managers are managing climate risk exposure in their respective portfolios.

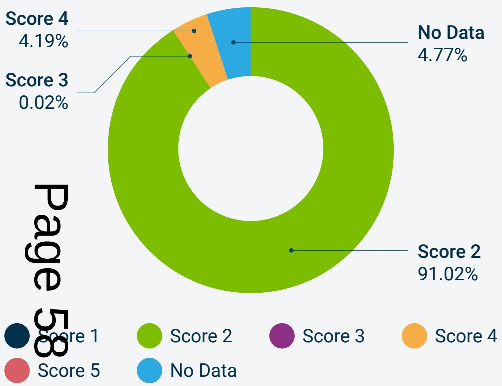
## Data

### Equities: Data Availability Over Time



# Equities *(continued)*

**Equities: Breakdown of Data Quality Score (March 2023)**






We have consistently had access to a substantial amount of equity data since we began calculating carbon footprint metrics. Our current primary focus is to enhance the quality of the data used in these calculations. At present, the majority (91.0%) of the data analysed, as meaured as a percentage of the total value of equity funds, is sourced from company-reported data with a rating of 2. To attain a higher rating, company-reported data should undergo independent verification. In practice, a significant portion of the data we employ has already undergone independent verification. However, we currently lack a method to confirm the audited status of this data. Our ongoing efforts are directed toward improving the data validation process to accurately reflect the true quality of the data we utilise. This workstream is conducted in collaboration with our data provider.

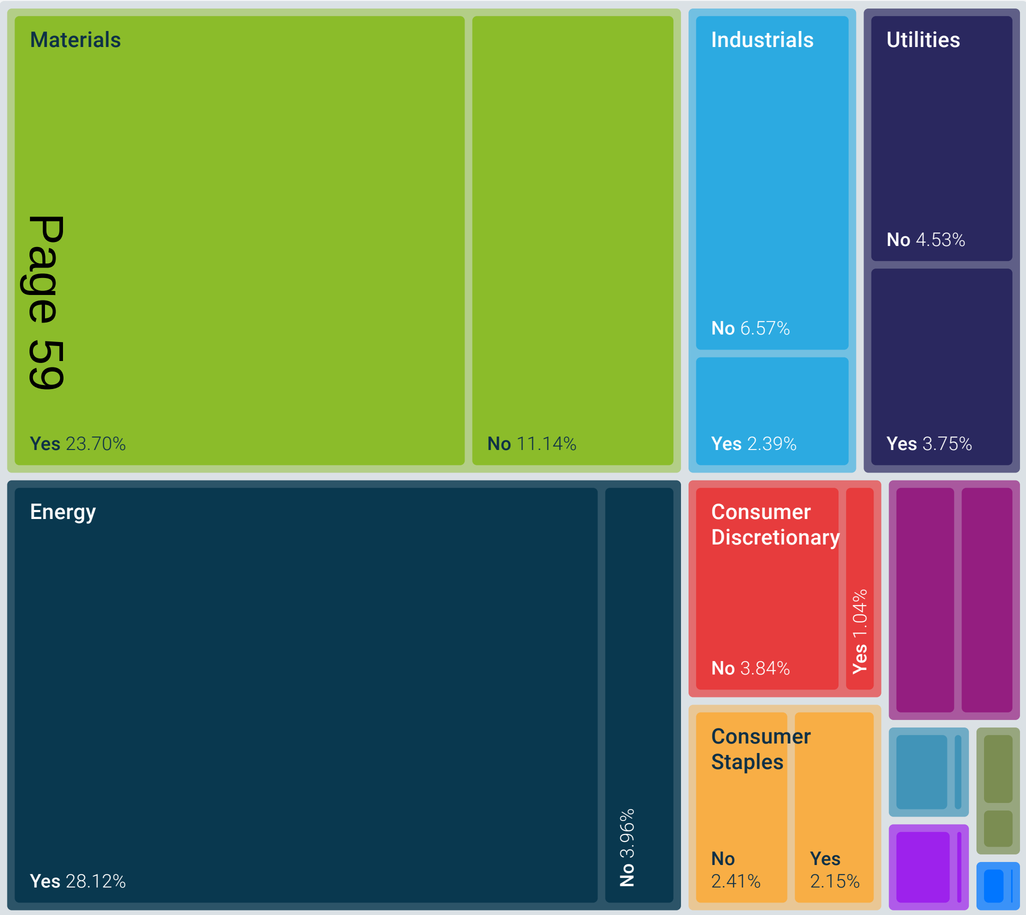
Jacob's Ladder, Peak District National Park, Derbyshire

# Equities *(continued)*

## Sources of Emissions

The graph below illustrates the distribution of emissions within the portfolio by sector and indicates whether these emissions are addressed through engagement activities (i.e. 'yes' or 'no' as shown on the chart overleaf).

**Financed Emission (Scope 1+2) by GICS Sector and Climate Engagement**




**Information Technology**
**No** 1.97% **Yes** 1.68%

**Health Care**
**No** 0.78% **Yes** 0.15%

**Financials**
**Yes** 0.43% **No** 0.26%

**Communication Services**
**No** 0.75% **Yes** 0.10%

**Real Estate**
**No** 0.25% **Yes** 0.02%

As mentioned above, allocation (as a percentage to NAV) to hard-to-abate sectors was relatively stable during the period between July 2019 to March 2023. During the same period, the share of emissions from the four main sectors (Energy, Materials, Utilities and Industrial) marginally declined. This was driven by a sharp decline in financed emissions from Utilities and to a smaller extent Materials sectors. Although emissions from the Energy sector increased, it was not enough to offset reductions from the former two sectors. As a result, not only did the share of emissions from hard-to-abate sectors decline (apart from Energy), but the reduction also contributed to the decline in overall financed emissions.

One key explanation for the decline in financed emissions from Utilities was the sharp decline in emissions from the underlying companies, such as RWE, NRG and Tata Power.

Despite the declining share, the hard-to-abate sectors still contribute the lion share of emission (84.2%). This high level of concentration theoretically helps with engagement efforts. Overall, 63.5% of financed emissions from equity holdings are covered by one or more climate engagement programme managed either directly or indirectly by LGPSC. This figure therefore serves as a minimum percentage of financed emissions which are covered by some form of engagement program. It is worth noting that only 3 out of the 9 companies in the Fund's Climate Stewardship Plan (CSP) list are in the top 10 of contributors of emission. We will monitor this trend and suggest reviews, if required.

Relative to reference indices, the Fund's equity portfolios have lower exposure to fossil fuels, thermal coal and coal power generation. This can be attributed to the underweight position in the Energy sector.

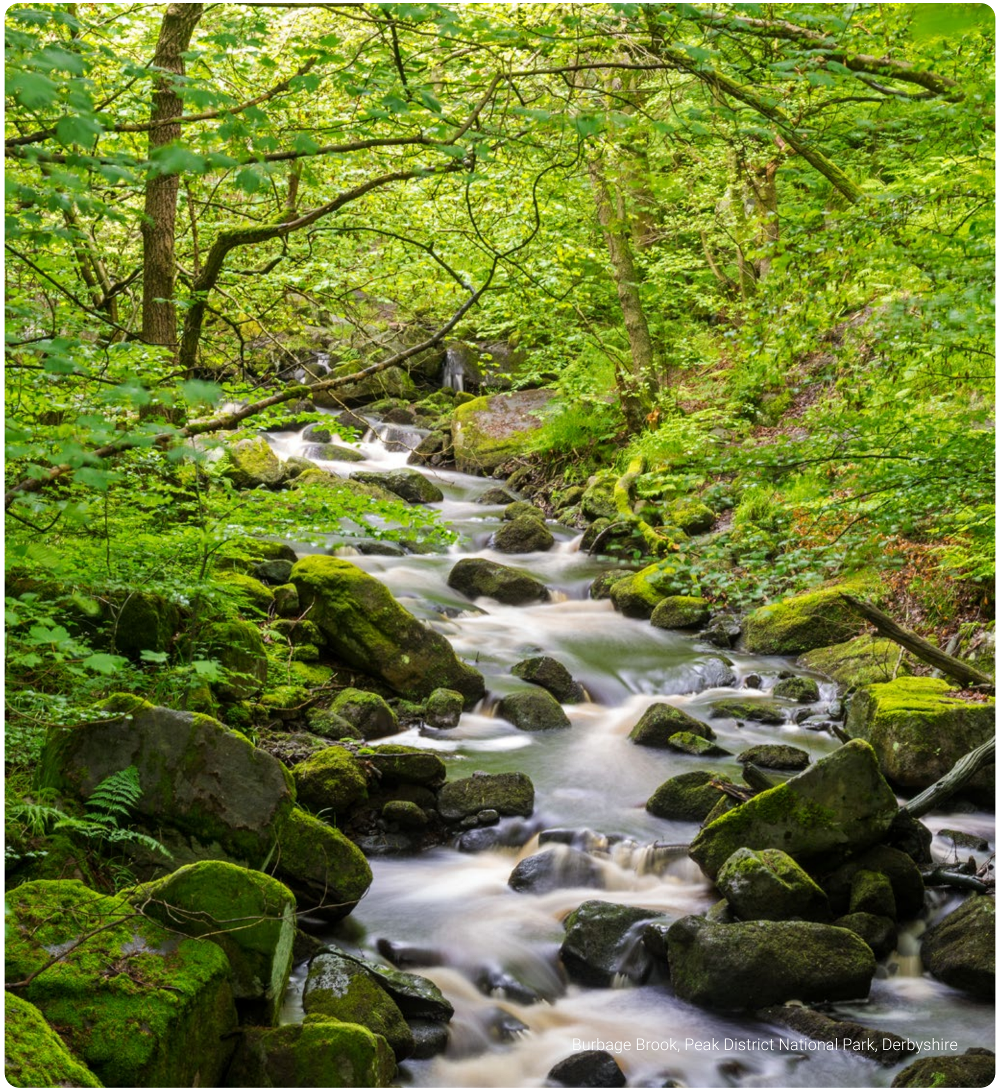
# Equities *(continued)*

## Highest Emitting Issuers

The leading contributor to financed emissions in DPF's equity portfolios is **Shell**, accounting for 18.4% of all such emissions. Shell has committed to a climate target of reducing scope 1 and 2 emissions by 50% by 2030, compared to a 2016 baseline, and achieving net zero emissions by 2050. In relation to this target, Shell has already reduced its scope 1 and 2 emissions by 20.4% since the baseline year, and they have also reported successful attainment of their short-term targets for 2021 and 2022. Nonetheless, Shell continues to be a key focus of our stewardship efforts.

Cement producers **CRH**, **Ultratech**, and **Cemex** had a negative impact on relative financed emissions at the individual stock level due to their overweight positions. However, the overall exposure to the Materials sector was lower than that of the reference indices. This resulted in significant outperformance in terms of relative financed emissions. On the flip side, underweights in **Holcim**, **CNBM**, and **Anhui Conch** made positive contributions in this context.

**CRH**, a supplier of construction materials has been one of the top contributors (year-on-year) to the portfolio's financed emissions as exposure to the company increased. The company has established 2030 target which has been validated by the SBTi. The target refers to a 30% reduction in absolute emissions by 2030 from a base year of 2021. The company has so far reduced scope 1 and 2 emissions by 6.1% (from 2021 to 2022). Prior to this the company's scope 1 and 2 emissions increased by over 2x over a 10-year period (2012 to 2022) driven by M&A activities.


Burbage Brook, Peak District National Park, Derbyshire

# Fixed Income

FIGURE 3: FIXED INCOME CLIMATE DASHBOARD

| Asset Class | Fund Classification | Fund Manager | NAV | Reference Index | Period |
|---|---|---|---|---|---|
| Fixed Income | Fixed Income Global | Multiple | £332,351,801 | 50% Sterling Non-Gilt & 50... | Q1 2023 |

| Carbon Footprint Metrics | | Portfolio | Reference | Previous Year | Data Availability Portfolio | Data Availability Reference |
|---|---|---|---|---|---|---|
| Total Financed Emissions tCO2e | Scope 1+2 | 17,036 | 17,260 | 24,825 | 71.8% | 77.4% |
| | Scope 3 | 83,014 | 137,213 | 106,421 | 71.6% | 76.9% |
| Normalised Financed Emissions tCO2e/£M Invested | Scope 1+2 | 71.3 | 51.9 | 91.4 | | |
| | Scope 3 | 349.0 | 412.9 | 391.8 | | |
| Weighted Average Carbon Intensity tCO2e/$M Revenue | Exclude Sovereign | 174.6 | 159.0 | 200.5 | 83.0% | 96.1% |
| | Include Sovereign | 175.5 | 159.0 | 198.8 | 87.3% | 96.1% |

Page 61

**Top 10 Emissions Contributors**

| Issuer | PF Weight | Ref Weight | % Financed Emission | | % WACI | | Scope 1+2 | Scope 3 | Engagement | Focus | Data | LCT | ITR | SBT |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| THE SOUTHERN COMPANY | 0.9% | 0.1% | 12.2% | 2 | 17.7% | 1 | 82.6M | 34.8M | Yes | Yes | 2 | 3.1 | 3.7 | No |
| INTERCONTINENTAL HOTELS GROUP PLC | 0.5% | 0.1% | 2.1% | 13 | 2.1% | 7 | 2.5M | 3.5M | No | No | 2 | 5.3 | 4.9 | Yes |
| ENEL Finance International N.V. | 0.4% | 0.6% | 2.8% | 9 | 1.2% | 14 | 55.9M | 69.2M | No | No | 2 | 6.1 | 1.4 | Yes |
| CLECO CORPORATE HOLDINGS LLC | 0.4% | 0.0% | 18.6% | 1 | 11.2% | 2 | 9.2M | 3.7M | No | No | 4 | | | No |
| WEC ENERGY GROUP, INC. | 0.4% | 0.0% | 4.1% | 5 | 5.5% | 3 | 21.8M | 29.0M | Yes | No | 2 | 2.7 | 3.5 | No |
| DUKE ENERGY CORPORATION | 0.3% | 0.1% | 3.5% | 8 | 5.3% | 4 | 78.0M | 26.5M | Yes | No | 2 | 4.0 | 2.6 | No |
| Dominion Energy, Inc. | 0.2% | 0.1% | 1.5% | 17 | 2.7% | 6 | 35.0M | 25.4M | Yes | No | 2 | 3.7 | 2.9 | No |
| RWE Aktiengesellschaft | 0.2% | 0.0% | 8.3% | 3 | 3.0% | 5 | 89.6M | 23.0M | Yes | No | 2 | 4.5 | 6.6 | Yes |
| Holcim Sterling Finance (Netherlands) B.V. | 0.1% | 0.1% | 5.3% | 4 | 1.9% | 10 | 83.0M | 30.9M | No | No | 2 | 4.2 | 2.3 | Yes |
| THE AES CORPORATION | 0.1% | 0.0% | 2.0% | 14 | 2.0% | 9 | 41.0M | 8.6M | Yes | No | 2 | 4.2 | 3.6 | No |

**Recommendations / Observations**

- Corporate Bond climate metrics have improved from the previous year, which was partially driven by decreased exposures to the **Southern Company** and the **Dow Chemical Company**.
- Despite the decrease in climate metrics, the portfolio still exceeds the blended benchmark, which is partially attributable to an overweight exposure to Utilities.

| Worst YoY Contributors | Stewardship Focus |
|---|---|
| DUKE ENERGY CORPORATION | No |
| ELECTRICITE DE FRANCE SA | No |
| RWE Aktiengesellschaft | No |

**High Impact Sectors / Climate Solutions Exposures (Portfolio vs Benchmark)**

| Measure | Portfolio | Benchmark |
|---|---|---|
| Fossil Fuel Exposure | 4.4% | 6.3% |
| Fossil Fuel Revenue | 1.2% | 2.1% |
| Thermal Coal Exposure | 1.5% | 1.4% |
| Coal Power Exposure | 0.0% | 0.2% |
| Cleantech Exposure | 22.3% | 28.9% |
| Cleantech Revenue | 3.7% | 4.6% |

**Portfolio Alignment & Engagement**

| Engagement | Data Quality | LCT | ITR | SBT | Alignment |
|---|---|---|---|---|---|
| 51.6% | 2.2 | 26.1% | 38.9% | 39.7% | 24.4% |

# Fixed Income *(continued)*

## Our initial analysis encompasses three funds with a combined Net Asset Value (NAV) of approximately £0.9bn.



It's important to note that two of these funds are exclusively invested in UK Gilts (conventional and index linked sovereign bonds) (£0.6bn on 31 March 2023). Currently, we do not aggregate financed emissions from sovereign debt due to issues with the calculation process that present inconsistencies. We are actively working to validate the calculation for emissions from sovereign issuers to ensure accuracy and reliability in our assessments.

