

# Public Document Pack



**Janie Berry**  
Director of Legal Services  
County Hall  
Matlock  
Derbyshire  
DE4 3AG

Extension 01629 538357  
Direct Dial 01629 538357  
Ask for Danny  
Sunderland

PUBLIC

To: Members of Pensions and Investments Committee

Tuesday, 23 July 2019

Dear Councillor,

Please attend a meeting of the **Pensions and Investments Committee** to be held at **10.30 am** on **Wednesday, 31 July 2019** in Committee Room 2, County Hall, Matlock DE4 3AG, the agenda for which is set out below.

**NB – There will be a briefing on Alternative Investments at 10.30am prior to the main committee business**

Yours faithfully,

A handwritten signature in cursive script that reads 'Janie Berry'.

**JANIE BERRY**  
Director of Legal 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

**P & I Minutes of 11 June 2019\_(Pages 1 - 4)**

To confirm the non-exempt minutes of the meeting of the Pensions and Investments Committee held on 11 June 2019

To consider the reports of the Director of Finance and ICT on:

- 4 (a) Governance Policy and Compliance Statement (Pages 5 - 16)
- 4 (b) Pension Administration Strategy (Pages 17 - 40)
- 4 (c) Quarterly Pension Administration Performance Report (Pages 41 - 46)
- 4 (d) Risk Register (Pages 47 - 64)
- 4 (e) LGPS Central Joint Committee Meeting (Pages 65 - 102)
- 5. 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(s) 1 of Part 1 of Schedule 12A to the Local Government Act 1972"

## **PART II - EXEMPT ITEMS**

- 6. To receive declarations of interest (if any)
- 7. Exempt Minutes

### **EXEMPT Minutes of 11 June 2019\_(Pages 103 - 104)**

To confirm the exempt minutes of the meeting of the Pensions and Investments Committee held on 11 June 2019

- 8. To consider the exempt report of the Director of Finance and ICT on a Stage 2 Appeal under the LGPS Application for Adjudication of Disagreement Procedure (Pages 105 - 232)

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Agenda Item 3

**MINUTES** of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE** held at County Hall, Matlock on 11 June 2019

**PRESENT**

Councillor J Perkins (in the Chair)

**Derbyshire County Council**

Councillors R Ashton, N Atkin, J Boulton, P Makin, R Mihaly and M Wall (substitute Member)

**Derby City Council**

Councillor M Carr

**Derbyshire County Unison**

Mr M Wilson

Also in attendance – D Kinley, P Peat and N Smith

Apologies for absence were received on behalf of Councillors S Marshall-Clarke and B Ridgway

**36/19** **COLLIERS CAPITAL** Tim Kidd, Adrian Payne and Nick Parsons from Colliers Capital, the Pension Fund's Direct Property managers, attended the meeting to provide Members with an update on current holdings, new acquisitions, performance and property management and the strategy for the forthcoming year.

Members had the opportunity to ask questions which were duly answered.

On behalf of the Committee, the Chairman thanked Mr Kidd, Mr Payne and Mr Parsons for their very informative presentation.

**37/19** **MINUTES RESOLVED** that the minutes of the meeting held on 8 May 2019 be confirmed as a correct record and signed by the Chairman.

**38/19** **INVESTMENT REPORT** Mr Anthony Fletcher the external adviser from MJHudson-Allenbridge Investment Advisers Limited, attended the meeting and presented his report to the Committee. The report incorporated Mr

Fletcher's view on the global economic position, information on global market returns, the performance of the Derbyshire Fund, and his latest recommendations on investment strategy and asset allocation.

Mr Fletcher presented the Derbyshire Pension Fund Benchmark Returns and highlighted the influence that the strength of sterling had on World markets and how it affected performances.

Details were provided of Mr Fletcher's investment recommendations in UK Equities, North American Equities, European Equities, Japan, Asia/Pacific, Infrastructure, Private Equity and Cash, along with those of the Derbyshire Pension Fund In-House Fund Management Team.

The Fund's latest asset allocation, as at 30 April 2019, and the recommendations of the Director of Finance and ICT and the Fund's Independent Adviser in relation to the Pension Fund's new strategic asset allocation benchmark were reported. Relative to the new benchmark, the Fund as at 30 April 2019 was overweight in growth assets and cash, and underweight in income assets and protection assets. Details were also provided of the recommendations of the Director of Finance and ICT, which had been adjusted to reflect the impact of future investment commitments. These commitments largely related to private equity, multi-asset credit, property and infrastructure and totalled around £356m. Whilst the timing of drawdowns would be difficult to predict, the In-house Investment Fund Manager Team believed that these were likely to occur over the next 18 to 36 months.

The value of the Fund's investment assets had risen by £253.5m between 31 January 2019 and 30 April 2019. Over the twelve months to 30 April 2019, the value of the Fund's investment asset had risen by £249.2m, comprising a non-cash market gain of around £135m, an unexpected advanced contribution payment of £25m and cash inflows from dealing with members and investment income of around £90m. A copy of the latest portfolio was presented at Appendix 2 to the report.

A summary of global equities in sterling and the US dollar, UK equities, UK fixed income and UK index linked bonds for the twelve months to 22 May 2019 was given. Equity markets had generally risen between May and August 2018, reflecting robust US earnings growth and some easing in the trade tensions between the US and China, with returns for Sterling investors also benefiting from a stronger US\$. Global Equity markets then sold-off sharply in Q4 2018, with the quarter recording a 10.5% fall in sterling terms. Investor confidence was impacted by a number of factors, including concerns over the sustainability of US economic growth; an indication from the US Federal Reserve that there was scope for further interest rate rises; worries over a slowdown in China; and fears of a global trade war. Equity markets had subsequently recovered strongly in Q1 2019. Whilst global economic data

moderated in the quarter, optimism that trade relations between the US and China might improve, together with a more dovish tone from the US Federal Reserve, lifted equity markets. Although this optimism continued in April 2019, equity markets had been weaker in May 2019 as concerns about US-China trade relations resurfaced.

Bonds had generally traded sideways between May and September 2018 before yields fell in Q4 2018, prompted by a general 'risk-off' environment. In the UK, government bond yields also fell sharply in March 2019 in response to the Brexit impasse. UK index-linked bond yields were briefly impacted by uncertainty around the implications of a House of Lords inquiry into the way that the retail price was calculated and index extensions, but the lack of progress on Brexit and in world trade talks dominated sentiment towards the asset class.

In terms of asset class valuations, many global stock markets were still trading close to all-time highs, despite the recent weakness in May 2019, and it was noted that recent asset class returns remained well in excess of long term averages. Details were given on the Fund's performance over 1, 3, 5 and 10 years to 31 March 2019. The Fund had performed in line with the benchmark over the last twelve months, and out-performed the benchmark over all other time periods.

**RESOLVED** that (1) the report of the external advisor, Mr Fletcher, be noted;

(2) the asset allocations, total assets and long term performance analysis in the report of the Director of Finance and ICT be noted; and

(3) the strategy outlined in the report of the Director of Finance and ICT be approved.

**39/19      VOTING ACTIVITY** Details of the Fund's voting activity for the period 28 February to 24 May 2019 were presented. The Fund's votes against management proposals were shown in Appendix 2 to the report and the total shareholder votes for these proposals were provided.

With the exception of the Micro Focus International Plc resolution and the two Informa Plc resolutions, each of the resolutions set out in Appendix 2 were subsequently passed.

**RESOLVED** that the report be noted.

**40/19      EXCLUSION OF THE PUBLIC RESOLVED** that the public be excluded from the meeting during the Committee's consideration of the remaining items on the agenda to avoid the disclosure of the kind of information detailed in the following summary of proceedings:-

**SUMMARY OF PROCEEDINGS CONDUCTED AFTER THE PUBLIC HAD BEEN EXCLUDED FROM THE MEETING**

1. To confirm the exempt minutes of the meeting held on 8 May 2019 (contains exempt information)
2. To receive a presentation and update from LGPS Central Limited (contains information relating to the financial or business affairs of any particular person (including the Authority holding that information))

**Agenda Item No. 4(a)**

**DERBYSHIRE COUNTY COUNCIL**  
**PENSIONS AND INVESTMENTS COMMITTEE**

**31 July 2019**

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

**GOVERNANCE POLICY AND COMPLIANCE STATEMENT**

**1 Purpose of the Report**

To seek approval for the draft updated Governance Policy and Compliance Statement (the Statement) for Derbyshire Pension Fund (the Fund) attached as Appendix 1.

**2 Background**

The Local Government Pension Scheme Regulations 2013 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
- details of the terms, structure and operational procedures relation to the local pension board

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.

The Pensions and Investments Committee (the Committee) approved the Fund's inaugural Government Policy and Compliance Statement in August 2018. The Statement has been updated to: include the Fund's governance objectives; reflect the Committee Terms of Reference approved by Full Council in May 2019; reflect the development of a Fund Conflicts of Interest Policy; and to report the up to date position with regard to compliance with best practice.

### **3 Financial Considerations**

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

### **4 Other Considerations**

In preparing this report the relevance of the following further factors has been considered: legal, human rights, human resources, equality and diversity, health, environmental, transport, property, and prevention of crime and disorder.

### **5 Background Papers**

Background papers are held by the Head of Pension Fund.

### **6 Officer's Recommendation**

That the Committee approves the attached draft Derbyshire Pension Fund Governance Policy and Compliance Statement.

**Peter Handford**  
**Director of Finance and ICT**





# Governance Policy and Compliance Statement

July 2019

## Introduction

This is the Governance Policy and Compliance Statement (the Statement) for Derbyshire 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 Ministry of Housing, Communities and Local Government (MHCLG) and the LGPS 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.

## 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.

Commented [DK(CaP1]: These objectives have been added.

The identification and management of conflicts of interest is integral to the Fund achieving its governance objectives. A Conflicts of Interest Policy has, therefore, been developed for the Pension Fund and it was approved by the Pensions and Investments Committee on [ ].

## 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.

## 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. 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.

The Committee meets eight times a year and its responsibilities include reviewing and approving the Fund's:

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

**Commented [DK(CaP2)]:** This section has been updated to reflect the PIC TOR approved by Council in May 2019.

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.

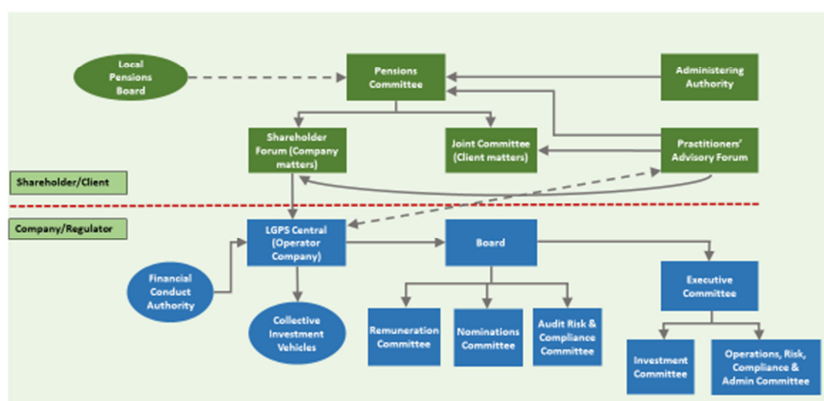
The role of the Pension Board is to assist the administering authority to ensure the effective and efficient governance and administration of the LGPS, including:

- 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

### 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 LGPS Central (the Pool), in accordance with Government requirements for the pooling of LGPS investment assets.

### LGPSC Governance Arrangements



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

**Commented [DK(CaP3):** Governance chart updated for ORCA committee.



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 Vice Chair of the Pensions and Investments Committee represents Derbyshire 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 Chair of the Pensions and Investments Committee represents Derbyshire at the Shareholders' Forum and at LGPS Central Ltd company meetings. Decisions are made in advance of the Shareholders' Forum and company meetings to enable the Council's representative to vote at these meetings. Wherever possible, any matter regarding LGPS Central Ltd which requires a shareholder decision will be taken to the Pensions and Investments Committee for consideration. Where the timetable does not allow for this, decision making is delegated to the Director of Finance and ICT following consultation with the Chair of the Pensions and Investments Committee.

**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 Investment Manager represent Derbyshire on the Practitioners' Advisory Forum as required. PAF is supported by four individual working groups: Client Oversight & Governance Group; Finance Working Group; Investment Working Group; and Responsible Investment Working Group.

## 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:

| Principle   | Compliance  |
|---|---|
| <b>Structure</b>  |   |
| The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.   | <b>Compliant</b> 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.   | <b>Partially Compliant</b> Membership of the Pensions and Investments Committee includes two representatives from Derby City 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.   | <b>Not applicable</b>   |
| 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.  | <b>Not applicable</b>   |
| <b>Representation</b>   |   |
| That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: <ul style="list-style-type: none"> <li>Employing authorities (including non-scheme employers e.g. admitted bodies)</li> </ul> | <b>Partially Compliant</b> Membership of the Pensions and Investments Committee includes two representatives from Derby City and two non-voting Trade Union representatives, as well as eight representatives from the administering authority (also the largest employing body).   |

|   |  |
|---|--|
| <ul style="list-style-type: none"> <li>• Scheme members (including deferred and pensioner scheme members)</li> <li>• Where appropriate, independent professional observers</li> <li>• Expert advisors (on an ad-hoc basis)</li> </ul>                         | <p>In practice the Trade Union representatives tend to represent the interests of all scheme members. Membership and employer representation will be kept under review.</p> <p>The Fund's Independent Investment Advisor attends the 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.</p> <p>Derbyshire Pension Board (the Board) includes two employer representatives (currently one represents a District Council and one represents a Multi-Academy Trust) and two member representatives. The Board has an independent Chair.</p> |
| <p>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.</p> | <p><b>Partially Compliant</b> 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 that is delivered locally. Certain members of the Committee and the Board have accessed the LGA Fundamentals Training. This training will, in future, be offered to all new members of the Committee and the Board. All voting and non-voting members of the Committee are given full opportunity to contribute to the decision making process.</p>   |
| <p><b>Selection and Role of Lay Members</b></p>   |  |
| <p>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.</p>  | <p><b>Compliant</b> 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.</p>   |