The remaining fund that meets our criteria for inclusion is the LGPS Central Corporate Bond Fund (£0.3bn on 31 March 2023), which has been in DPF's books since 2020.

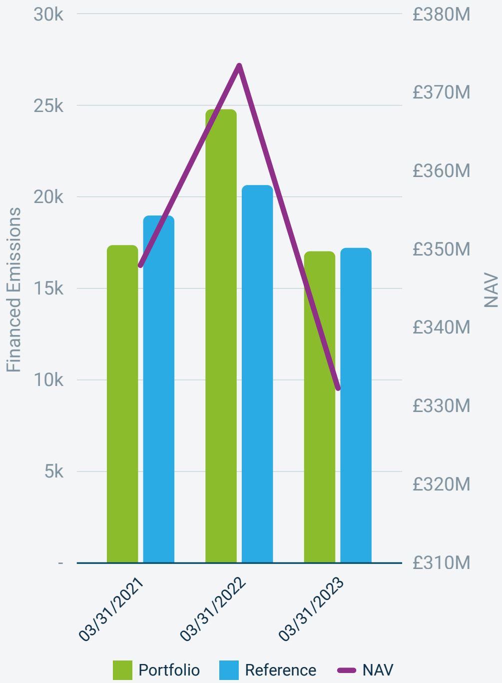
The reference indices we use to measure the funds' relative performances are as follows:

| Fund | Reference Index |
|---|---|
| **LGPS Central Corporate Bond Fund** | 50% Sterling Non-Gilt Index + 50% ICE BofA Global Corporate Index |

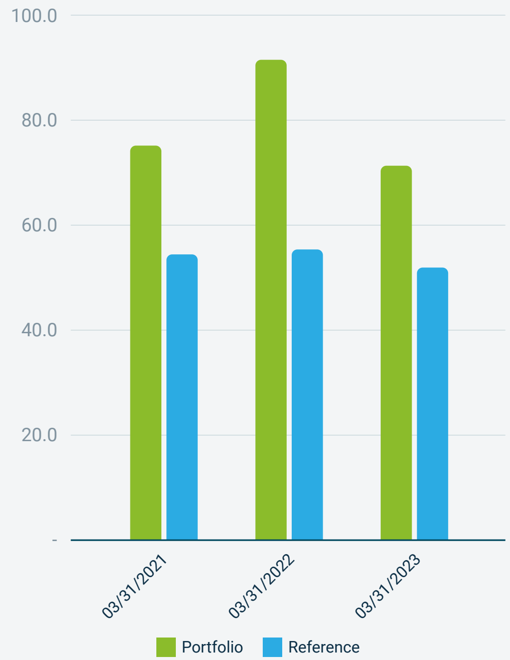
Comparison against reference index could be inaccurate due to the discrepancies in data availability between the funds and their reference indices. It is worth noting that lower data availability usually results in higher normalised financed emission and WACI (see above).

### Carbon Footprint Metrics

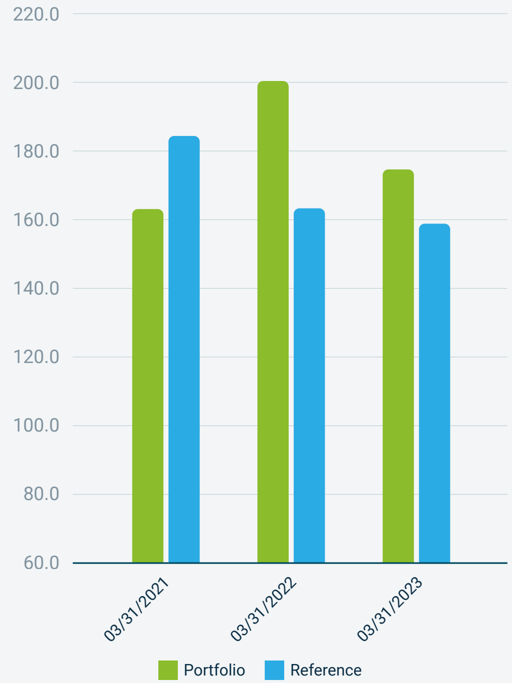
**Fixed Income: Financed Emissions Over Time**




**Fixed Income: Normalised Financed Emissions Over Time**




**Fixed Income: WACI Over Time**



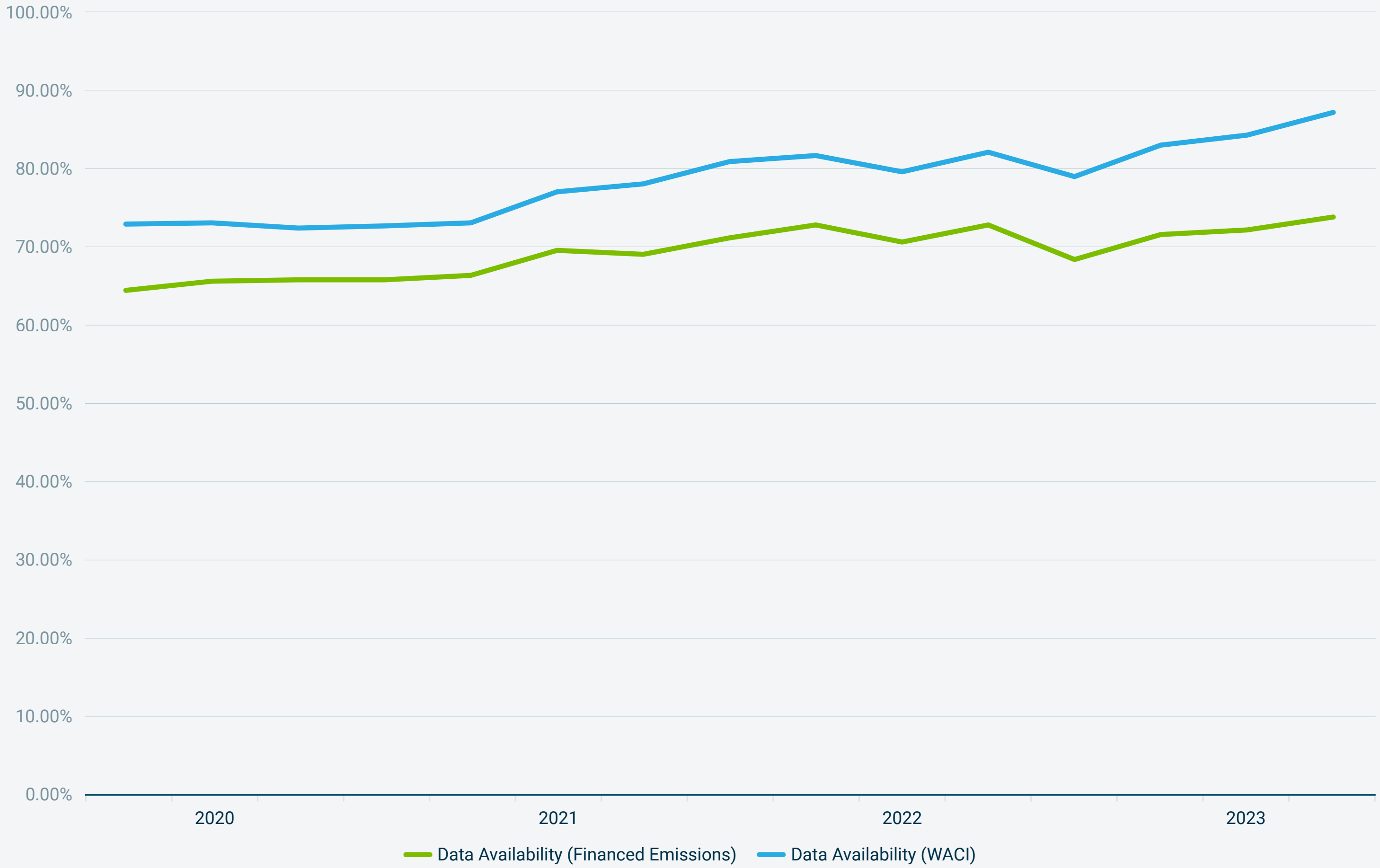
# Fixed Income *(continued)*

The jump in financed emission in 2022 can be partially explained by additional DPF investment into the fund between periods. On top of that, increased allocation and security selection within Utilities sector further compounded the rise. The positioning within Utilities can also partially explain the shape of the normalised financed emissions and WACI curves. In 2023, while the weight in the sector was stable, stock selection contributed towards lower financed emissions.

Compared to its reference index, the fixed income portfolio exhibited a slight underperformance concerning carbon footprint metrics. Part of this underperformance can be attributed to the lower data coverage available for the fund in comparison to the reference index. Nevertheless, we are committed to closely monitoring and engaging with the underlying manager(s) to gain insights into their approach for managing the fund's carbon footprint.

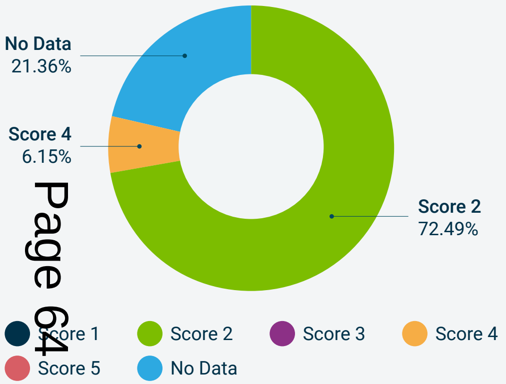
## Data

**Fixed Income: Data Availability Over Time**



# Fixed Income *(continued)*

**Fixed Income: Breakdown of Data Quality Score (March 2023)**





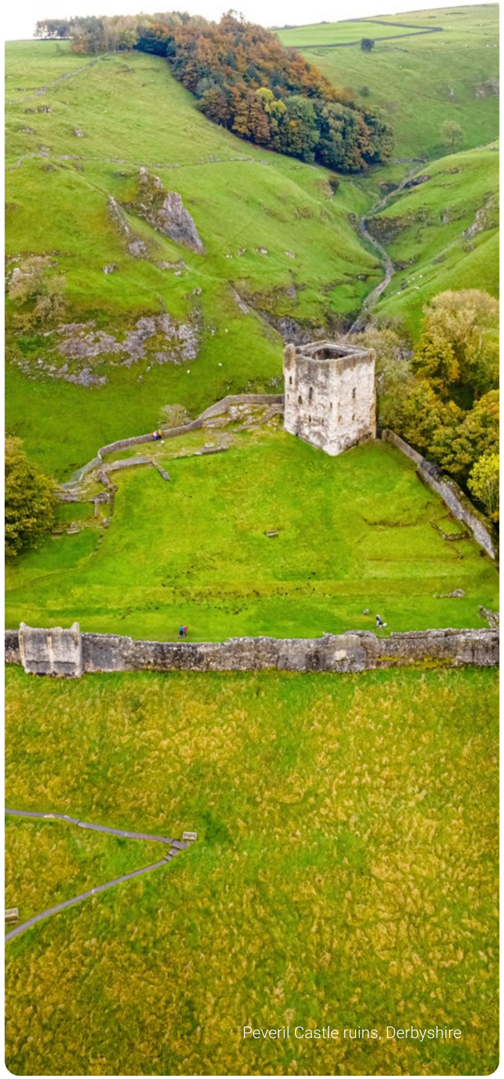

Data availability for fixed income products is relatively lower when compared to their equity counterparts. However, it's important to acknowledge that considerable progress has been made since the inception of our carbon footprinting efforts in 2019. In terms of data quality, the majority of the information used, where accessible, is sourced from reported data. Similar to our approach with equities, we are actively working on establishing a mechanism to validate verified data.

Moving forward, our immediate priorities for fixed income include:

i) Incorporating sovereign emissions data into our calculations, which will notably enhance data coverage for emerging market debt funds as well as funds investing predominantly into sovereigns such as the Gilt funds. (Note: We are currently in the testing phase for sovereign emissions data in our model).

ii) Expanding our coverage of Eneterprise Value Including Cash (EVIC) data, particularly for non-listed issuers. This expansion will improve our data coverage related to financed emissions.

iii) Continuously advancing our efforts to accurately map securities to their respective issuers for improved data quality and transparency.



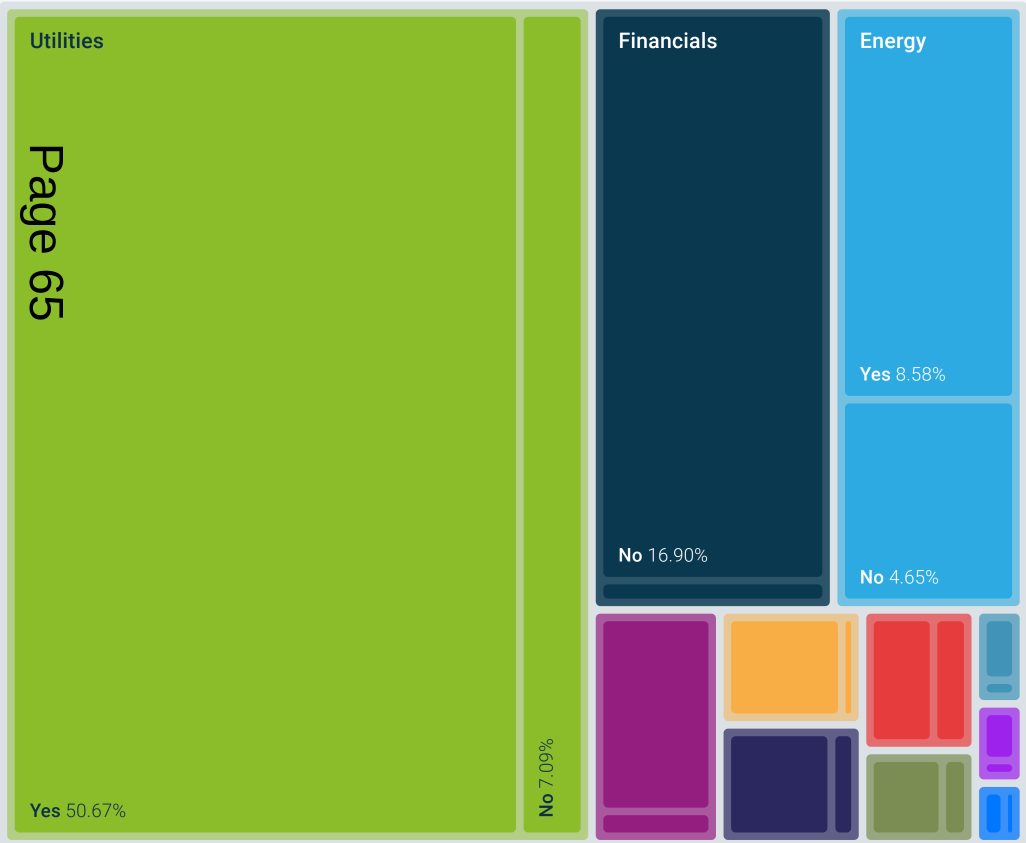
Peveril Castle ruins, Derbyshire

# Fixed Income *(continued)*

## Sources of Emissions

The graph below illustrates the distribution of emissions within the portfolio by sector and indicates whether these emissions are addressed through engagement activities.