|  |  |
|--|--|
| 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.  | <b>Compliant</b> Declarations of interest are required at each Pensions and Investments Committee meeting and recorded in the minutes of the meeting.  |
| <b>Voting</b>  |  |
| 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.   | <b>Compliant</b> 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.  |
| <b>Training/Facility Time/Expenses</b>   |  |
| 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. | <b>Compliant</b> 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. 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.   |
| <b>Meetings</b>  |  |
| That an administering authority's main committee or committees meets at least quarterly.   | <b>Compliant</b> The Pensions and Investments Committee meets eight times a year.  |
| 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.  | <b>Not applicable</b>  |

|   |   |
|---|---|
| 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.   | <b>Not applicable</b> However, an annual Employers' Forum is held to which all employing bodies are invited.  |
| <b>Access</b><br>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.             | <b>Compliant</b> All members of the Pensions and Investments Committee (and the Pension Board) have the same access to committee papers, documents (excepting papers and documents relating to Derbyshire County Council employer matters which are only available to members of the Pensions and Investments Committee) and advice to be considered at the Pensions and Investments Committee. |
| <b>Scope</b><br>That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.   | <b>Compliant</b> 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.  |
| <b>Publicity</b><br>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. | <b>Compliant</b> The Governance Policy and Compliance Statement is published on the Pension Fund's website. Vacancies for Derbyshire Pension Board are advertised on the website.   |

**Commented [DK(CaP4)]:** This has been changed to Compliant as vacancies for the Pension Board are advertised on the Fund's website.

**Agenda Item No. 4 (b)**

**DERBYSHIRE COUNTY COUNCIL  
PENSIONS AND INVESTMENTS COMMITTEE**

**31 July 2019**

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

**PENSION ADMINISTRATION STRATEGY**

**1 Purpose of the Report**

To seek approval for the draft Pension Administration Strategy 2019 attached as Appendix 1.

**2 Background**

Derbyshire Pension Fund (the Fund) is committed to working efficiently and effectively with its employing authorities to provide a high quality pension administration service to all the contributing Local Government Pension Scheme (LGPS) members in Derbyshire.

To support this aim, the Fund maintains a Pension Administration Strategy (the Strategy), in line with Regulation 59 of the LGPS Regulations 2013, which is reviewed and revised annually. The Strategy sets out the roles and the service standards to be achieved by Derbyshire County Council, as the administering authority of the Fund, and by the participating employers to enable the efficient administration of Fund members' records. It also includes details of how administrative underperformance by employers will be monitored and managed.

The Strategy was last approved by the Pensions and Investments Committee in January 2018. Minor amendments have been made to the previous version, and are wholly concerned with updating the document to reflect recent developments such as the implementation of the Altair pension administration system.

There are no revisions this year to the substantive aspects of the Strategy, which are the employing authority and administering authority performance targets, and the arrangements for the management of employer underperformance. The necessary reports for measuring certain of the administering authority performance targets are currently being developed on

the new pension administration system. The administering authority performance targets will be reviewed once the new system is fully established.

As no material changes to the Strategy are proposed, it is not intended that employers will be consulted on this update. The Pension Administration Strategy will be circulated to all participating employers and posted on the Fund's website.

### **3. Financial Considerations**

None.

### **4. Other Considerations**

In preparing this report the relevance of the following further factors has been considered: legal, human rights, human resources, equality and diversity, health, environmental, transport, property and prevention of crime and disorder.

### **5. Officer's Recommendation**

That the Committee:-

Approves the draft Pension Administration Strategy 2019 attached as Appendix 1.

**Peter Handford**  
**Director of Finance and ICT**

# **DERBYSHIRE PENSION FUND**

## **PENSION ADMINISTRATION STRATEGY 2019**

# Introduction

This is the **Pension Administration Strategy** (the Strategy) of Derbyshire Pension Fund (the Fund) in relation to the Local Government Pension Scheme (LGPS), which is administered by Derbyshire County Council (the administering authority).

The LGPS is a statutory scheme and governed by regulations. The current regulations relating to administration are The Local Government Pension Scheme Regulations 2013 (as amended).

In discharging their roles and responsibilities under these regulations, the administering authority and the Fund's employers are required to comply with any relevant overriding legislation and recognise any regulatory guidance or Code of Practice issued by The Pensions Regulator.

The legal context for this Strategy is **Regulation 59 of The Local Government Pension Scheme Regulations 2013** which allows administering authorities the opportunity to prepare a Pension Administration Strategy.

The Strategy sets out the standards of performance and best practice that the administering authority and its employers should aim to meet when carrying out their scheme functions.

The Pensions Administration Strategy is reviewed annually and will be revised to reflect changes to LGPS regulations, policies determined by the administering authority, or administrative practices executed by the Fund and its employers in fulfilling its functions.

A copy of this strategy is issued to each of the relevant employers as well as to the Secretary of State and it is published on the Pension Fund's website [www.derbyshirepensionfund.org.uk](http://www.derbyshirepensionfund.org.uk).

## Aims of the Strategy

The aims of this Pension Administration Strategy are to:

- Support the provision of a high quality pension service to Fund members
- Clearly set out the respective roles and responsibilities of the administering authority and scheme employers
- Ensure that the Fund operates in accordance with LGPS regulations and Codes of Practice issued by The Pensions Regulator
- Set out the quality and performance standards expected of the administering authority and its scheme employers in relation to each other
- Promote good working relationships and improve efficiency between the administering authority and its scheme employers for the benefit of Fund members
- Provide a framework to enable administration costs relating to significant employer underperformance to be met directly by the employer responsible, rather than shared across all the employers in the Fund\*

*(\* Regulation 70 of the 2013 LGPS Regulations permits the recovery of additional costs from an employer where its level of performance has caused additional costs to the Fund.)*

The efficient delivery of the benefits of the scheme is dependent upon effective administrative procedures being in place between the administering authority and scheme employers, principally the timely exchange of accurate information in relation to scheme members.

This strategy sets out the expected levels of performance of the administering authority and the scheme employers and provides details about the monitoring of performance levels.

The strategy will be kept under review and updated as required to reflect changes in scheme regulations and Fund working practices.

## **Record keeping**

Record-keeping is a fundamental part of running a scheme such as the LGPS, and Funds and their employers have a legal obligation to collate and maintain certain data which is key to managing the scheme.

Derbyshire Pension Fund must be able to demonstrate that it keeps accurate, up-to-date and long-term records, within the parameters of data protection legislation, so it can govern and administer the pension scheme efficiently for all scheme members.

Employers provide the core data needed by the Fund and must ensure that they are meeting their legal obligations to the scheme.

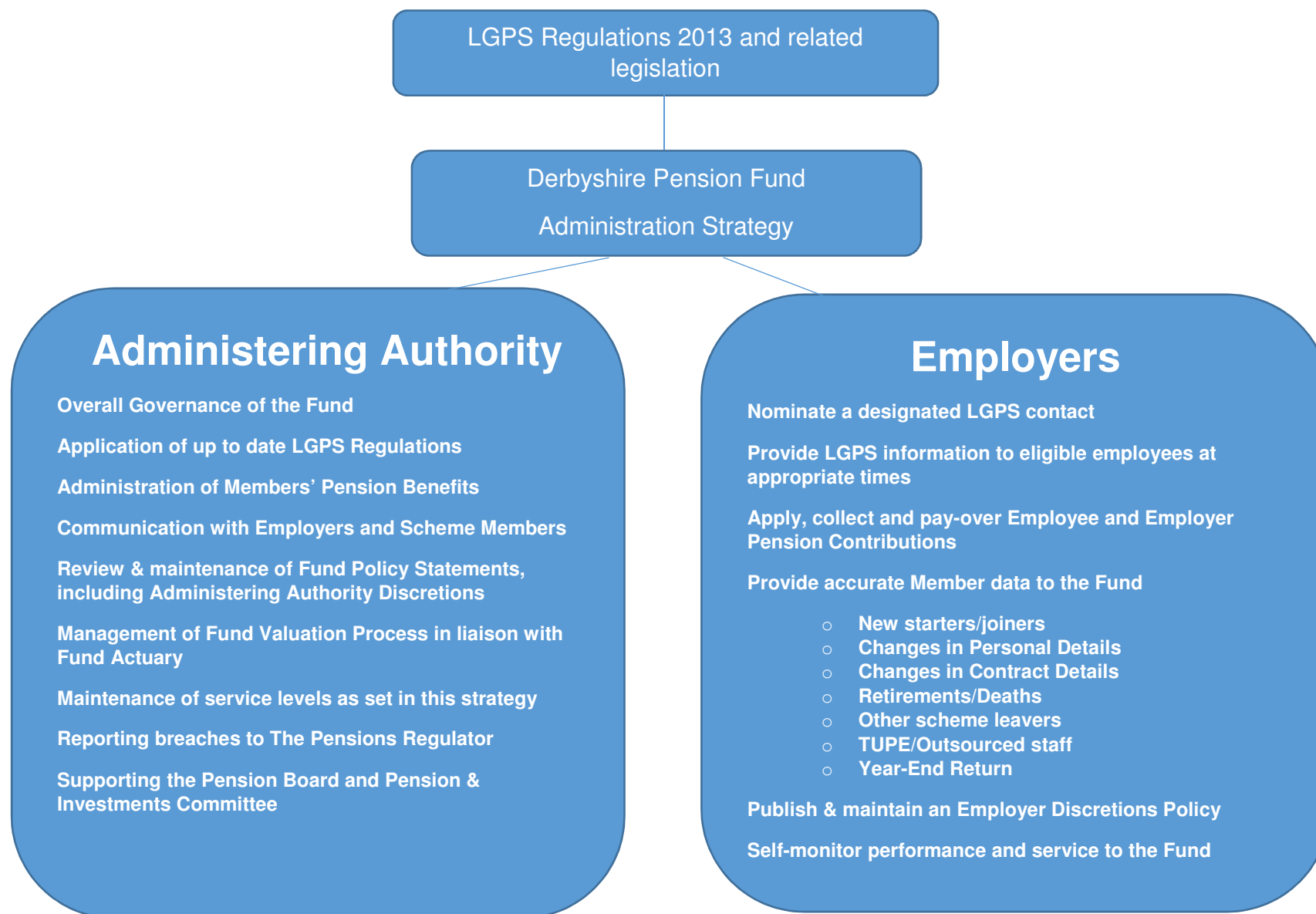
The Fund has a legal duty to provide its members with accurate and timely information about their benefits, which it cannot do without the core data from employers.

Consequently, the working partnership between the Fund and employers is key in the successful ongoing administration of the scheme. This document describes how the Fund supports employers in meeting their responsibilities, and also how the cost of underperformance on the part of one employer is to be charged to that employer, rather than borne by all.

If employers have concerns about the data they provide, they should contact the Fund without delay. This will allow the Fund to work with employers to resolve any issues and enable both parties to meet their requirements for the benefit of scheme members.

Where an employer declines to work with the Fund to resolve problems and consistently fails to meet its responsibilities under the LGPS Regulations, the Fund (or stakeholders such as the Pensions Board) has a duty to report that employer to The Pensions Regulator, who has the power to tackle such breaches.

# Roles and Responsibilities – Overview





# Roles and Responsibilities

The aims of the strategy set out above will be achieved by:

- Clearly defining the respective roles of scheme employers and the administering authority
- Setting clear and achievable standards of service levels for the functions carried out by scheme employers and the administering authority
- Setting out clear procedural guidance for the secure and effective exchange of information between scheme employers and the administering authority
- Monitoring service delivery, identifying poor performance and establishing a platform for the provision of support to improve performance where required
- Applying additional charges where an employer consistently fails to meet deadlines to ensure the resulting additional administrative strain is not a burden on all employers

## The Employer's Roles and Responsibilities

The key responsibilities for the employer are to:

- **Communicate** the LGPS to eligible staff
- **Apply** the scheme via the collection and payment of the correct levels of pension contributions
- **Report** information and data to the Pension Fund as set out in this Strategy

A guide to the employer's roles and responsibilities is set out in **Appendix 1**. The guide includes a summary of duties which defines the main functions of the employer role which, in turn, enables the Pension Fund to deliver an efficient, accurate and high quality pension service to scheme members.

## The Administering Authority's Roles and Responsibilities

The key responsibilities for the administering authority are to:

- Administer the LGPS in respect of all scheme members (Active, Deferred and Pensioner members) in accordance with this Strategy
- Maintain and review the Fund's Statements, Policies and Reports and all other matters relating to the governance of the scheme
- Communicate and engage with employers on LGPS matters
- Provide support/training to scheme employers
- Maintain and develop an effective web presence for the benefit of members and scheme employers

A guide to the administering authority's main roles and responsibilities are set out in **Appendix 2**.

The list of functions, which concentrates on the main roles, rather than being an exhaustive list, sets out the key areas which involve interaction and liaison with scheme employers and/or scheme members.

## **New Pension Administration System**

The administering authority implemented a new Pension Administration System in March 2019 following a review of the effectiveness of the previous system.