**Financed Emission (Scope 1+2) by GICS Sector and Climate Engagement**




- **Consumer Discretionary** — **No** 3.18% **Yes** 0.32%
- **Communication Services** — **No** 1.85% **Yes** 0.11%
- **Materials** — **No** 1.68% **Yes** 0.28%
- **Industrials** — **No** 1.27% **Yes** 0.61%
- **Consumer Staples** — **No** 0.91% **Yes** 0.29%
- **Health Care** — **No** 0.41% **Yes** 0.08%
- **Real Estate** — **No** 0.34% **Yes** 0.08%
- **Information Technology** — **No** 0.22% **Yes** 0.07%

The sector allocation has seen a notable shift towards Financials, while the share of emissions has shifted towards Utilities. There has been a slight increase in the weight of the Utilities sector since 2020. Furthermore, the average carbon intensity of companies within the Utilities sector experienced a significant increase in 2022, which corrected slightly in 2023. The disparity in the average carbon intensities between the Utilities sector constituents within the equities and fixed income portfolios suggests that the issuers to which the fixed income funds provide financing are generally less carbon efficient.

There is a pressing need for progress in expanding engagement coverage across the asset class. Currently, only 51.6% of financed emissions fall under one or more engagement programs. Considering the geographical focus of the funds in scope, there is room for improvement in this figure. This also highlights the challenges faced by engagers within this asset class. One of the key challenges is that companies may not be as willing to engage with their debtholders compared to their equity shareholders. Additionally, the high turnover rate in portfolios exacerbates the issue, as engagers may find it challenging to commit to long-term engagement plans with a single issuer. However, it's crucial to emphasise that delegated managers are expected to integrate ESG factors and engage in stewardship. As such, it is essential for this metric to show improvement over time, as engagement is believed to have the potential to drive real-world improvements.

# Fixed Income *(continued)*

## Highest Emitting Issuers

**Cleco Corporate Holdings**, a public utility holding company, stands as the top emitter in the fixed income portfolios, contributing to 18.6% of the financed emissions and accounting for 11.2% of the WACI. Unfortunately, emission data on the company is scarce. The issuer's private company status, as it is owned by private equity firms, poses challenges for analysis and engagement. LGPSC is in communication with the underlying manager to explore strategies for engagement with the company.



**Southern Company**, a prominent energy provider serving 9 million customers in the United States, has earned a spot on DPF's CSP due to its consistent high emissions ranking. The company has articulated a commitment to achieve net zero emissions by 2050. Initially, it aimed to reduce emissions by 50% from a 2007 baseline, primarily by transitioning from coal to natural gas in its energy mix. Additionally, Southern Company has established plans to enhance its renewable energy capacity to align with the 2050 net-zero emissions goal. However, recent emissions reductions have been slower, reflecting the challenges of decarbonization once the initial transition from coal to natural gas has been completed. As a result, Southern Company will continue to be a central focus of climate stewardship efforts.

**RWE Aktiengesellschaft** is a German based utilities company and contributes 8.3% of the portfolio's financed emissions. The company continues to lag peers, with a high reliance on fossil fuel sources (66% of 2021 installed capacity). Despite this the company is well positioned in regard to opportunities in clean tech, with targets to increase net capacity and invest significant funds into projects including battery storage and hydrogen. The company has also committed to exit coal by 2030, a target brought forward from 2038. RWE have also committed to be Net Zero by 2040 and have implemented climate targets for 2030 which have been certified by the Science Based Target initiative as to be in line with the Paris Agreement.

One of the top contributors to financed emissions in the fixed income portfolios is **Enel**, accounting for 2.8% of the financed emissions. Enel is widely recognised as a leader in the low-carbon transition within the Utilities sector. The company has set forth an ambitious plan to achieve net-zero emissions by 2040, primarily by transitioning its generation capacity to renewable energy sources, with a target of reaching 85% by 2030 and 100% by 2040.


Monsal Dale, Derbyshire

# Definition of Carbon Metrics

TABLE 1: DEFINITION OF CARBON METRICS USED[15]

| Carbon Risk Metric | Unit | Definition | Use Case | Limitations |
|---|---|---|---|---|
| **Scope 1 Emissions** | tCO2e (Tons of CO2 equivalent) | These are the Greenhouse Gas (GHG) emissions that a company is directly responsible for through its generation of energy. | The emissions generate through the company's direct operations, such as fuel combustion, company vehicles, etc. | These metrics must be considered together to gain a full understanding of a company's carbon profile. They do not consider a company's size and they do not capture the impact of the company's business model on the climate.<br>Scope 3 emissions can also be counted multiple times by companies at different stages of the same supply chain. |
| **Scope 2 Emissions** | tCO2e | GHG emissions that a company produces indirectly through its operations via the consumption of purchased energy. | The emissions generated through the energy purchased by the company during its operations, such as energy consumption used to heat buildings. | |
| **Scope 3 Emissions** | tCO2e | All indirect GHG emissions resulting from the company's wider business practice. | Capturing emissions up and down the company's supply chain, including the emissions produced by customers' consumption of its products. | |
| **Financed Emissions** | tCO2e | This figure represents the amount of emissions attributed to the investor based on the proportion of the company that the investor owns. | Measures the absolute tons of (scope 1 and 2) $CO_2$ emissions for which an investor is responsible. | Limited usefulness for benchmarking and comparison to other portfolios due to the link to portfolio size (benchmarks are assumed to have equal AUM to the respective portfolio to overcome this challenge).<br>Attribution factor (EVIC)[16] |



[15] Further information can be found at this link: Carbon Footprinting 101 - A Practical Guide to Understanding and Applying Carbon Metrics - MSCI
[16] EVIC is the Enterprise Value Including Cash. In other words, this refers to the company's total value.

# Definition of Carbon Metrics *(continued)*

| Carbon Risk Metric | Unit | Definition | Use Case | Limitations |
|---|---|---|---|---|
| **Normalised Financed Emissions** | tCO2e/£m Invested | Financed Emissions are normalised by the portfolio's AUM as to provide a measure of carbon intensity. | This measure converts the absolute measure of Financed Emissions into a relative measure of carbon intensity, creating greater ease when benchmarking and comparing to other portfolios. | This measure will complement Financed Emissions, as alone it cannot provide an absolute measure of portfolio emissions. |
| **Weighted Average Carbon Intensity (WACI)** | tCO2e/$m revenue | Is calculated by working out the carbon intensity (Scope 1+2 Emissions / $M revenue) for each portfolio company and calculating the weighted average by portfolio weight. | A proxy for carbon price risk. Were a global carbon price to be introduced in the form of a carbon tax, this would (ceteris paribus) be more financially detrimental to carbon intensive companies than to carbon efficient companies. | This metric includes scope 1 and 2 emissions but not scope 3 emissions. This means that for some companies the assessment of their carbon footprint could be considered an 'understatement'.<br>As this metric is a product of revenue, the figure may fluctuate independently of the company's carbon emissions. |
| **Exposure to Fossil Fuel Reserves** | % | The weight of a portfolio invested in companies that (i) own fossil fuel reserves (ii) thermal coal reserves (iii) utilities deriving more than 30% of their energy mix from coal power. | A higher exposure to fossil fuel reserves is an indicator of higher exposure to companies challenged by the transition to a lower carbon economy and is a measure of the impact of the portfolio. | It does not consider the amount of revenue a company generates from fossil fuel activities. Consequently, diversified businesses (e.g. those that are involved in a range of economic activities) would be included when calculating this metric regardless of the proportion of their revenue derived from fossil fuels. As a result it is not a precise measure of transition risk. |

Page 68

# Definition of Carbon Metrics *(continued)*

| Carbon Risk Metric | Unit | Definition | Use Case | Limitations |
|---|---|---|---|---|
| **Exposure to Fossil Fuel Reserves by Revenue** | % | This figure identifies each portfolio company's maximum percentage of revenue (either reported or estimated) derived from conventional oil and gas, unconventional oil and gas, as well as thermal coal.<br>Each company's maximum possible revenue values are summed and weighted by the portfolio weights to produce a weighted exposure figure. | This has been included to overcome the limitations of the metric of Exposure to Fossil Fuel Reserves, which includes all companies which have any exposure regardless of how small. | This measurement uses maximised estimates where reported values are not available. Therefore, there is a potential to overestimate exposure. |
| **Exposure to Clean Technology** | % | The weight of a portfolio invested in companies whose products and services include clean technology (Alternative Energy, Energy Efficiency, Green Buildings, Pollution Prevention, and Sustainable Water). The final figure comes from the percentage of each company's revenue derived from clean technology. | Provides an assessment of climate-related opportunities so that an organisation can review its preparedness for anticipated shifts in demand. | While MSCI has been used for this report due to its wide range of listed companies and data points, there is no universal standard or definitive list of green revenues. This is due to the inherent difficulty in compiling a complete and exhaustive list of technologies relevant for a lower-carbon economy.<br>This is also a binary measure, whereby all exposures to clean technology are categorised equally. Therefore, companies with very limited exposure to clean technology may have a significant influence on the final figure. This limitation is met by the revenue metric below. |

# Definition of Carbon Metrics *(continued)*

| Carbon Risk Metric | Unit | Definition | Use Case | Limitations |
|---|---|---|---|---|
| **Exposure to Clean Technology by Revenue** | % | This identifies the maximum percentage of revenue, either reported or estimated, derived from companies involved in clean technology (see above).<br>Company values are summed and weighted by the portfolio weights to produce a weighted exposure figure. | Allows for a comparison of company's exposure to clean technology, adjusted according to a proportion of that company's revenue generated from those activities. | This measurement uses maximised estimates where reported values are not available. Therefore, there is potential to overestimate exposure. |
| **Engagement** | % | Is calculated by the proportion of financed emissions which are accounted for under an engagement program either directly, in partnership and/or through stewardship provider. | This allows us to understand how much of the portfolio's financed emissions are accounted for under engagement programs. | This figure does not demonstrate the degree of progress made with the portfolio company as a result of the engagement.<br>This will also include engagement on issues outside of environmental topics. |
| **Data Quality** | Numerical (1-5) | This metric is presented as a score between 1 and 5, with 1 representing the highest quality of reported emissions. A score of 1 would represent independently verified emissions data, whereas a higher score may represent estimated emissions based on sector averages. | Understanding data quality provides an insight into the accuracy of other climate metrics. | Simple quantification of the quality of data, does not provide in-depth understanding of data availability/reliability. |

# Definition of Carbon Metrics *(continued)*

| Carbon Risk Metric | Unit | Definition | Use Case | Limitations |
|---|---|---|---|---|
| **Low Carbon Transition** | Numerical (1-10) | Low Carbon Transition scores are assigned from 1 to 10, whereby a score of 10 indicates exceptional management of climate risks and opportunities, while a score of 1 indicates poor management.<br>For this metric the proportion of financed emissions associated with a portfolio with a manager score above 5 is aggregated. | This views how well a company manages risk and opportunities related to the low carbon transition.<br>The overall figure for this metric is apportioned by financed emissions, highlighting the proportion of emissions within the portfolio which arise from companies with effective carbon management policies. | While this considers the ability of a company's management to incorporate low carbon transition risks and opportunities, it is not an overall indicator of the company's low carbon transition performance. |
| **Implied Temperature Rise (ITR)** | % | ITR is typically expressed in degrees centigrade, and is based on the implied global temperature rise if the entire economy adopted the same decarbonisation policy as the company in question. The reported figure is expressed in a percentage, and relates to the share of financed emissions within the portfolio with an ITR of 2C or less. | Implied temperature rise is an intuitive, forward-looking metric, expressed in degrees Celsius, designed to show the temperature alignment of companies, portfolios and funds with global temperature goals. | Implied temperature rise is heavily reliant on the model's parameters and assumptions. |
| **Science-Based Targets** | % | This is calculated as the proportion of financed emissions which are accounted for by a portfolio company with science-based climate target. | Provides an insight into the proportion of companies which have implemented science-based targets. Apportioning by financed emissions places a greater weight on companies where emissions are more substantial. | This metric only measures the proportion of companies with official science-based targets which have been verified by an independent body. A company with robust and ambitious targets which have not been verified may be omitted. |

Page 71

# Definition of Carbon Metrics *(continued)*

| Carbon Risk Metric | Unit | Definition | Use Case | Limitations |
|---|---|---|---|---|
| **Paris Alignment** | % | This metric is constructed in-house. A company is considered to be aligned if they have a Low Carbon Transition score greater than 5, as well as either an ITR of 2 degrees Celsius or lower, or a science-based target. | This figure is designed to provide an insight into the overall Paris alignment of the portfolio. Apportioning by financed emissions places a greater weight on companies where emissions are more substantial. | The limitations of the figure will be carried over from the limitations of the underlying metrics. There is currently no consensus opinion on what it means for a company to be aligned. |

Page 72

LGPS Central Limited

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FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

WEDNESDAY, 24 JANUARY 2024

Report of the Director - Finance and ICT

# Local Government Pension Scheme Investment Pooling

## 1. Purpose

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

## 2. Information and Analysis

### 2.1 Background

2.1.1 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.

2.1.2 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 LGPS Investment Pooling Consultation

2.2.1 The publication of the investment pooling consultation from the Department for Levelling Up, Housing and Communities (DLUHC) 'Local Government Pension Scheme (England and Wales): Next steps on investments' was reported to Committee in September 2023. Matters expected to be included in the Pension Fund's response to the consultation were highlighted in the Committee report.

The Fund's final response, which was agreed by Mark Kenyon, the Director of Finance & ICT, and Councillor David Wilson, the Chair of the Pensions and Investments Committee, on behalf of Derbyshire County Council as the administering authority of the Pension Fund, was subsequently circulated to members of the Committee and to members of Derbyshire Pension Board.

The government's response to the pooling consultation was unexpectedly published at the time of the Autumn Statement in November 2023 and concluded that the government will:

- set out in revised investment strategy statement guidance that funds should transfer all assets to their pool by 31 March 2025, and set out in their ISS assets which are pooled, under pool management, and not pooled and the rationale, value for money and date for review if not pooled
- revise pooling guidance to set out a preferred model of pooling including delegation of manager selection and strategy implementation
- implement a requirement in guidance for administering authorities to set a training policy for pensions committee members and to report against the policy
- revise guidance on annual reports to include a standard asset allocation, proportion of assets pooled, a comparison between actual and strategic asset allocation, net savings from pooling and net returns for each asset class against their chosen benchmark
- make changes to LGPS official statistics to include a standard asset allocation and the proportion of assets pooled and the net savings of pooling
- amend regulations to require funds to set a plan to invest up to 5% of assets in levelling up the UK, and to report annually on progress against the plan

- revise ISS guidance to require funds to consider investments to meet the government's ambition of a 10% allocation to private equity
- amend regulations to require funds to set objectives for investment consultants and correct the definition of investment in the 2016 investment regulations

2.2.2 The government has committed to working closely with the LGPS Scheme Advisory Board (SAB) and the relevant committees of the SAB to develop changes to regulations and revised guidance on investment strategy statements, pooling, governance and annual reports.