The move to a new system will support the authority's goals of:

- achieving prompt and accurate delivery of benefits to Fund members
- providing on-line services to Fund members
- improving the efficiency and security of data transmission from employer

## **Performance Monitoring**

### **Approach to managing performance**

The responsibility for ensuring compliance with the LGPS regulations and this Pension Administration Strategy sits with the administering authority and the scheme employers. This section describes the ways in which performance and compliance will be monitored, how the costs of underperformance will be addressed, and the scale of the potential charges.

The Fund and scheme employers must aim to ensure that all functions and tasks are carried out to the agreed quality standards set out in this Strategy. The Fund will, on a regular basis, monitor, measure and report on the Fund's and scheme employers' compliance with the agreed service standards outlined in this document.

The Fund will undertake a formal review of performance against this strategy on an annual basis and liaise with employers in relation to any concerns on performance.

The Fund monitors its own performance against internal key performance indicators. Monitoring is carried out on a monthly basis and is reported to the Pensions and Investments Committee (the Committee) and Derbyshire Pension Board (the Board) on a quarterly basis.

The performance of scheme employers against the standards set out in this document are incorporated into the reporting to the Committee and Board, as appropriate, including data quality.

The Fund will also regularly report back to employers about their individual performance, identifying any areas for improvement including outstanding data items.

### **Policy on charging for employer underperformance**

The LGPS regulations provide pension funds with the ability to recover from a scheme employer any additional costs associated with the administration of the scheme incurred as a result of the underperformance of that scheme employer.

The Fund has worked to support employers to be able to deal with the increased complexity of the data that they are required to provide. This has included site visits, training events, electronic newsletters, and guidance and information on the Fund's website. In addition, all employers were invited to respond to a questionnaire in 2017 which asked for views on the charging of underperforming employers.

The overwhelming response from employers was that the additional administration costs generated by the underperformance of one employer should be met directly by that employer, rather than shared across all employers in the fund.

As a result the Fund's Administration Team now monitors any additional costs incurred in the administration of the scheme as a direct result of underperformance in respect of the following measurable indicators.

- Late, poor quality or non-submission of the Year-End Return
- Late, poor quality or non-submission of monthly contributions and/or Form CR1 (Contributions Return)
- Late, poor quality or non-reporting of information relating to in-service deaths

Further to this, in the area of day- to- day administration, such as the notification of starters and leavers to and from the Fund, cost monitoring will be applied where it becomes apparent that employer underperformance may be an issue.

The potential underperformance charge to a relevant employer would be:

|  |   |
|--|---|
| <b>Payment of Monthly contributions and Form CR1</b> | Where an employer submits a third late payment or Form CR1 within a 12 month period, <ul style="list-style-type: none"> <li>- 3<sup>rd</sup> late payment – £250</li> <li>- 4<sup>th</sup> late payment - £500</li> <li>- 5<sup>th</sup> and subsequent late payments - £750 each time</li> </ul>   |
| <b>Submission of Year-End Return</b>                 | Where an employer submits a late Year-End Return, the administrative cost for each working day that the return is late is £5 per member. So, an employer with 30 scheme members to report that submits their Year-End Return 2 weeks late may incur an administrative charge of £1,500.   |
| <b>Reporting of in-service deaths</b>                | Where an employer does not report the death in service of an active member to the Pension Fund, the extra administration cost increases the longer the delay, as follows; <ul style="list-style-type: none"> <li>- More than 30 days following death - £100</li> <li>- 31 to 99 days - £250</li> <li>- 100 to 199 days - £500</li> <li>- More than 199 days – £1,000</li> </ul> |

Where underperformance occurs in relation to administration requirements and no improvement is demonstrated by an employer, and/or willingness is shown by the employer to work with the Fund's Administration Team to resolve the identified issue(s) the Fund will:

- Write to the scheme employer, setting out area(s) of non-compliance with performance standards, offer support and, where applicable, request attendance at a training/coaching session.
- Where no improvement has been demonstrated by the employer, or where there has been a failure to take agreed action by the scheme employer, or no response is received to the initial letter, the scheme employer will be asked to attend a meeting with representatives of the Fund to discuss area(s) of non-compliance with performance standards and to agree an

action plan to address them. Where appropriate in respect of Admission Bodies, the originating employer will be informed and expected to work with the Fund to resolve the issues.

- If no improvement is seen within one month or a scheme employer is unwilling to attend a meeting to resolve the issue, the Fund will issue a formal written notice, setting out:
  - the area(s) of non-compliance with performance standards that have been identified,
  - the steps taken to resolve those area(s);
  - how the underperformance contributed to the additional cost,
  - the amount of the additional cost incurred, and
  - provide notice that the additional costs incurred by the Fund as a direct result of the employer's poor performance will now be reclaimed.
- An invoice will then be issued to the scheme employer clearly setting out the calculations of any loss resulting to the Fund, or additional cost, taking account of time and resources in resolving the specific area(s) of poor performance, in accordance with the charging scale set out in this document.
- A report will be presented to the Pensions and Investments Committee and the Pension Board meeting detailing charges levied against scheme employers and outstanding payments.
- If poor performance continues, and impacts the Fund's ability to perform statutory functions and/or measures are not being taken by the employer to address this, the Fund will consider reporting the employer to The Pension Regulator.
- Where it is necessary to ensure that Fund members' benefits are not delayed unduly as a result of employer underperformance in providing the required information, the Fund reserves the right to calculate and pay benefits based on the best information available. The basis of the calculation will be explained to the Fund member and employer in each case, and further to completing the process above, the costs of additional administration caused by the need for a subsequent revision of benefits will be charged to the employer.

Where an employer fails to pay any amount due to the Fund (other than monthly contributions) within 30 days, interest for late payment will be charged accordingly.

This includes charges and recharges levied in respect of cost recovery.

### **Feedback from Employers**

Employers who wish to provide feedback on the performance of the Fund against the standards in this administration strategy, as set out in Appendix B, should send their comments to:

[pensions.regs@derbyshire.gov.uk](mailto:pensions.regs@derbyshire.gov.uk)

Any feedback received will be incorporated into the quarterly reports provided to the Pensions and Investments Committee and the Pension Board.

# Appendix 1: The Employer's Role

The delivery of an efficient and cost effective administration is dependent upon a successful joint working partnership between the Pension Fund and key individuals within or representing the scheme employer.

To support and nurture the joint working partnership with the Fund, each Employer is asked to designate a primary contact for liaison with the Pension Fund with regard to their employer responsibilities in the administration of the scheme.

The key employer responsibilities are to:

- Ensure that the standards and levels of service set out in this Administration Strategy are delivered and regulatory responsibility is complied with.  
In brief summary, the main elements are:
  - Monthly Payment of Contributions and **Form CR1**
  - Accurate submission of **Year-End Return**
  - New Starter/Joiner Information (**Form S1** or spreadsheet submission arranged with the Fund)
  - Changes to Personal Details (**Form C1**)
  - Changes to Employment Details (**Form C2**)
  - Unpaid absence details (**Form C3**)
  - Leaver Notifications (**Form L1**)
  - Provision of evidence supporting employer's pension-related decisions (eg Ill-Health Retirements, Flexible Retirement, Redundancy, the early release of benefits to deferred members on compassionate or ill-health grounds etc)
- Channel communications to appropriate staff within the employer - for example, Human Resources, Payroll teams, Directors of Finance.
- Arrange distribution of communications literature to scheme members as and when required.
- Assist and liaise with the Fund on promotional activities.
- Inform the Fund of any outsourcings of service which involve TUPE transfers as soon as possible to ensure that appropriate pensions information can be included in tender documentation.
- Inform the Fund of changes to service delivery arrangements (eg changing payroll provider)
- Liaise with, and assist the Administering Authority in the identification, explanation, reporting and resolution of statutory breaches, as required by the Pensions Regulator's Code of Practice for public sector pension scheme (code of practice 14)

# Performance Standards

This section outlines the detailed responsibilities of each scheme employer in the Fund and the performance standards employers are expected to achieve to enable the Fund to deliver an efficient service.

**The performance standards expected are expressed as targets i.e. the level of performance expected in normal circumstances. It is accepted that, on an exception basis, it may not be possible to achieve the target indicated and a pragmatic approach will be adopted, subject to employers using their best endeavours to meet expected standards wherever possible.**

## A. Scheme Governance and Administration

This section details the functions which relate to overall governance and administration, rather than functions that relate to individual scheme members' benefits.

### 1. Employer contacts

| Function / Role  | Performance Target   |
|--|--|
| <b>Main Contact</b>  |  |
| Nominate a named primary contact to liaise with the Fund.  | Within <b>1 month</b> of employer joining fund or change to nominated representative.                                    |
| <b>All Authorised Contacts</b>   |  |
| Designate and confirm other nominated representative(s) (e.g. Payroll, HR. Finance) to act on behalf of the employer in respect of administering the LGPS by submitting the Fund's Authorised Signatory (AS) form.<br>(AS forms available from the Fund)   | Within <b>1 month</b> of becoming a scheme employer or within <b>1 month</b> of a change in nominated representative(s). |
| <b>Appeals Adjudicator</b>   |  |
| Appoint a person to consider appeals under Stage 1 of the Applications for the Adjudication of Disagreements Procedure (AADP) and provide full, up to date contact details to the Fund.  | Within <b>1 month</b> of becoming a scheme employer or within <b>1 month</b> of a change in adjudicator.                 |
| <b>Independent Registered Medical Practitioner</b>   |  |
| Appoint an Independent Registered Medical Practitioner(s) (IRMP) qualified in occupational health medicine, or arrange with a third party, and seek approval of the appointment from the Fund, for the consideration of all ill-health retirement applications from active and deferred members. | Within <b>1 month</b> of becoming a scheme employer or within <b>1 month</b> of a change in IRMP(s).                     |

### 2. Preparing an Employer Discretions Policy

| Function / Role  | Performance Target  |
|--|---|
| Formulate and publish policies in relation to all areas where the employer may exercise a discretion within the LGPS | To be kept under review and a revised statement published within <b>1 month</b> of any changes and no later than 6 months after being |

|  |   |
|--|---|
| (including providing a copy of the policy document to the Fund). | informed by the Fund of any relevant change in regulations. |
|--|---|

### 3. Pension Contributions

| Function / Role   | Performance Target   |
|---|--|
| <b>The Employer's Rate</b>  |  |
| Apply the employer contribution rate agreed with the Fund on becoming a scheme employer and adjust as instructed by the Fund from a date determined by the Fund.  | Immediately on receipt of information from the Fund effective from a date determined by the Fund following advice from the scheme actuary.   |
| <b>The Employee's Rate</b>  |  |
| Calculate and review the correct employee contribution rate band for all members at commencement and on 1 <sup>st</sup> April each year. Also to be reviewed at intervals during the year at the employer's discretion. | Immediately on commencement, on <b>1<sup>st</sup> April</b> each year and as per the employer's discretionary policy on adjusting the employee's contribution rate at intervals during the year. |
| <b>Assumed Pensionable Pay</b>  |  |
| Ensure the correct application of Assumed Pensionable Pay (APP) during periods of reduced/nil pay in accordance with the LGA's HR & Payroll Guides.   | Review of eligibility for APP immediately upon a member moving to reduced/nil pay.   |
| <b>Payment to the Fund</b>  |  |
| Remit Employee, Employer and any Additional contributions <u>and</u> submit the Contributions Report Form (CR1) to the Fund.  | By the <b>19<sup>th</sup></b> of the month after collection from pay.  |
| <b>Payment of AVCs</b>  |  |
| Remit Additional Voluntary Contributions (AVCs) <b>to the AVC provider(s).</b>  | By the <b>19<sup>th</sup></b> of the month following the collection from pay.  |

### 4. Year-End Return

| Function / Role   | Performance Target   |
|---|--|
| <b>Completing the Year-End Return</b>   |  |
| Provide a fully reconciled and completed Year-End Return to the Fund in the format stipulated in the instructions issued each February. | By <b>19th April</b> following the year-end unless employers are notified of an alternative date by the Fund.  |
| To ensure optimum accuracy of year-end information.   | With no less than 90% accuracy across all members.   |
| <b>Queries from the Year-End Return</b>   |  |
| To resolve all queries returned from the Year-End Return.   | To respond fully to all queries from the Fund within <b>3 weeks</b> of receipt of the query. In circumstances where an employer submits a late year-end return limiting the Fund's time to complete its duties, the timescales may be reduced, as advised by the Fund. |

## 5. Communications

| Function / Role  | Advised Performance Target   |
|--|--|
| <b>LGPS content in Contracts</b>   |  |
| Ensure Fund- approved LGPS content is included in all contract/appointment/adjustment communications for LGPS-eligible positions including direction to the Fund's web presence. | Review LGPS content annually or within <b>2 weeks</b> of receipt of information about adjustment to Fund approved wording. |
| <b>Fund Communications to Scheme Members</b>   |  |
| Distribute any information provided by the Fund to scheme members/potential scheme members.  | Within <b>2 weeks</b> of its receipt.  |
| Refer new/prospective scheme members to the Fund's website.  | Within <b>2 weeks</b> of commencement of employment or change in contractual conditions.                                   |

## 6. Appeals

| Function / Role   | Performance Target                             |
|---|--|
| <b>AADP Stage 1 Appeals</b>   |  |
| The Employer's Adjudicator to notify the Fund of the receipt of a Stage 1 appeal via AADP.                | Within <b>1 week</b> of receipt of the appeal. |
| The Employer's Adjudicator to notify the Fund of the decision in respect of an appeal at Stage 1 of AADP. | Within <b>1 week</b> of the decision.          |