More widely, the government set out its intention to monitor progress over the current valuation period (to 31 March 2025), based on fund annual reports, LGPS statistics, the Scheme Annual report and other evidence. This monitoring will include progress on transition, governance and reporting and how effective these are in delivering improvements in efficiency, cost and performance.

2.2.3 Officers will be discussing the government's response with the other Partner Funds in the LGPS Central Pool and with LGPS Central Limited, the pooling company, in the Moving Pooling Forwards in Collaboration forum and more widely with other LGPS funds.

**2.3 LGPS Central Limited Strategic Business Plan & Budget 2024/25**

Partner Funds are currently considering the LGPSC Strategic Business Plan & Budget 2024/25 (Strategic Plan) which is expected to be presented to shareholders for approval at the Company's General Meeting on 27 February 2024. Mark Kenyon, the Director of Finance & ICT, will represent Derbyshire County Council at the General Meeting and will vote on the Company's resolutions.

Partner Funds discussed their ongoing/future requirements with LGPSC in September 2023. LGPSC circulated the Strategic Plan to Partner Funds at the start of December 2023 and attended a meeting of the Shareholders' Forum shortly afterwards to present its high level strategic outlook for the Company, taking into consideration the recently published government response to the pooling consultation.

Partner Fund officers are currently considering requested additional information on the Strategic Plan provided by LGPSC.

**2.4 Recruitment of the Chief Executive Officer**

2.4.1 The recruitment of a new Chief Executive Officer for LGPSC is ongoing. Representatives of the Shareholders' Forum will meet the Board's preferred candidate as part of the recruitment process.

**2.5 LGPS Central Pool Joint Committee**

2.5.1 The next meeting of the LGPS Central Joint Committee is due to be held on 2 February 2024 at the offices of Leicestershire County Council. Councillor Wilson will be representing the Fund at the meeting which will include presentations on the performance of LGPS Central Limited's products and stewardship activities.

**2.6 Investments in Collaborative Arrangements**

2.6.1 At the end of December 2023, the Fund had the following investments in LGPSC vehicles:

| | **£m** |
|---|---|
| LGPS Central Global Active Corporate Bond Fund | 363 |
| LGPS Central All World Equity Climate Multi Factor Fund | 341 |
| LGPS Central Emerging Mkt Equity Active Multi Manager Fund | 171 |
| LGPS Central Global Sustainable Equity Broad Strategy Fund | 65 |
| LGPS Central Global Sustainable Equity Targeted Strategy Fund | 111 |
| LGPS Central Credit Partnership II LP | 50* |
| | **1,101** |

* Based on commitment.

In addition to the assets managed by LGPSC, the following assets were managed through collaboratively procured arrangements/subject to an aggregated LGPS fee rate:

| | **£m** |
|---|---|
| RBC Global Equity Focus Fund | 393 |
| LGIM MSCI World Low Carbon Target Index Fund | 826 |
| LGIM UK Equity Index Fund | 709 |
| LGIM Japan Equity Index Fund | 231 |
| LGIM Emerging Markets Equity Fund | 95 |
| JP Morgan International Infrastructure Fund | 150 |
| | **2,404** |

2.6.2 The percentage of total Fund assets currently invested in LGPSC products and via other collaboratively procured arrangements is 56%, which represents good progress in the transition to pooled investment arrangements.

2.6.3 Due diligence is also currently being carried out on the LGPS Central Global Sustainable Equity Thematic Strategy Fund, LGPS Central Global Low Carbon Multi Factor Equity Index Fund, LGPS Central Global Multi-Asset Credit Fund and LGPS Central Primary Private Equity 2024 Fund. Fund officers are also contributing to the development of the mandate for LGPSC's proposed indirect residential property fund.

**2.7 LGPS Central Pool Cost Sharing Arrangements**

2.7.1 A review of the cost sharing arrangements of the LGPS Central Pool is currently being undertaken six years on from the agreement of the original arrangements.

**3. Implications**

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

**4. Background Papers**

4.1 Papers held by the Pension Fund.

**5. Appendices**

5.1 Appendix 1 – Implications

**6. Recommendation(s)**

That Committee:

a) notes the contents of the report.

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

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

| | | | |
|---|---|---|---|
| **Report Author:** | **Dawn Kinley** | **Contact details:** | **dawn.kinley@derbyshire.gov.uk** |

**Appendix 1**

**<u>Implications</u>**

**Financial**

1.1 All costs associated with investment pooling are met by the Pension Fund.

**Legal**

2.1 The Director of Finance & ICT, or his nominee, has delegated authority to make decisions on any matter which requires a decision by the shareholders of LGPS Central Limited.

**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, 24 JANUARY 2024**

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

# GOVERNANCE POLICY AND COMPLIANCE STATEMENT

## 1. Purpose

To seek approval for the draft updated Governance Policy and Compliance Statement for Derbyshire Pension Fund (the Fund) attached as Appendix 2.

## 2. Information and Analysis

2.1 **Background**
Regulation 55 of The Local Government Pension Scheme Regulations 2013 requires an administering authority, after consultation with such persons as it considers appropriate, to prepare, publish and keep under review, a written statement setting out:

- whether it delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority
- the terms, structure and operational procedures of any such delegations
- the frequency of any committee or sub-committee meetings
- whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether these representatives have voting rights

- the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying
- details of the terms, structure and operational procedures relation to the local pension board

The draft updated Governance Policy and Compliance Statement (the Statement) sets out the governance arrangements for Derbyshire Pension Fund and records the extent to which the Fund complies with the statutory guidance issued by the Secretary of State in respect of these matters.

2.2 **Updates included in the Statement**

Minor updates have been included in the Statement to reflect the appointment of the two members representing Derby City Council following the City Council's Annual General Meeting on 24 May 2023 and to provide additional information on the governance of the LGPS Central Pool.

As there are no material changes to the Statement, consultation with stakeholders is not proposed.

Subject to the Committee's approval, the Statement will be published on the Fund's website.

2.3 **LGPS Scheme Advisory Board Good Governance Review**

In February 2021, the LGPS Scheme Advisory Board (SAB) published the final report of its Good Governance Review and provided an action plan for consideration by the Ministry of Housing, Communities and Local Government (now the Department of Levelling Up, Housing and Communities - DLUHC).

During 2022, DLUHC reported to SAB that Ministers had agreed to take the proposals forward and expected that Good Governance requirements would be implemented through amendments to LGPS regulations and statutory guidance, however, to date, details on progressing the recommendations have not been published.

Scheme member and employer representation in the Fund's governance structure will be reviewed following publication of any relevant amended LGPS regulations/statutory guidance from DLUHC.

In respect of current representation within the governance structure of the Fund, Derbyshire Pension Board, which assists the Committee in the administration of the Fund, includes scheme member and scheme employer representatives and two trade union representatives are entitled to be non-voting members of the Pensions and Investments Committee.

As part of plans to increase member involvement in the governance of the Fund, a Member Engagement Forum is due to be established during 2024. All scheme members have been invited to express interest in joining the Forum.

**3. Implications**

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

**4. Background Papers**

4.1 Background papers are held by the Head of Pension Fund.

**5. Appendices**

5.1 Appendix 1 – Implications
5.2 Appendix 2 – Draft updated Governance Policy and Compliance Statement

**6. Recommendation(s)**

That Committee:

a) approves the draft updated Derbyshire Pension Fund Governance Policy and Compliance Statement attached as Appendix 2.

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

7.1 The Pension Fund is required to have a written statement of its governance arrangements and Committee is responsible for approving the Fund's statements, strategies and policies. The current version of the Fund's Governance Policy and Compliance Statement was approved by Committee on 18 January 2023 and is subject to annual review.


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

**Appendix 1**

## Implications

### Financial

1.1 All costs related to the operation and implementation of this Statement will be met directly by Derbyshire Pension Fund.

### Legal

2.1 The preparation and maintenance of a Governance Compliance Statement by an LGPS administering authority is required under Regulation 55 of The Local Government Pension Scheme Regulations 2013.

### 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

**Appendix 2**

County Hall, Matlock, Derbyshire, DE4 3AH

derbyshirepensionfund.org.uk

*Administered by Derbyshire County Council*

# Governance Policy and Compliance Statement (Draft)

January 2024

## Contents

## Introduction

This is the Governance Policy and Compliance Statement (the Statement) for Derbyshire Pension Fund (the Pension Fund/the Fund) which is part of the Local Government Pension Scheme (the LGPS). The Fund is managed and administered by Derbyshire County Council (the Council) in accordance with the Local Government Pension Scheme Regulations 2013 (2013 Regulations). At a national level, the LGPS is governed by the Department of Levelling Up, Housing and Communities (DLUHC) and the LGPS Scheme Advisory Board.

The 2013 Regulations require an administering authority, after consultation with such persons as it considers appropriate, to prepare, publish and keep under review, a written statement setting out:

- whether it delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;
- the terms, structure and operational procedures of any such delegations;
- the frequency of any committee or sub-committee meetings;
- whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether these representatives have voting rights;
- the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and
- details of the terms, structure and operational procedures relation to the local pension board.

This Statement sets out the governance arrrangements of Derbyshire Pension Fund.

## Governance Objectives

The Pension Fund's governance objectives are to:

- Meet the highest standards of good governance through the application of the key principles of openness and transparency, accountability, integrity, clarity of purpose and effectiveness.
- Ensure robust governance arrangements are in place to facilitate informed decision making supported by appropriate advice, policies and strategies, which do not unreasonably favour one group of stakeholders over another.
- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise.
- Comply with all appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance.

The identification and management of conflicts of interest is integral to the Fund achieving its governance objectives. A Pension Fund Conflicts of Interest Policy was approved by the Pensions and Investments Committee on 4 November 2020.

## Governance Arrangements

Under the terms of the Council's Constitution, responsibility for the functions of the Council as the administering authority of Derbyshire Pension Fund is delegated to the Pensions and Investments Committee. A Local Pension Board, set up in 2015 in accordance with the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015, assists the Council with the governance and administration of the Fund.

The day to day management of the Pension Fund is delegated to the Director of Finance & ICT who is supported by the Head of Pension Fund and in-house investment and administration teams. A proportion of the Fund's investment assets are managed by LGPS Central Limited (the Fund's pooling company) and by other external fund managers.

**Pensions and Investments Committee**

The Committee comprises eight voting Councillors representing the County Council and two voting Councillors representing Derby City Council. The County Council members of the Committee reflect the political balance of the Council. The Councillors representing Derby City Council were appointed to the Committee at the Annual General Meeting of Derby City Council on 24 May 2023.

Two trade union representatives are also entitled to attend meetings of the Pensions and Investments Committee as non-voting members.

Officers of the Council and an independent investment adviser also attend meetings to provide advice and support to members of the Committee. Other experts attend Committee to provide advice as required.

Members of Derbyshire Pension Board are invited to attend the Committee's meetings as observers.

The Committee meets eight times a year (six formal committee meetings and two training sessions) and its responsibilities include reviewing and approving the Fund's:

- Governance Policy and Compliance Statement
- Investment Strategy Statement
- Funding Strategy Statement
- Treasury Management Strategy
- Quarterly tactical asset allocation
- Other statutory policies required by the Local Government Pension Scheme Regulations and strategy/policy statements in line with best practice

The Committee also receives and considers the Fund's:

- Triennial actuarial valuation report and annual funding reports
- Annual Report
- Administration and investment performance reports
- Risk Register

The Committee ensures arrangements are in place for:

- Communicating with the Fund's stakeholders
- Considering admission body applications
- The adjudication of applications under the Application for Adjudication of Disagreements Procedure (AADP) (including the appointment of adjudicators)

The Committee is responsible for appointing the Fund's:

- Actuary
- Independent investment adviser
- External fund managers for segregated mandates in advance of the management of the investment assets transitioning to the investment pool
- AVC providers

To oversee the Fund's involvement in investment pooling, the Committee:

- ensures that the Fund is effectively represented in the Pool's governance structure.
- determines what is required from the Pool to enable the Fund to deliver its Investment Strategy.
- is responsible for the selection, appointment and dismissal of an investment pooling operator (the Operator) to manage the Fund's assets.
- monitors the performance and effectiveness of the Operator both as a shareholder in the Operator and as an investor in the Operator's products.
- ensures that appropriate measures are in place to monitor and report on the ongoing costs and cost savings of investment pooling.
- ensures that the responsible investment, corporate governance and voting policies of the Fund are delivered effectively.
- receives and considers reports and recommendations from the Pool's Joint Committee, Shareholders' Forum and Practitioners' Advisory Forum.

**Derbyshire Pension Board**

The Public Service Pensions Act 2013 introduced a framework for regulatory oversight by the Pensions Regulator and introduced a new governance structure for the LGPS which came into effect in April 2015 and included the requirement for administering authorities to establish Local Pension Boards.

Derbyshire Pension Board (the Board) consists of two Scheme Member representatives and two Scheme Employer representatives together with a non-voting Independent Chair.

Officers of the Council attend Pension Board meetings to provide advice and support to members of the Board.

The role of the Pension Board is to assist the administering authority to ensure the effective and efficient governance and administration of the LGPS, including:

- Securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme
- Securing compliance with any requirements imposed by the Pensions Regulator in relation to the Scheme

Members of the Pension Board are invited to attend meetings of the Pensions and Investments Committee as observers and receive all papers ahead of each meeting.

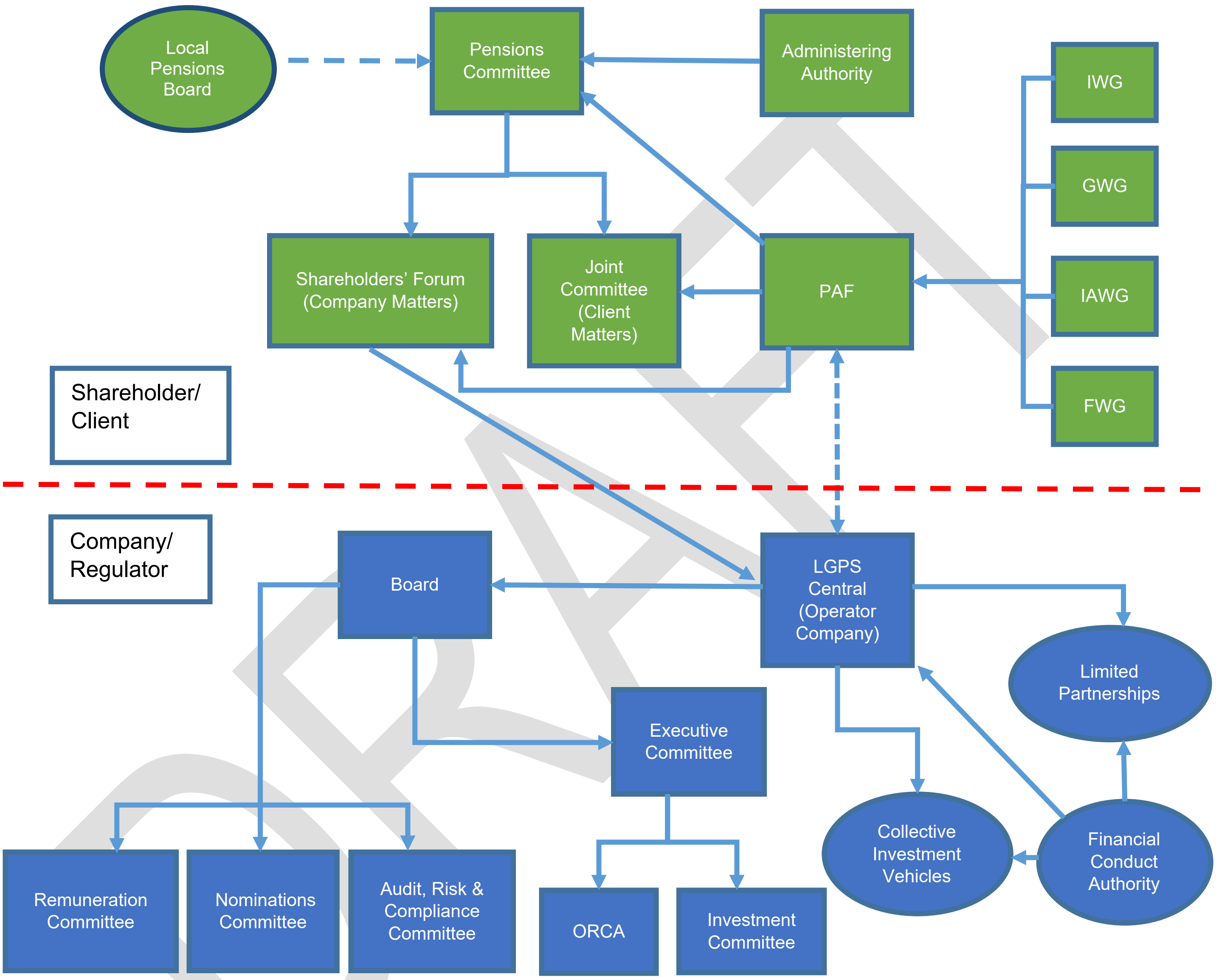
**LGPS Central Pool**

Derbyshire Pension Fund has partnered with the LGPS pension funds of Cheshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, Worcestershire and West Midlands to form a collective investment pool, known as the LGPS Central Pool (the Pool), in accordance with Government requirements for pooling the management of LGPS investment assets.

The governance structure of the LGPS Central Pool enables Partner Funds to exercise control, both individual and collectively, over pooling arrangements as clients and shareholders of LGPS Central Limited (the pooling company).

The following diagram illustrates the governance arrangements of the LGPS Central Pool:

**LGPS Central Pool Governance arrangements**






| List of abbreviations included in the chart | |
|---|---|
| PAF | Practitioners' Advisory Forum |
| IWG | Investment Working Group |
| GWG | Governance Working Group |
| IAWG | Internal Audit Working Group |
| FWG | Finance Working Group |
| ORCA | Operations, Risk, Compliance & Administration Committee |

The governance arrangements of the Pool include the following bodies:

**Joint Committee**: to provide oversight of the delivery of the objectives of the Pool, the delivery of client service, the delivery against the LGPS Central business case and to deal with common investor issues. The Joint Committee provides assistance, guidance and recommendations to the individual Councils, taking into consideration the conflicting demands and interests of the participants within the Pool. The Joint Committee does not have delegated authority to make binding decisions on behalf of the participating Councils.

Membership of the Joint Committee consists of one elected member from each participating council. The Chair of the Pensions and Investments Committee, or his/her nominee, represents Derbyshire County Council on the LGPS Central Joint Committee.

**Shareholders' Forum**: to oversee the operation and performance of LGPS Central Ltd and to represent the ownership rights and interests of the shareholding councils with the LGPS Central Pool. Collective shareholder discussions take place in the Shareholders' Forum and aim to ensure that the Councils act in a unified way in company meetings, having agreed to a common set of principles. Unanimous decisions are required for certain reserved company matters. Shareholder Forum meetings are distinct from LGPS Central Ltd company meetings, however, members of the Shareholders' Forum also represent the councils at company meetings.

Membership of the Shareholders' Forum consists of one representative from each shareholding council. The Director of Finance & ICT, or his/her nominee, represents Derbyshire County Council at the Shareholders' Forum and at LGPS Central Ltd company meetings, with delegated authority to make decisions on any matter which requires a decision by the shareholders of LGPSC.

**Practitioners' Advisory Forum**: a working group of officers appointed by the shareholding councils within the Pool to support the delivery of the objectives of the Pool and to provide support for the Pool's Joint Committee and Shareholders' Forum. The Director of Finance and ICT, the Head of Pension Fund and the Investments Manager represent Derbyshire on the Practitioners' Advisory Forum as required. PAF is supported by the following individual working groups: Finance Working Group; Governance Working Group; Investment Working Group (which incorporates a quarterly Responsible Investment focused meeting). An Internal Audit Working Group, with representatives from all Partner Funds, shares the responsibility for carrying out Pool-related audit work on behalf of all Partner Funds.

## Review and Compliance with Best Practice

This Governance Policy and Compliance Statement will be reviewed annually and will be revised following any material change in the governance arrangements of the Pension Fund.

The 2013 Regulations require Administering Authorities to prepare and publish a statement which sets out the extent to which the governance arrangements of the Fund comply with statutory guidance issued by the Secretary of State which is based on best practice principles. The Fund's statement is set out below:

**Structure**

| Principle | Compliance |
| --- | --- |
| The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council. | Compliant - The Pensions and Investments Committee is responsible for these functions under the Terms of Reference included in the Council's constitution. |

| | |
|---|---|
| The representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee. | Partially Compliant - Membership of the Pensions and Investments Committee includes two representatives from Derby City Council and two non-voting Trade Union representatives as well as eight representatives from the administering authority (also the largest employing body). In practice the Trade Union representatives tend to represent the interests of all scheme members. Membership and employer representation will be kept under review. |
| That where a secondary committee or panel has been established, the structure ensures effective communication across both levels. | Not applicable |
| That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel. | Not applicable |

**Representation**

| Principle | Compliance |
|---|---|
| That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:<br>Employing authorities (including non-scheme employers e.g. admitted bodies)<br>Scheme members (including deferred and pensioner scheme members)<br>Where appropriate, independent professional observers<br>Expert advisors (on an ad-hoc basis) | Partially Compliant - Membership of the Pensions and Investments Committee includes two representatives from Derby City Council and two non-voting Trade Union representatives, as well as eight representatives from the administering authority (also the largest employing body). In practice the Trade Union representatives tend to represent the interests of all scheme members. Membership and employer representation will be kept under review.<br><br>The Fund's Independent Investment Advisor attends investment related Pensions and Investments Committee meetings. Other independent experts attend meetings of the Committee as required e.g. the Fund's Actuary attends to discuss the triennial valuation.<br><br>Derbyshire Pension Board (the Board) includes two employer representatives (currently from University of Derby and Aspens-Services Ltd, an Admission Body in the Fund) and two member representatives. The Board has an independent Chair. |

| | |
|---|---|
| That where lay members sit on a main or secondary committee, they are treated equally in terms of access to reports, meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights. | Compliant - All members of the Pensions and Investments Committee, the Pension Board and trade union representatives receive the same Committee meeting reports and have access to the same training. |

**Selection and Role of Lay Members**

| Principle | Compliance |
|---|---|
| That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. | Compliant - All members of the Pensions and Investments Committee receive training on the status, role and function they are required to perform when they join the Committee. |
| That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda. | Compliant-Declarations of interest are required at each Pensions and Investments Committee meeting and recorded in the minutes of the meeting. |

**Voting**

| Principle | Compliance |
|---|---|
| The policy on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees. | Compliant -The policy on voting rights is clear and transparent. All elected members on the Pensions and Investments Committee have voting rights. The elected members represent employers, local taxpayers and scheme beneficiaries. |

**Training / Facility Time / Expenses**

| Principle | Compliance |
|---|---|
| That in relation to the way in which statutory and related decisions are taken by the administering authority, there is clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process. | Compliant - The Fund has a training policy which applies to all members of the Pensions and Investments Committee and the Pension Board. A training plan has been developed based on self-assessment forms completed by the members of both bodies and a log of all training is maintained.<br>Newly appointed members of the Committee and Board receive induction training, which includes details of the Fund's governance, policies and performance frameworks, to provide an understanding of its operations.<br>The reimbursement of member expenses is in line with the County Council's policy of member reimbursement. |

| | |
|---|---|
| That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum. | See above. |
| That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken. | See above. |

**Meetings**

| Principle | Compliance |
|---|---|
| That an administering authority's main committee or committees meets at least quarterly. | Compliant - The Pensions and Investments Committee meets eight times a year (six formal meetings and two training sessions). |
| That an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits. | Not applicable |
| That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented. | Not applicable |

**Access**

| Principle | Compliance |
|---|---|
| That subject to any rules in the Council's constitution, all members of the main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee. | Compliant -All members of the Pensions and Investments Committee (and the Pension Board) have the same access to committee papers, documents and advice to be considered at the Pensions and Investments Committee. |

**Scope**

| Principle | Compliance |
|---|---|
| That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements. | Compliant - The Pensions Committee and the Investments Committee have been combined into the Pensions and Investments Committee which covers all aspects of investment, administration and governance. The Committee is now also supported by the Pension Board which assists with governance and administration matters. |

**Publicity**

| Principle | Compliance |
| --- | --- |
| That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements. | Compliant - The Governance Policy and Compliance Statement is published on the Pension Fund's website.<br>Vacancies for Derbyshire Pension Board are advertised on the Fund's website, via Fund employers and via My Pension Online, the Pension Fund's member self-service system |

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**FOR PUBLICATION**

**DERBYSHIRE COUNTY COUNCIL**

**PENSIONS AND INVESTMENTS COMMITTEE**

**WEDNESDAY, 24 JANUARY 2024**

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

# Derbyshire Pension Fund Risk Register

## 1. Purpose

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

## 2. Information and Analysis

### 2.1 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. Derbyshire Pension Board (the Pension Board) also undertakes a detailed review of the Risk Register on an annual basis. Changes from the Committee's last consideration of the Risk Register are highlighted in blue font in the Summary and Main Risk Registers, which are attached to this report as Appendix 2 and Appendix 3 respectively.

**2.2 Risk Score**

The current risk score reflects a combination of the risk occurring (probability) and the likely severity (impact) after mitigation controls and procedures currently in place are taken into account. 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 for the rolling previous four quarters provide additional context.

A further column has been added to the Risk Register to indicate whether the target score is expected to be achieved in either the short, medium, or long term.

**2.3 High Risk Items**

The Risk Register currently 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.41)

(5) Impact of McCloud judgement on administration (Risk No.45)

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

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.

The Fund's data mapping project is continuing 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 are being risk assessed as part of this process and a review of the information security arrangements of relevant suppliers to the Fund is being 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.

Goy Roper, Derbyshire County Council's interim Assistant Director of ICT, will be attending the meeting of the Pension Board in February 2024 to provide an update on the planned changes to the delivery of the Council's ICT services, including changes to the compliance and security functions.

**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.

At the last formal actuarial valuation at the end of March 2022, the funding level of the Pension Fund was 100%. This was an improvement on the funding level of 97% at the formal valuation at the end of March 2019. This improvement was consistent with the gradual increase in the Fund's funding level over the last decade from 82.5% at the end of March 2013 to 100% at the end of March 2022.

As part of the valuation exercise, the Pension Fund's Funding Strategy Statement (FSS) is reviewed, to ensure that an appropriate funding strategy and investment strategy are 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 method of setting contribution rates for different categories of employers for the three years from 1 April 2023 was agreed and confirmed by Committee in March 2023.

Whilst the Fund has a significant proportion of its assets in growth assets, the last two reviews of the Strategic Asset Allocation Benchmark (SAAB) 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. The SAAB has been reviewed again as part of the current review of the Fund's Investment Strategy Statement (ISS).

The draft updated ISS, approved by Committee in December 2023 for consultation with stakeholders, includes a further 5% switch from growth assets to income assets, reflecting the continued improvement in the Fund's funding position, whilst acknowledging that the Fund remains open to new members and continues to accrue additional future pension liabilities.

**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 12% of its assets into LGPSC active products and a further 5% into an LGPSC enhanced passive product. By March 2025, the Fund is forecast to have transitioned around 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 role in the development of LGPSC and has input into the design and development of the company's product offering to try 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.

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 final regulations to implement the McCloud remedy in the LGPS, The Local Government Pension Scheme (Amendment) (No. 3) Regulations 2023, were laid on 8 September 2023 and came into force on 1 October 2023.

The remedy involves the extension of the underpin protection given to certain older members of the Scheme when the LGPS benefit structure was reformed in 2014. The underpin gives eligible members the better of the 2014 Scheme CARE (career average revalued earnings) or 2008 final salary benefits for the eligible period of service.

The changes are retrospective, which means that benefits for all qualifying leavers between 1 April 2014 and 31 March 2022 will need to be reviewed to determine whether the extended underpin will produce a higher benefit. Locally it has been estimated that around 26,000 members of the Fund will likely fall into the scope of the proposed changes to the underpin.

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 was reduced to 6 in October 2023 following publication of the final remedy regulations when the expected remedy was confirmed.

The administration risk relates to the enormous challenge faced by administering authorities and employers in backdating scheme changes over such a significant period and remains a high risk; this risk has been recognised by the Department for Levelling Up, Housing and Communities (DLUHC) and the LGPS Scheme Advisory Board.

While the Fund continued to require employers to submit information about changes in part-time hours and service breaks post the introduction of the new scheme in April 2014, the collection of information about casual hours was not continued. Employers have been asked to supply any missing data and to retain all relevant employee records. Information supplied to date by employers is currently being collated and uploaded to members' records.

The McCloud functionality on the Altair pension administration system which will be used to identity members affected by the underpin, and to calculate relevant underpin amounts, has now been switched on following internal testing. The processing of certain transfers is currently on hold awaiting the receipt of updated guidance from the Government Actuary's Department (GAD).

The Pension Fund's McCloud Project Board is continuing to oversee the governance of this major project and ongoing training on the implementation of the remedy is being provided to relevant members of the Pension Fund team.

The Fund is continuing to collect any missing data and continuing to keep up to date with information related to the implementation of the McCloud remedy from DLUHC, the LGPS Scheme Advisory Board, the Local Government Association, the GAD, the Fund's actuary and from Aquila Heywood, the provider of the Altair pension administration system.

**2.8 New & Removed Risks/Changes to Risk Scores/Updated Risk Narratives**
No new risks have been added to the Risk Register since it was last presented to Committee, no risks have been removed and there have been no changes to the existing risk scores.

The narratives for a number of risks have been updated with updates highlighted on the Risk Register in blue.

## 3. Implications

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

## 4. Background Papers

4.1 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(s)

That Committee:

a) notes the risk items identified in the Risk Register.

## 7. Reasons for Recommendation(s)

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



| | | | |
|---|---|---|---|
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**Appendix 1**

**<u>Implications</u>**

**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** 12-Jan-24 — Changes highlighted in blue font.

**Objectives**

The objectives of the Risk Register are to:

- identify key risks to the achievement of the Fund's objectives;
- consider the risk identified; and
- access the significance of the risks.