## 7. Outsourcing/TUPE arrangements

| Function / Role  | Performance Target   |
|--|--|
| Notify the Fund of contracting out of services which will involve a TUPE transfer of LGPS eligible staff to another organisation to enable LGPS information to be provided to potential contractors.                   | At the point of deciding to tender.  |
| Notify the Fund of lead strategic and operational officers in respect of outsourcing of service provision where a prospective contractor may request to join the Fund as a result of re-organisation or TUPE transfer. | At commencement of the review.   |
| Work with Fund Officers to arrange for the admission of a contractor as a new employer in the Fund   | A minimum of <b>2 months</b> in advance of the date of contract                    |
| Notify the Fund of changes/extension/cessation of arrangements with a contractor   | As soon as decision is agreed  |
| Assist the Pension Fund in ensuring that the terms of the contractor's admission as a scheme employer (Admission Agreement) are complied with  | Notify the Pension Fund if the terms of the Admission Agreement have been breached |



## 8. Strain/Shortfall Payments to the Pension Fund

| Function / Role  | Performance Target  |
|--|---|
| Make strain/shortfall payments to the Fund in respect of early payment of benefits from flexible retirement, redundancy or business efficiency retirement or where a member retires early with employer's consent. | <b>Immediate</b> payment upon receipt of invoice from the Fund. |
| Remit recharge payments in respect of pension members –<br>e.g Discretionary Compensation/Enhancement  | <b>Immediate</b> payment upon receipt of invoice from the Fund. |

## 9. Miscellaneous

| Function / Role   | Performance Target  |
|---|---|
| Payments in respect of FRS102 and IAS19 work carried out on behalf of Employers by the Fund and the Fund Actuary  | <b>Immediate</b> payment upon receipt of invoice from the Fund. |
| Payments in respect of all other work carried out on behalf of the Employer by the Fund's Actuary and connected data quality assurance undertaken by the Fund | <b>Immediate</b> payment upon receipt of invoice from the Fund. |
| Prompt payment of invoices issued by the Fund for specific services provided.   | <b>Immediate</b> payment upon receipt of invoice from the Fund. |
| Respond to enquiries from the Fund.   | Within <b>2 weeks</b> from receipt of the enquiry.              |
| Make payment of additional costs to the Fund associated with non-compliance with performance standards of the scheme employer.                                | <b>Immediate</b> payment upon receipt of invoice from the Fund. |
| Respond to enquiries from the Fund relating to Breaches of the Law.   | Within <b>1 week</b> of the request.                            |

## A. Individual Member Administration

This section details the functions which relate to scheme member benefits from the LGPS.

### 1. New Starters

| Function / Role   | Performance Target                                  |
|---|---|
| <b>Contract Wording</b>   |   |
| Ensure DPF approved content relating to pensions is included in all contract/appointment communications for LGPS-eligible positions including direction to the Fund's web presence. | As part of standard contract/appointment templates. |
| <b>Applying contributions</b>   |   |
| Ensure that the correct percentage and banding for employee's LGPS contributions is applied to the new joiners pay record.  | From date of commencement or joining the scheme.    |
| <b>Notifying the Fund</b>   |   |

|   |   |
|---|---|
| Notify the Fund of new scheme joiners via secure data transfer, new joiner spreadsheet or the individual <b>S1 Starter form</b> . | Within <b>1 month</b> of member's entry into the scheme via contractual enrolment, auto-enrolment, re-enrolment date or election to join. |
| Liaise with the Fund before any change in method of submitting starter details.   | Prior to change.  |

## 2. Additional Pension Contributions (APCs)

| Function / Role  | Performance Target   |
|--|--|
| <b>Notification to member of APC option</b>  |  |
| Ensure members are notified of the option to pay Additional Pension Contributions following absences not covered by APP. | Within <b>2 weeks</b> of the return to work.   |
| <b>Application of Additional Contributions</b>   |  |
| Apply/adjust/cease the deduction of Additional Pension Contributions following an APC application from a scheme member.  | In the month following receipt of election from scheme member or notification from the Fund. |

## 3. Additional Voluntary Contributions (AVCs)

| Function / Role   | Performance Target   |
|---|--|
| Arrange for the deduction of AVCs from scheme member's pay following election<br><i>Note: AVCs must be paid over to the AVC Provider by 19<sup>th</sup> of the following month as per Appendix A – Section 2 Part i (3)</i> | Commence deduction of AVCs in month following the month of election, as advised by Fund/AVC Provider |

## 4. Changes to Personal Details

| Function / Role  | Performance Target  |
|--|---|
| Notify the Fund of changes in employees' personal details via the individual <b>C1. Change of Personal Details Form</b> . <ul style="list-style-type: none"> <li>Change of Name</li> <li>Change of Address</li> <li>Correction of Date of Birth/NI number</li> <li>Change of Marital / Civil Partnership Status</li> </ul> | Within <b>1 month</b> of the event or receipt of information. |

## 5. Changes to Employment Details

| Function / Role  | Performance Target  |
|--|---|
| Notify the Fund of Changes in Employment Details via the individual <b>C2 Change of Employment Details Form</b> where required, including movement in and out of the 50/50 scheme, changes in hours etc. | Within <b>1 month</b> of the event or receipt of information. |

## 6. Notification of Unpaid Absences

| Function / Role   | Performance Target   |
|---|--|
| Notify the Fund of periods of unpaid absence not covered by Assumed Pensionable Pay (APP) via the <b>C3 Unpaid Absence Form</b> . | Within <b>2 months</b> of the event or receipt of information. |

## 7. Opt-Outs

| Function / Role  | Performance Target   |
|--|--|
| <b>Contributions</b>   |  |
| Apply an election to opt out of the LGPS to the member's payroll record. | From the 1 <sup>st</sup> of the month for the next available payroll.<br><i>Except...where an opt-out is made within 3 months of an employee joining the scheme. In such cases the opt-out is backdated to the joining date and all contributions refunded directly.</i> |
| <b>Notification to the Fund</b>  |  |
| Notify the Fund via the Scheme Leaver Notification <b>Form L1</b> .      | Within <b>1 month</b> of the opt-out date.<br><i>Except...where the opt-out is made within 3 months and is backdated to the start date, an <b>L1 must still be submitted</b> showing the scheme leaving date as the first date of employment.</i>                        |

## 8. Notification of Leaver

| Function / Role  | Performance Target  |
|--|---|
| <b>Leaver Notification</b>   |   |
| Notify the Fund of all scheme leavers via the individual <b>L1 Leaver Notification Form</b> , <i>(including optants-out where the member remains in employment)</i> .  | Within <b>1 month</b> of date of leaving/opt out date.  |
| As part of the L1 Leaver Notification Form, accurately determine the Final Pensionable Pay for all cases where the member had LGPS membership before 1 <sup>st</sup> April 2014.   | As part of the completion of the <b>L1</b> .  |
| <b>Retirements</b>   |   |
| Notify the Fund via Form L1 when a member is due to retire including an accurate assessment of final pay and authorisation of reason for retirement <i>(including Flexible Retirements where the member remains in employment)</i> . | <ul style="list-style-type: none"> <li>For members in receipt of <b>regular</b> pay where the employer can accurately project pay to the date of retirement, up to <b>1 month</b> prior.</li> <li>For members in receipt of <b>variable</b> pay, within <b>1 week</b> of finalising the member's last contractual pay.</li> </ul> |
| <b>Terminal Illness/Deaths</b>   |   |
| Notify the Fund of the Death of an Employee and provide Next of Kin details via Leaver Notification Form L1.   | Provide an initial notification within <b>3 working days</b> of the employer being informed of the death of the employee.   |
| <b>Advisory Note</b>   | <i>As soon as practicable following receipt of information about the terminal illness.</i>  |

|  |  |
|--|--|
| Where an employee is suffering from a <b>Terminal Illness</b> and limited life expectancy, employers should contact the Fund for guidance without delay. |  |
|--|--|