**Risk Assessment**

- 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).
- 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.
- The Risk Register also includes the target score; showing the impact of the risk occurring once additional proposed risk mitigations and controls have been completed.

| 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 | 4 |
| Medium Risk | 40 |
| High Risk | 5 |
| **Total Risks** | **49** |

| Risk Score | | | | |
|---|---|---|---|---|
| 0 - 4 | Low Risk | S/T | Short Term | < 1 Year |
| 5 - 11 | Medium Risk | M/T | Medium Term | 1 - 3 Years |
| 12 and above | High Risk | L/T | Long Term | Over 3 Years |
| | | N/A | Target Score = Current Score | |

**Summary of Risk Scores Eight & Above**

| Identification | | | | Current score | | | Target Score | | | | | | Trend Scores | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Risk Ranking | Main Risk Register No | Risk Area | High Level Risk | Impact | Probability | Current Score | Risk Owner | Impact | Probability | Target Score | Expected Timescale | Actual Minus Target Score | Q4 22-23 | Q1 23-24 | Q2 23-24 | Q3 23-24 |
| 1 | 13 | Governance & Strategy | Systems failure/Lack of disaster recovery plan/Cybercrimeattack | 4 | 3 | 12 | HoP/IM/TL | 4 | 2 | 8 | M/T | 4 | 12 | 12 | 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 | L/T | 4 | 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 | L/T | 4 | 12 | 12 | 12 | 12 |
| 4 | 41 | Pensions Administration | Insufficient cyber-Liability Insurance relating to the pensions administration system | 4 | 3 | 12 | HoP | 4 | 2 | 8 | M/T | 4 | 12 | 12 | 12 | 12 |
| 5 | 45 | Pensions Administration | Impact of McCloud judgement on administration | 3 | 4 | 12 | HoP | 2 | 4 | 8 | S/T | 4 | 12 | 12 | 12 | 12 |
| 6 | 1 | Governance & Strategy | Failure to implement an effective governance framework | 5 | 2 | 10 | DoF/HoP | 5 | 1 | 5 | M/T | 5 | 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 | M/T | 3 | 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 | 3 | 2 | 6 | M/T | 3 | 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 | M/T | 3 | 9 | 9 | 9 | 9 |
| 10 | 15 | Governance & Strategy | Failure to communicate with stakeholders | 3 | 3 | 9 | HoP/IM/TL | 3 | 2 | 6 | M/T | 3 | 9 | 9 | 9 | 9 |
| 11 | 17 | Governance & Strategy | Risk of challenge to Exit Credits Policy/Determinations | 3 | 3 | 9 | HoP | 3 | 2 | 6 | S/T | 3 | 9 | 9 | 9 | 9 |
| 12 | 19 | Governance & Strategy | Failure to meet accessibility requirements | 3 | 3 | 9 | HoP/TL | 3 | 2 | 6 | M/T | 3 | 9 | 9 | 9 | 9 |
| 13 | 30 | Funding & Investments | LGPS Central Ltd fails to deliver the planned level of long term cost savings | 3 | 3 | 9 | HoP/IM | 3 | 2 | 6 | L/T | 3 | 9 | 9 | 9 | 9 |
| 14 | 40 | Pension Administration | Insufficient controls relating to the governance of the pension administration system | 3 | 3 | 9 | HoP/TL | 3 | 2 | 6 | S/T | 3 | 9 | 9 | 9 | 9 |
| 15 | 43 | Pensions Administration | Delayed Annual Benefit Statements and/or Pension Savings Statements (also know as Annual Allowance Statements) | 3 | 3 | 9 | HoP/TL | 3 | 2 | 6 | M/T | 3 | 9 | 9 | 9 | 9 |
| 16 | 49 | Pensions Administration | Failure to meet the required Pensions Dashboards deadlines. | 3 | 3 | 9 | HOP/TL | 3 | 2 | 6 | M/T | 3 | N/A | 9 | 9 | 9 |
| 17 | 3 | Governance & Strategy | Failure to comply with regulatory requirements for governance | 4 | 2 | 8 | HoP | 4 | 1 | 4 | M/T | 4 | 8 | 8 | 8 | 8 |
| 18 | 5 | Governance & Strategy | An effective investment performance management framework is not in place | 4 | 2 | 8 | HoP/IM | 4 | 2 | 8 | N/A | 0 | 8 | 8 | 8 | 8 |
| 19 | 10 | Governance & Strategy | Pension Fund financial systems not accurately maintained | 4 | 2 | 8 | HoP | 4 | 1 | 4 | S/T | 4 | 8 | 8 | 8 | 8 |
| 20 | 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 | N/A | 0 | 8 | 8 | 8 | 8 |
| 21 | 18 | Governance & Strategy | Risks arising from a potential significant acceleration of the academisation of schools. | 2 | 4 | 8 | HoP/TL | 2 | 4 | 8 | N/A | 0 | 8 | 8 | 8 | 8 |
| 22 | 21 | Funding & Investments | Mismatch between liability profile and asset allocation policy | 4 | 2 | 8 | HoP/IM | 4 | 2 | 8 | N/A | 0 | 8 | 8 | 8 | 8 |
| 23 | 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 | N/A | 0 | 8 | 8 | 8 | 8 |
| 24 | 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 | N/A | 0 | 8 | 8 | 8 | 8 |
| 25 | 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 | N/A | 0 | 8 | 8 | 8 | 8 |
| 26 | 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 | M/T | 4 | 8 | 8 | 8 | 8 |
| 27 | 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 | S/T | 4 | 8 | 8 | 8 | 8 |
| 28 | 48 | Pensions Administration | Administration issues with AVC provider | 2 | 4 | 8 | HOP/TLs | 2 | 2 | 4 | S/T | 4 | 8 | 8 | 8 | 8 |

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**Derbyshire Pension Fund Risk Register**

**Date Last Updated** **12-Jan-24**

Changes highlighted in blue font.

| | | |
|---|---|---|
| S/T | Short Term | < 1 Year |
| M/T | Medium Term | 1 - 3 Years |
| L/T | Long Term | Over 3 Years |
| N/A | Target Score = Current Score | |

| | Description | | Risk Mitigation Controls & Procedures | Current Score | | | Risk Mitigation Controls & Procedures | | Target Score | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Risk Number** | **High Level Risk** | **Description of risk and potential impact** | **Current** | **Impact** | **Probability** | **Current Score** | **Proposed** | **Risk Owner** | **Impact** | **Probability** | **Target Score** | **Expected Timescale** | **Actual Minus Target Score** | **Q4 22-23** | **Q1 23-24** | **Q2 23-24** | **Q3 23-24** |
| **Governance & Strategy** | | | | | | | | | | | | | | | | | |
| **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. | 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 (PB) assists the Council with the governance and administration of the Fund. 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 CST 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. The Fund is able to facilitate virtual PIC and virtual PB meetings for occasions when physical meetings are not possible, subject to legislation. The Fund has been allocated a Team Zone which will accomodate approximately 60% of the team on a daily basis. Pension Fund staff 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 office. | 5 | 2 | **10** | 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** | M/T | 5 | **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, 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.<br>The risks related to over-reliance on key staff are amplfied during a period of business disruption. | Knowledge sharing takes place through Pension Fund governance groups including: Pension Officer Managers (POM); Regulation Update Meeting (RUM); Data Management; and Performance & Backlog Management, targeted internal training sessions, team briefings, internal communications and PDRs. The Fund also works with the LGA to support the development of Fund training and utilizes Heywood's TEC online training facilities.<br>A staff rotation programme has been trialled to promote knowledge sharing.<br>A Pension Fund Plan is available to all members of POM and includes a brief summary of the main onoing and forecast activities of the Fund.<br>The investment staffing structure was reviewed post the implemenation 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.<br>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. | 3 | 3 | **9** | The Fund will continue to identify and meet staff training needs and will consider further staff rotation to increase resilience.<br>The Pension Fund staffing structure is currently being reviewed (see above). | HoP | 3 | 2 | **6** | M/T | 3 | **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. | DPF maintains current PIC approved versions of: Administering Authority Discretions; Admission, Cessation & Bulk Transfer Policy (including Exit Credits Policy); Communications 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 investment advisor and actuary. Annual Report and Accounts mapped to CIPFA guidance. Fund membership of LAPFF. Internal and External Audit. Member training programme. | 4 | 2 | **8** | Regular review / Maintainence of central log of governance policy statements for the whole Fund. Ensure lesssons learnt from any breaches are considered by appropriate governance group and any resulting changes in procedures are implemented. | HoP | 4 | 1 | **4** | M/T | 4 | **8** | **8** | **8** | **8** |
| **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. | 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. Training Plan for 2023 was based on responses to skills self-assessment questions issued to members of PIC & PB in Oct 22. | 3 | 3 | **9** | On-going roll out of Member Training Programme in line with CIPFA guidance. The annual Training Plan will be circulated to members of PIC and members of the PB. | HoP | 3 | 2 | **6** | M/T | 3 | **9** | **9** | **9** | **9** |
| **5** | An effective investment performance management framework is not in place | Poor investment performance goes undetected / unresolved. | PIC training; external performance measurement is reported to committee on a quarterly basis; Pension Board oversight of the governance of investment matters; PDR Reviews. Review of the Pension Fund performance Dashboard. | 4 | 2 | **8** | | HoP/IM | 4 | 2 | **8** | N/A | 0 | **8** | **8** | **8** | **8** |
| **6** | An effective pensions administration performance management framework is not in place | Poor pensions administration performance / service goes undetected / unresolved. | PIC training; Half year pension administration KPI reporting in line with Disclosure Regulations reviewed by PIC and PB; PDR reviews. A Pension Fund performance Dashboard has been developed to provide performance management information for POM; it wii also be reviewed on a quarterly basis by the Finance & ICT Management Team and at meetings of the Pension Board. | 3 | 2 | **6** | | HoP/TL | 3 | 2 | **6** | N/A | 0 | **6** | **6** | **6** | **6** |
| **7** | An effective PIC performance management framework is not in place | Poor PIC performance goes undetected / unresolved. | 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. | 3 | 2 | **6** | Training as above (Risk No. 4). | HoP/IM | 3 | 2 | **6** | N/A | 0 | **6** | **6** | **6** | **6** |
| **8** | Failure to identify and disclose conflicts of interest | Inappropriate decisions for personal gain. | 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. | 3 | 1 | **3** | | HoP | 3 | 1 | **3** | N/A | 0 | **3** | **3** | **3** | **3** |



CONTROLLED

| | Description | | Risk Mitigation Controls & Procedures | Current Score | | | Risk Mitigation Controls & Procedures | | Target Score | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Risk Number | High Level Risk | Description of risk and potential impact | Current | Impact | Probability | Current Score | Proposed | Risk Owner | Impact | Probability | Target Score | Expected Timescale | Actual Minus Target Score | Q4 22-23 | Q1 23-24 | Q2 23-24 | Q3 23-24 |
| 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. | 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. | 3 | 2 | 6 | | HoP/IM | 3 | 2 | 6 | N/A | 0 | 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. | Creation and documentation of Internal controls; internal/external audit; monthly key control account reconciliations; on-going training & CIPFA updates. | 4 | 2 | 8 | Development of Fund-wide Procedures Manual. | HoP | 4 | 1 | 4 | S/T | 4 | 8 | 8 | 8 | 8 |
| 11 | Pension Fund accounts not properly maintained | Unfavourable audit opinion, financial loss, loss of stakeholder confidence and reputational damage. | Compliance with SORP; Compliance with DCC internal procedures (e.g. accounts closedown process); Dedicated CIPFA qualified Pension Fund Accountant; Support from Technical Section; Internal Audit; External Audit. | 3 | 2 | 6 | | DoF/HoP | 3 | 2 | 6 | N/A | 0 | 6 | 6 | 6 | 6 |
| 12 | Lack of appropriate procurement processes/procurement support leads to failure to procure a provider/ poor supplier selection/legal challenge | Breach of Council Financial Regulations/challenge from alternative providers/reputational damage/service failure/service underperformance. | Database of external contracts maintained; Compliance with Financial Regulations; Procurement due diligence; Procurement advice; Quarterly review of contracts. | 3 | 2 | 6 | Ensure that procurement knowledge is shared amongst a wider number of team members. Continue to champion simplified procurement processes. | HoP | 3 | 1 | 3 | S/T | 3 | 3 | 6 | 6 | 6 |
| 13 | Systems failure / Lack of disaster recovery plan / Cybercrime attack | Service failure, loss of sensitive data, financial loss and reputational damage. | Robust system maintenance; Password restricted to IT systems; IGG Compliance; Business continuity plan. Fund's Data Management Procedures include a section on cyber crime/cyber risk. Mapping exercise commenced 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. | 4 | 3 | 12 | Review of Cyber Security Arrangements/Policies. Data mapping exercise to be completed and risks to be assessed and reviewed. Review of the information security arrangements of 3rd party suppliers to the Fund to be undertaken. | HoP/IM/TL | 4 | 2 | 8 | M/T | 4 | 12 | 12 | 12 | 12 |
| 14 | Failure to comply with General Data Protection Regulations (GDPR) | Breaches in data security requirements could result in reputational damage and significant fines. | Privacy Notices and Memorandum of Understanding completed and published. GDPR requirements included in the Data Improvement Plan. Document Retention Schedule review completed (Oct 21); Pension Fund's updated information included in V6 of the Finance Retention Schedule published in Dec 21. The Fund's GDPR Working Group has been widened out to become a Data Management Working Group. Detailed Data Management Procedures have been developed, incorprating lessons learnt from previous data breaches, setting out: why the Fund needs to protect members' data; how the Fund should protect members' data; and what to do when things go wrong. The document includes pratical guidance for Fund officers to be applied in day to day working practices when processing personal data. Any data breaches are considered by the Fund's Data Management Group and any lessons learnt/required changes to procedures agreed. The procedures have been rolled out to all of the Team. | 3 | 3 | 9 | GDPR matters will be reviewed as part of the ongoing consideration of the Fund's Data Improvement Plan. | HoP/IM/TL | 3 | 2 | 6 | M/T | 3 | 9 | 9 | 9 | 9 |
| 15 | Failure to communicate with stakeholders | Employers being unaware of employer responsibilities could impact service levels to members or lead to statutory/data breaches. Employers being unaware of how the Fund is governed, the benefits of the scheme, how the Fund's assets are invested, the risk of breaching the annual pension savings allowance, the risk of pension scams and the importance of keeping contract details up to date could lead to disengagment between members and the Fund, financial impacts for members, and reputational damage to the Fund. | Communications Policy approved by PIC - December 2023. The Pension Administration Strategy (PAS) which sets out employer responsibilities is reviewed annually and highlighted to employers. For any material proposed changes to the PAS, employers are consulted. Stakeholders receive information and guidance in line with best practice discussed at the national LGPS Comms Forum, delivered by a fully resourced, specialist team. The Pension Fund website and clear Pension Fund branding helps stakeholders to be clear about the role of the Fund. The Fund's member self-service system 'My Pension Online' went live in June 2021. It gives registered members access to their Derbyshire LGPS pension information and allows them to carry out future benefit calculations. | 3 | 3 | 9 | Increase registrations to My Pension Online enabling more members to gain access to their Derbyshire LGPS information to improve their general understanding and support them with pension planning. The Fund is developing a Member Enagagement Forum to further develop its engagement with Fund members. | HoP/IM/TL | 3 | 2 | 6 | M/T | 3 | 9 | 9 | 9 | 9 |
| 16 | Failure of internal/external suppliers to provide services to the Pension Fund due to business disruption/resource constraints. | The Pension Fund is reliant on other DCC Sections for: the provision and support of core IT; treasury management of Fund cash; CHAPs & VIM & Standard SAP BACs payments; pensioner payroll; and legal advice and administration support to PIC & PB. The Fund is reliant on external providers for: the pension administration system; provision of custodial services; hedging services; performance measurement and actuarial services. External fund managers are responsible for management of a large proportion of the Fund's assets on both a passive and an active basis. Business continuity failures experienced by any of these providers/ could have a material impact on the Fund, as could a fall in the standard of internal service delivery caused by administering authority budgetary pressures. | The business continuity arrangements of all of these providers have been sought and received by the Pension Fund.<br>During the COVID 19 outbreak, continuity arrangements worked well. | 4 | 2 | 8 | The Fund will keep up to date with the continuity arrangments of these providers and will continue to assess the risk of exposure to particular organisations/providers.<br>The Fund will keep in close contact with DCC's internal service providers. | HoP/IM | 4 | 2 | 8 | N/A | 0 | 8 | 8 | 8 | 8 |
| 17 | Risk of challenge to Exit Credits Policy/Determinations | Exit credit payments were introduced into the LGPS in April 2018. Amending legislation came into force on 20 March 2020 allowing administering authorities to exercise their discretion in determining the amount of any exit credit due having regard to certain listed factors plus 'any other relevant factors'. This discretion is open to wide interpretation and potential challenge from employers. | Legal and actuarial advice was sought in the forumulation of the Fund's Exit Credit Policy and was sought to assist the Fund's first exit credit determination. The outcome of a L65 judical review (published May 2021) on the LGPS Amendment Regulations 2020 has been considered. | 3 | 3 | 9 | The Fund will keep up to date with developments with respect to exit credits. Further legal and actuarial advice will be sought where necessary. | HoP | 3 | 2 | 6 | S/T | 3 | 9 | 9 | 9 | 9 |
| 18 | Risks arising from a potential significant acceleration of the academisation of schools | Any further division of LGPS members into an increasingly wider pool of employers will increse pressure on: employer onboarding; collection of data & contributions; employer training; & actuarial matters. Also likely to lead to an increasing in the outsourcing of functions and services involving LGPS members which in turn would lead to a further increase in the number of employers in the Fund. The evolving landscape of multi-academy trusts is alsp introducing increased administrative and funding challenges as academies move between trusts and trusts consolidate their academies into single LGPS funds. | The Fund has a robust effective procedure for admitting new academies to the Fund, treating them as individual participating employoers backed by robust administrative and actuarial arrangements; this helps to mitigate some of the issues that arise when academies move between trusts. | 2 | 4 | 8 | The Fund will continue to monitor local developments on academisation and the administrative resource required by the Fund to support any increase in participating employers. The funding implications of any academies consolidating in another LGPS fund will also be kept under review. | HoP/TL | 2 | 4 | 8 | N/A | 0 | 8 | 8 | 8 | 8 |

| Risk Number | Description: High Level Risk | Description of risk and potential impact | Risk Mitigation Controls & Procedures: Current | Current Score: Impact | Probability | Current Score | Risk Mitigation Controls & Procedures: Proposed | Risk Owner | Target Score: Impact | Probability | Target Score | Expected Timescale | Actual Minus Target Score | Q4 22-23 | Q1 23-24 | Q2 23-24 | Q3 23-24 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **19** | Electronic Information delivered or made available in formats which fail to meet accessibility requirements | The Fund is subject to the Public Sector Bodies (Websites and Mobile Applications) (No. 2) Accessibility Regulations 2018. Compliance with the regulations is monitored by the Central Digital and Data Office (CDDO). Failure to adhere to the regulations could result in breaches of the law and enforce action from the Equality and Human Rights Commission. Risk of complaints from scheme members and other stakeholders about the accessibility of electronic information.<br>Publication of a decision by CDDO confirming failure to meet accessibility standards would be reputationally damaging. | Regular liaison with specialist Digital Communications colleagues within DCC towards ensuring that the Fund's electronic platforms are accessible to as many people as possible, whatever their individual needs are. Use of web accessibility testing software from Silktide, a specialist provider. The Fund's website and My Pension Online both include an accessibility statement. | 3 | 3 | **9** | Regular reviews of accessibility issues on the Fund's electronic platforms via internal checks and use of Silktide software, and continued liaison with specialist colleagues. Feedback to Aquila Heywood (AH) of any accessibility issues with AH content on My Pension Online. | HoP/TL | 3 | 2 | **6** | M/T | **3** | 9 | 9 | 9 | 9 |

## Funding & Investments

| Risk Number | High Level Risk | Description of risk and potential impact | Current | Impact | Probability | Current Score | Proposed | Risk Owner | Impact | Probability | Target Score | Expected Timescale | Actual Minus Target Score | Q4 22-23 | Q1 23-24 | Q2 23-24 | Q3 23-24 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **20** | Fund assets insufficient to meet liabilities / Decline in funding level / Fluctuations in assets & liabilities | Objectives not defined, agreed, monitored and outcomes reported / Incorrect assumptions used for assessing liabilities / Investment performance fails to achieve expected target / Changes in membership numbers / VR & VER leading to structural problems in Fund / Demographic changes / Changes in pension rules and regulations (e.g. auto-enrolment and Freedom & choice). These factors could contribute to a decline in the funding level of the Fund and result in employers (funded in the majority of cases by taxpayers) needing to make increased contributions to the Fund. | Actuarial valuations and determination of actuarial assumptions; Funding Strategy Statement; Setting of contribution rates; Regular review of the Investment Strategy Statement (ISS) and the Strategic Asset Allocation Benchmark; Quarterly reviews of tactical asset allocation; Due diligence on new investment managers; Monitoring of investment managers' performance; Maintenance of key policies on ill health retirements; early retirements etc. | 4 | 3 | **12** | Continued implementation of the Fund's Strategic Asset Allocation Benchmark (SAAB) which aims to reduce investment risk following the improvement in the Fund's funding level.<br>The Fund is currently consulting on an updated Investment Strategy Statement which includes an updated SAAB reflecting a further reduction in Growth Assets and increase in Income Assets. | HoP/IM | 4 | 2 | **8** | L/T | **4** | **12** | **12** | **12** | **12** |
| **21** | Mismatch between liability profile and asset allocation policy | Inaccurate forecast of liabilities / inappropriate Strategy leading to cashflow problems. | Actuarial reviews; Funding Strategy Statements; Annual funding assessment; Review by PIC; ISS ; Asset allocation reviews; Cash flow forecasting. | 4 | 2 | **8** | A cashflow modelling paper for the Fund from the Fund's actuary is currently under consideration, covering inflation scenarios, salary increase sensitivity, the impact of reducing membership numbers and sensitivity to investment yield. | HoP/IM | 4 | 2 | **8** | N/A | **0** | 8 | 8 | 8 | 8 |
| **22** | An inappropriate investment strategy is adopted / Investment strategy not consistent with Funding Strategy Statement /Failure to implement adopted strategy and PIC recommendations | Failure to set appropriate investment strategy / monitor application of investment strategy leading to possible impact on the funding level/investment underperformance/reputational damage. | The ISS, which includes the Fund's Strategic Asset Allocation Benchmark is formulated in line with LGPS Regulations and takes into account the Fund's liabilities/information from the Fund's actuary/advice from the Fund's external investment adviser. The ISS was approved by PIC in November 2020 following consultation with the Fund's stakeholders. A separate RI Framework and a separate Climate Strategy were also approved by PIC in November 2020 following consultation with the Fund's stakeholders. Quarterly review of asset allocation strategy by PIC with PIC receiving advice from Fund officers and external investment adviser. | 4 | 2 | **8** | An updated ISS for the Fund was approved for consultation with stakeholders in December 2023. The consultation closes on 31 January 2024. | HoP/IM | 4 | 2 | **8** | N/A | **0** | 8 | 8 | 8 | 8 |
| **23** | Failure to correctly assess the potential impact of climate change on investment portfolio and on funding strategy. | Failure to correctly assess potential financially material climate change risks when setting the investment and the funding strategy leading to possible impact on the funding level/investment underperformance/reputational damage.<br>The outcome for global warming and the transition to net-zero is highly uncertain. Climate scenario analysis is a relatively new discipline and caution is required when using the output of such analysis to inform strategic asset allocation and funding decisions. | Inaugural Climate Risk Report received from LGPS Central Ltd (LGPSC)in February 2020, included carbon metrics data and climate scenario analysis. Taskforce on Climate-related Financial Disclosures (TCFD) report developed to set out the Fund's approach to managing climate related risks and opportunities, structured round: governance; strategy; risk management; and metrics and targets. Inaugural climate Risk Report and TCFD report presented to PIC in March 2020.<br>Climate scenarios analysis carried out as part of contribution rate modelling by the Fund's actuary as part of the triennial valuation process.<br>Climate Strategy setting out the Fund's approach to addressing the risks and opportunities related to climate change forumulated and approved by PIC in Nov 20 following consultation with stakeholders. The first phase of the transitions to the increased allocation to Global Sustainable Equities took place in January 2021 and the second phase began in in January 2022 and is ongoing. The transitions support the delivery of the targets included in the Climate Strategy. A measured approach has been taken to the intepretation of climate related data and the setting of climate related targets recognising the relative immaturity of much of the data and the need to monitor the impact of significant transitions on portfolio performance and risk.<br>The 2022 Climate Risk Report from LGPSC showed that the Fund had reduced the the carbon footprint of the listed equity portfolio by 44% relative to the weighted benchmark in 2020 (target reduction of 30% by end of 2025) and had invested 27% of the Fund portfolio in low carbon & sustainable investments (target 30% by end of 2025); 29% including commitments.<br>Updated TCFD reports were published in December 2021 and January 2023. | 4 | 2 | **8** | The Fund's updated Climate Strategy including increased targets for reducing the carbon footprint of the Fund's investments and for increasing low carbon and sustainable investments, together with the introduction of additional carbon reduction related targets, was approved by PIC in December 2023 for consultation with stakeholders. The consultation closes on 31 January 2024.<br>The Fund's 2023 Climate Risk Report from LGPSC is currently being reviewed.<br>The Fund will receive an annual Climate Risk Report from LGPS Central Ltd and will update its TCFD report on an annual basis.<br>The Fund will continue to work collaboratively with its managers and with fellow investors towards the aim of achieving a portfolio of assets with net zero carbon emissions by 2050. | HoP/IM | 4 | 2 | **8** | N/A | **0** | 8 | 8 | 8 | 8 |
| **24** | Failure to consider the potential impact of Environmental, Social and Governance (ESG) issues on investment portfolio | Failure to consider financially material ESG risks when making investment decisions leading to possible investment underperformance/reputational damage. | Actuarial reviews; Funding Strategy Statements; Annual funding assessment; Review by PIC; ISS ; Asset allocation reviews; Cash flow forecasting.<br>The Fund has beem accepted as a signatory of the Financial Reporting Council's UK Stewardship Code (2020). | 4 | 2 | **8** | The Fund's updated Responsible Investment Framework was approved by PIC in December 2023 for consultation with stakeholders. The consultation closes on 31 January 2024. | HoP/IM | 4 | 2 | **8** | N/A | **0** | 8 | 8 | 8 | 8 |

| | Description | | Risk Mitigation Controls & Procedures | Current Score | | | Risk Mitigation Controls & Procedures | | Target Score | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Risk Number | High Level Risk | Description of risk and potential impact | Current | Impact | Probability | Current Score | Proposed | Risk Owner | Impact | Probability | Target Score | Expected Timescale | Actual Minus Target Score | Q4 22-23 | Q1 23-24 | Q2 23-24 | Q3 23-24 |
| 25 | Covenant of new/existing employers. Risk of unpaid funding deficit | Failure to agree, review and renew employer guarantees and bonds/ risk of wind-up or cessation of scheme employer with an unpaid funding deficit which would then fall on other employers in the Fund. This risk could be amplified during a period of widespread business disruption/resource constraints/extreme market volatility. Failure to correctly assess covenant/put in place appropriate security as part of any debt spreading arrangement/Deferred Debt Agreement could increase the risk of an unpaid funding deficit falling on the other employers in the Fund. | Employer database holds employer details, including bond review dates. The information on the database is subject to ongoing review. Commenced contacting existing employer where bond or guarantor arrangement has lapsed, to renew arrangements. An Employer Risk Management Framework has been developed and Health Check questionnaires were initially issued to all Tier 3 employers (those employers that do not benefit from local or national tax payer backing or do not have a full guarantee or other pass-through arrangement) in May 2019 and updated Covenant questionnaires were issued to Admission Bodies in June 2022. The information received via the Covenant questionaires informed March 2022 actuarial valuation conversations and decisions.<br>There is no procedure for a UK local authority to go bankrupt. If a local authority issues a Section 114 notice, which indicates that its forecast income in a financial year is insufficient to meet its forecast expenditure, no new expenditure is permitted with the exception of that funding statutory services, however, existing commitments and contracts will continue to be honoured. Existing staff payroll and pension costs are classed as allowable expenditure for a council that has issued a Section 114 notice. | 3 | 2 | 6 | Processes are being developed to ensure that new contractors are aware of potential LGPS costs at an early stage. The Employer Risk Management Framework will continue to be developed. Employers who are close to cessation will be monitored and discussions with the Fund's Actuary will take place to determine if any further risk mitigation measures are necessary with respect to the relevant employers. Robust procedures will be developed to consider any requests for the Fund to enter into debt spreading arrangements /Deferred Debt Agreements. Covenant, actuarial and legal considerations will be taken into consideration in any decisions regarding debt spreading arrrangements/Deferred Debt Agreements and appropriate security will be obtained where necessary. | HoP/TL | 3 | 2 | 6 | N/A | 0 | 9 | 6 | 6 | 6 |
| 26 | Unaffordable rise in employers' contributions | Employer contribution rates could be unacceptable/unaffordable to employers leading to non-payment/delayed payment of contributions. | Consideration of employer covenant strength / scope for flexibility in actuarial proposals. The circumstances which the Fund would consider as potential triggers for a review of contribution rates between actuarial valuations are included in the Pension Fund's Funding Strategy Statement. The Fund's approach to employer flexibilities on cessation i.e. the potential for cessation debt to be spread over an agreed period (subject to certain conditions) as an exception to the default position of cessation debt being paid in full as a single lump sum and the potential for the Fund to enter into a Deferred Debt Agreement where a ceasing employer is continuing in business (subject to certain conditions), are set out in the Fund's Admission, Cessation & Bulk Transfer Policy (approved by PIC Dec 22). | 3 | 2 | 6 | | HoP/TL | 3 | 2 | 6 | N/A | 0 | 6 | 6 | 6 | 6 |
| 27 | Employer contributions not received and accounted for on time | Late information and/or contributions from employers could lead to issues with completing the year end accounts, satistying audit requirements, breaches of regulations, and, in extreme cases, could affect the Fund's cashflow. This risk could be amplified during a period of widespread business disruption/resource constraints. | The Fund ensures that employers are clearly and promptly informed about their contribution rates. Monitoring of the provision of employer information and the payment of contributions takes place within Pensions Section and performance is monitored by POM and disclosed in the half yearly pensions administration performance report to PIC & PB. The Fund has developed a late payment charging policy. | 3 | 2 | 6 | Late payment charges applied to underperforming employers will be disclosed via PIC Reports and Employer Newsletters. | HoP/TL | 3 | 1 | 3 | S/T | 3 | 6 | 6 | 6 | 6 |
| 28 | The LGPS Central Ltd investment offering is insufficient to allow the Fund to implement its agreed investment strategy | Failure to provide sufficient and appropriate product categories results in inability to deliver investment strategy and increases the risk of investment underperformance. | Continue to take a meaningful role in the development of LGPS Central; On-going HoP/IM involvement design and development of the LGPS Central product offering and mapping to the Fund's investment strategy; Participation in key committees including PAF, Shareholders' Forum and Joint Committee. | 4 | 2 | 8 | LGPS Central Partner Funds have agreed their priorities for determining the timetable for sub-fund launches: Projected level of cost savings; LGPSC/Partner Fund resource; Asset allocation/investment strategy changes; Number of parties to benefit; Net performance; Ensuring every Partner Fund has some savings; Risk of status quo & surfacing opportunities. Ensure the priorities are regularly assessed and applied. | HoP/IM | 4 | 1 | 4 | M/T | 4 | 8 | 8 | 8 | 8 |
| 29 | The transition of the Fund's assets into LGPS Central Ltd.'s investment vehicles results in a loss of assets and/or avoidable or excessive transition costs | Failure to fully reconcile the unitisation of the Fund's assets and charge through of transition costs could have a financial impact on the Fund. | Reconcile the transition of the Fund's assets into each collective investment vehicle, including second review and sign-off. All costs and charges reconciled back to the agreed cost sharing principles. All transition costs to be signed off by HoP. | 4 | 2 | 8 | Obtain robust forecasts of transition cost as part of business case for transitioning into an LGPSC sub-fund. Continue to take a meaningful role in PAF and support the Chair and Vice-Chair of the PIC to enable them to participate fully in the Joint Committee. | HoP/IM | 4 | 1 | 4 | S/T | 4 | 8 | 8 | 8 | 8 |
| 30 | LGPS Central Ltd fails to deliver the planned level of long term cost savings | LGPS Central Ltd fails to deliver the planned level of cost savings either through transition delays, poor management of its cost base or failure to launch appropriate products at the right price could delay the point at which the Fund breaks even (with costs savings outweighing the costs of setting up and running the company). | Review and challenge annual budget and changes to key assumptions; Review, challenge and validate LGPS Central product business cases; Reconcile charged costs to the agreed cost sharing principles; Terms of Reference agreed for PAF, Shareholders Forum and Joint Committee. The DOF & ICT will represent DCC on the Shareholders' Forum with delegated authority to make decisions on any matter which required a decision by the shareholders of LGPC Central Ltd.<br>A new simplified Cost Savings Model has been developed for the LGPS Central Pool which will enable actual and forecast savings to be monitored more easily and on a more regular basis. The Cost Savings Model is accompanied by a detailed Guidance Note which provides assurance on the derivation of the model's inputs and outputs. | 3 | 3 | 9 | Continue to take a meaningful role in PAF. Support the Chair of the PIC to enable full participation in the Joint Committee. | HoP/IM | 3 | 2 | 6 | L/T | 3 | 9 | 9 | 9 | 9 |
| 31 | LGPS Central Ltd related underperformance of investment returns | LGPS Central Ltd related underperformance of investment returns against targets could lead to the Fund failing to meet its investment return targets. | Continuing to take a meaningful role in the development of LGPS Central Ltd; On-going HoP/IM involvement in design and development of the LGPS Central Ltd product offering and mapping to the Fund's investment strategy; Quarterly performance monitoring reviews by DPF and half yearly by Joint Committee. Monitor and challenge LGPS Central product development, including manager selection process, through the Joint Committee and PAF/IWG participation. Initially carry out due diligence on selection managers internally as confidence is built in the manager selection skills of the company. | 4 | 3 | 12 | Ensure the Partner Funds priorities for determining the sub-fund launch timetable listed under 28. are regularly assessed and applied. Hold LGPS Central Ltd to account for the investment performance of its products. Investigate alternative options if any underperformance is not addressed. | HoP/IM | 4 | 2 | 8 | L/T | 4 | 12 | 12 | 12 | 12 |

| Risk Number | Description | | Risk Mitigation Controls & Procedures | Current Score | | | Risk Mitigation Controls & Procedures | | Target Score | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **High Level Risk** | **Description of risk and potential impact** | **Current** | **Impact** | **Probability** | **Current Score** | **Proposed** | **Risk Owner** | **Impact** | **Probability** | **Target Score** | **Expected Timescale** | **Actual Minus Target Score** | **Q4 22-23** | **Q1 23-24** | **Q2 23-24** | **Q3 23-24** |
| **32** | Failure to maintain liquidity in order to meet projected cash flows | Failure to maintain sufficient liquidity to meet projected cashflows, due to either poor cashflow forecasting or the failure of counterparties to make timely repayments, which could lead to financial loss from the inappropriate sale of assets to generate cash flow and/or lead to reputational damage. The risk is amplified during periods of market volatility/dislocation. | The Fund carries out internal cash flow forecasting and works closely with DCC's Senior Accountant Treasury Management who manages the Fund's cash balances. | 3 | 2 | **6** | The Fund is currently considering a cashflow modelling report from the Fund's actuary covering inflation scenarios, salary increase sensitivity, the impact of reducing membership numbers and sensitivity to investment yield.<br>DPF Investment Manager to have monthly catch ups with DCC's Treasury Management Accountant. | HoP/IM | 3 | 2 | **6** | N/A | **0** | **6** | **6** | **6** | **6** |
| **33** | The introduction of The Markets in Financial Instruments Directive II (MiFID II) in January 2018 results in the investment status of the Fund being downgraded | Fund being unable to access a full range of investment opportunities and assets being sold at less than fair value should an external investment manager not opt-up the Fund to professional status. | Opt-up process complete; no issues identified. | 4 | 1 | **4** | Monitor ability to maintain opt-up status. | HoP/IM | 4 | 1 | **4** | N/A | **0** | **4** | **4** | **4** | **4** |
| **34** | Inadequate delivery and reporting of performance by internal & external investment managers | Could lead to expected investment returns not being achieved. | Rigorous manager selection; Quarterly PIC performance monitoring; Asset class performance reported to PIC; Internal Investments Manager performance reviewed by HoP; PDR reviews. | 3 | 2 | **6** | Updating the Investment Compliance Manual & Procedures Manual. | HoP/IM | 3 | 2 | **6** | N/A | **0** | **6** | **6** | **6** | **6** |
| **35** | Investments made in complex inappropriate products and or unauthorised deals | Could lead to loss of investment return/assets. | Clear mandate for internal and external Investment Managers; Compliance Manual; HoP signs off all new investment; Director of Finance & ICT approval required for unquoted investments, including re-ups; PIC quarterly reports; On-going staff training and CPD; My Plans. | 4 | 1 | **4** | Updating Investment Compliance Manual & Procedures Manual | HoP/IM | 4 | 1 | **4** | N/A | **0** | **4** | **4** | **4** | **4** |
| **36** | Custody arrangements are insufficient to safeguard the Fund's investment assets | Could lead to loss of investment return/assets. | Use of reputable custodian. Regular internal reconciliations to check custodian records / Regular review of performance / Periodic procurement exercises. | 4 | 1 | **4** | | HoP/IM | 4 | 1 | **4** | N/A | **0** | **4** | **4** | **4** | **4** |
| **37** | Impact of McCloud judgement on funding | On 8 September 2023, DLUHC laid the regulations to implement the McCloud remedy which came into force on 1 October 2023. The McCloud 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. It removes the condition that requires a member to have been within ten years of their 2008 Scheme normal pension age on 1 Apr 2012 to be eligible for underpin protection. The McCloud remedy will be backdated to the commencement of transitional protections (April 2014) and the underpin protection will apply where a members leaves with either a deferred or an immediate entitlement to a pension (previously it was just immediate). The underpin will give the member the better of the 2014 Scheme CARE or 2008 final salary benefits for the eligble period of service (between 1 Apil 14 and 31 March 2022). All leavers between these two dates will need to be checked against the new underpin.<br>The ultimate cost of the McCloud remedy will depend on pay growth/promotion. The funding risk relates to the risk of there being insufficient assets within the Fund to meet the increased liabilities due to the implementation of the McCloud remedy. | In accordance with guidance from DLUHC, in the March 2022 Actuarial Valuation the Fund's Actuary valued the benefits of members likely to be affected by the McCloud ruling in line with the expected remedy regulations, reflecting the Fund's local assumptions, particularly salary increases and withdrawal rates. The Actuary estimated that total liabilities were around 0.4% higher (as at 31 March 2022) as a result of the expected remedy, an increase of approximately £26.8m.<br>The estimated cost of the McCloud remedy was, therefore, factors into employer contribution rates for the three years from 1 April 2023.<br>The regulations that came into force on 1 October 2023 to implement the McCloud remedy in the LGPS confirmed the expected remedy factored into the March 2022 valuation. | 2 | 3 | **6** | The Fund will keep up to date with any further announcements/advice from DLUHC, the LGPS Scheme Advisory Board, the LGA, GAD and from the Fund's Actuary. | HOP | 2 | 3 | **6** | N/A | **0** | **9** | **9** | **9** | **6** |
| **Pensions Administration** | | | | | | | | | | | | | | | | | |
| **38** | Failure to adhere to HMRC / LGPS regulations and reflect changes therein | LGPS benefits calculated and paid inaccurately and/or late leading to possible fines/reputational damage. | Management processes, calculation checking, dedicated technical and training resource, working with the LGA and other Pension Funds regarding accurate interpretation of legislation, implemented more robust pensions administration system in March 19. | 3 | 2 | **6** | Consider additional sources of technical resource. | HoP | 3 | 1 | **3** | M/T | **3** | **6** | **6** | **6** | **6** |
| **39** | 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. | The Altair system has achieved 'Business as Usual' status. SLAs are in place with the provider as well an established fault reporting system, regular client manager meetings and a thriving User Group (CLASS). The provider has a robust business continuity plan. | 3 | 2 | **6** | 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** | M/T | **3** | **6** | **6** | **6** | **6** |
| **40** | 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. | 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.<br>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.<br>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 accrurate 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. 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.<br>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. | 3 | 3 | **9** | 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 identifiable. Only certain documented members of the team will be able to edit this record.<br><br>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** | S/T | **3** | 9 | 9 | 9 | 9 |

| Risk Number | Description: High Level Risk | Description of risk and potential impact | Risk Mitigation Controls & Procedures: Current | Current Score: Impact | Probability | Current Score | Risk Mitigation Controls & Procedures: Proposed | Risk Owner | Target Score: Impact | Probability | Target Score | Expected Timescale | Actual Minus Target Score | Q4 22-23 | Q1 23-24 | Q2 23-24 | Q3 23-24 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 41 | 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. | DCC Internal Audit has carried out detailed testing of the supplier's data security arrangements. Liability cover in place via the supplier and separately the Pension Fund is included in DCC's self-insurance arrangements with respect to managing cyber security risks. The supplier is required to carry £5m of professional indemnity insurance as part of the contract. | 4 | 3 | 12 | 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 | M/T | 4 | 12 | 12 | 12 | 12 |
| 42 | Data quality inadequate | Incorrect benefit calculations, inaccurate information for funding purposes leading to possible complaints/ fines/reputation damage/uninformed decision making. | Apply current and short term measures in the Data Improvement Plan (updated in August 2023). 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. | 3 | 2 | 6 | 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 | N/A | 0 | 6 | 6 | 6 | 6 |
| 43 | Delayed Annual Benefit Statements and/or Pension Savings Statements (also know as Annual Allowance Statements) | Risk of complaints,TPR fines or other sanctions/reputational damaged 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). | 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. | 3 | 3 | 9 | 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 | M/T | 3 | 9 | 9 | 9 | 9 |
| 44 | 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. | 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. | 3 | 2 | 6 | Skills gap audit / formal training programme / Staff Development group/Performance Development Reviews. | HoP | 3 | 2 | 6 | N/A | 0 | 6 | 6 | 6 | 6 |
| 45 | Impact of McCloud judgement on administration | DLUHC and the LGPS SAB recognises the enormous challenge that could be faced by administering authorities and employers in backdating scheme changes over a significant period. A full history of part time hour changes and service break information from 1 Apr 14 to 31 March 2022 will be needed in order to recreate final salary service. Implementation of the remedy could divert Fund resources and affect service deliivery levels. See Risk No. 37 for further information on the McCloud judgement. | Although the Fund continued to require employers to submit information about changes in part-time hours and service breaks, casual hours did not continue to be collected and the McCloud remedy may generate additional queries about changes since 1 Apr 14; employers have, therefore, been asked to provide information on casual hours and to retain all relevant employee records. A McCloud Project Team has been set up with workstreams of: governance; case identification; staffing/resources; & communications. The Fund has identified the likely members in scope of the proposed remedy. The McCloud functionality within Altair has now been switched on to identify members afffected by the underpin and to calculate any underpin amounts. McCloud training has been provided to relevant members of the team. | 3 | 4 | 12 | Continue to collect information from employers on casual hours and upload it to member records. Formulate a detailed plan of how to deal with the scheme changes (in particular setting out an order for calculations to be completed) with regard to statutory guidance on prioritising the work on cases from DLUHC and evolving administrator guidance from the LGA, guidance from the Government Actuary's Department and utilization of bulk Altair processes. | HoP | 2 | 4 | 8 | S/T | 4 | 12 | 12 | 12 | 12 |
| 46 | 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. | 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. | 3 | 2 | 6 | The Fund will continue to encourage Aquila Heywood to introduced two factor authentication for MSS (it has been introduced for the core Altair product). | HoP/TLs | 3 | 2 | 6 | N/A | 0 | 6 | 6 | 6 | 6 |
| 47 | 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.<br>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. | The Fund is keeping up to date with developments on the implications of this ruling for the LGPS. | 2 | 3 | 6 | Further mitigating controls/procedures will be developed when more is known about this recently emerged risk. | HoP/TLs | 2 | 3 | 6 | N/A | 0 | 6 | 6 | 6 | 6 |
| 48 | 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. | 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). | 2 | 4 | 8 | The Fund will continue to work closely with Prudential to support the resolution of outstanding issues. | HoP/TLs | 2 | 2 | 4 | S/T | 4 | 8 | 8 | 8 | 8 |

| Risk Number | Description | | Risk Mitigation Controls & Procedures | Current Score | | | Risk Mitigation Controls & Procedures | | Target Score | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | High Level Risk | Description of risk and potential impact | Current | Impact | Probability | Current Score | Proposed | Risk Owner | Impact | Probability | Target Score | Expected Timescale | Actual Minus Target Score | Q4 22-23 | Q1 23-24 | Q2 23-24 | Q3 23-24 |
| 49 | Failure to meet the required Pensions Dashboards deadlines | Failure to meet the required Pensions Dashboards deadlines, leading to potential fines/reputational damage.Pensions<br>Dashboards will enable individuals to access their pensions information from different schemes online, securely and all in one place to support better retirement planning. This will require multiple parties and systems to be connected to the Pensions Dashboard Programme (PDP) central digital architecture (CDA). There will be no central database holding personal information - the CDA will function like a 'giant switchboard' connecting users with their pensions.<br>The Pensions Dashboards Regulations 2022 place a requirement on pensions schemes to connect to the dashboard services and the Pensions Regulator has the power to issue a financial penalty for any breach of the regulations. In order to connect to the PDP CDA, the Pension Fund will require the services of an Integrated Service Provider.<br>The staging deadline for the LGPS is expected to be confirmed as within the period of one month up to 30 September 2025. Schemes will be expected to meet the required standards (connectivity, security and technical) by the staging date and must also, by that date, be able to respond to find requests, complete matching and provide administrative data, signpost data, value data and contextual information on request. | The Fund has formed a Pensions Dashboard Programme (PDP) Board to oversee the implementation of the PDP. Members of the team have attended information sessions on the PDP and investigations into the ISP options for connecting to the PDP have begun.<br>Data cleansing is continuing to improve the quality of the Fund's data. | 3 | 3 | **9** | The Fund will continue to keep up to date with developments in respect of PDP and will continue to investigate the connectively options available whilst also continuing to focus on improving the quality of the Fund's data. | HOP/TL | 3 | 2 | **6** | M/T | **3** | **N/A** | **9** | **9** | **9** |

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