## 9. Appeals

| Function / Role  | Performance Target   |
|--|--|
| The employer's adjudicator to acknowledge and determine appeals against the employer at Stage 1 of AADP in accordance with <i>The Local Government Pension Scheme Regulations 2013</i> (Regs 74 & 75). | Acknowledgment – Immediately<br>Decision – Within 2 months of receipt of the appeal. |

## Appendix 2: The Administering Authority's Role

This section outlines the key responsibilities of Derbyshire County Council as the administering authority for Derbyshire Pension Fund and the performance standards which scheme employers and scheme members should expect. It is focussed on the key activities which involve interaction with scheme employers and/or scheme members and should not be viewed as an exhaustive list.

### A. Scheme Governance and Administration

This section details the functions which relate to overall governance and administration of the whole Fund, rather than functions that relate to individual scheme members' benefits.

#### 1. Fund Policies and Strategies

| Function/Task   | Performance target  |
|---|---|
| Publish and keep under review the <b>Pensions Administration Strategy</b> .   | To review <b>annually</b> or earlier where material changes to regulation, policy or process impacts on the Strategy, and consult with employers prior to publication.  |
| Publish, and keep under review, the Fund's <b>Governance Policy and Compliance Statement</b> .  | By <b>30 September</b> , following the year-end as part of the Fund's annual report and accounts, or within 1 month of the policy being agreed/amended by the Pensions and Investments Committee  |
| Publish, and keep under review, the Fund's <b>Funding Strategy Statement</b> .  | To be reviewed at each <b>triennial</b> valuation (or whenever there is a material change in either the policy or the Investment Strategy Statement) following consultation with scheme employers and the Fund's actuary. Revised statement to be published by <b>31 March</b> following valuation date or as required. |
| Publish the Fund's <b>Annual Statement of Accounts</b> .  | By <b>30 September</b> following the year-end as part of the Fund's annual report and accounts or following the issue of the auditor's opinion.   |
| Publish the Fund's <b>Annual Report</b> .   | By <b>30 September</b> following the year-end or following the issue of the auditor's opinion.  |
| Publish, and keep under review, the Fund's <b>Communication Policy Statement</b> .  | By <b>30 September</b> , following the year-end, as part of the Fund's annual report and accounts, or within 1 month of the policy being agreed by the Pensions and Investments Committee.  |
| Formulate and publish policies in relation to areas where the Administering Authority may exercise a <b>discretion</b> within the scheme and keep under review. | Annual Review and publish within <b>1 month</b> of any changes being agreed by the Pensions and Investments Committee.  |

#### 2. Fund Communications - Employers

| Function/Task  | Performance target                                    |
|--|---|
| Provide scheme employers with information and guidance for the Year-End Return (including where applicable, the annual spreadsheet). | No later than <b>28 February</b> before the year-end. |
| Publish and keep up to date all forms required for completion by scheme employers.   | Within <b>1 month</b> of any revision.                |

|  |  |
|--|--|
| Notify scheme employers of changes to key scheme rules.  | Within <b>1 month</b> of the change(s) coming into effect.   |
| Host meetings for all scheme employers.  | At least <b>1 per year</b> .   |
| Provide training for new scheme employers.   | All new employers invited to a training session within <b>3 months</b> of becoming a scheme employer |
| Provide an ongoing programme of refresher or subject specific training or meetings with Scheme employers.  | As required.   |
| Provision of a newsletter/briefing note to scheme employers.   | At least <b>quarterly</b> .  |
| Notify a scheme employer of issues relating to its non-compliance with performance standards.  | Within <b>1 month</b> of a performance issue becoming apparent.                                      |
| Notify a scheme employer of decisions to recover additional costs associated with the scheme employer's poor performance (including any interest that may be due). | Within <b>1 month</b> of scheme employer failure to improve performance, as agreed.                  |

### 3. Fund Communications – Scheme Members

| Function/Task  | Performance target  |
|--|---|
| Publish and keep up to date all forms required for completion by scheme members or prospective scheme members. | Within <b>1 month</b> of any revision.  |
| Issue Annual Benefit Statements to active and deferred members as at 31 March each year.                       | By <b>31 August</b> following the year-end.   |
| Arrange information sessions for scheme members.   | At least <b>1 programme</b> of sessions per year  |
| Issue Pension Saving Statements each year to scheme members who have exceeded their Annual Allowance.          | By <b>6<sup>th</sup> October</b> , subject to the scheme employer having provided all required information. |

### 4. Contributions

| Function/Task  | Performance target   |
|--|--|
| Consult with employers on the outcome of the triennial Fund valuation.                               | At least <b>2 months</b> before the issue of the final Rates and Adjustments Certificate.    |
| Issue formal valuation results to individual scheme employer following the triennial Fund Valuation. | No later than <b>1 month</b> before the issue of the final Rates and Adjustments Certificate |

|   |  |
|---|--|
| Notify new scheme employers of their contribution requirements. | Within <b>2 months</b> of joining the Fund (see Section 5 – Scheme Employer Admissions and Cessations) |
|---|--|

## 5. Scheme Employer Admissions and Cessations

| Function/Task  | Performance target  |
|--|---|
| Process the admission of new scheme employers into the Fund including signed admission agreements where required, and issuing the scheme actuary's contribution rate / allocation of assets report.                  | Within <b>2 months</b> of date joining the Fund subject to the new scheme employer providing all relevant information upon request.             |
| Arrange for all new prospective admitted bodies to undertake, to the satisfaction of the Fund, a risk assessment of the level of bond required in order to protect other scheme employers participating in the Fund. | To be completed before the body can be admitted to the Fund subject to the new scheme employer providing all relevant information upon request. |
| Undertake a review of the level of bond or indemnity required to protect other scheme employers participating in the Fund.   | <b>Annually</b> , or 3 months prior to bond expiry as necessary.  |
| Carry out valuation assessments on cessation of admission agreements or a scheme employer ceasing participation in the Fund.   | Within <b>2 months</b> of a cessation subject to the new scheme employer providing all relevant information upon request.                       |

## B. Individual Member Administration

This sections details the Administering Authority functions which specifically relate to the administration and processing of scheme member benefits from the LGPS.

### 1. General Enquiries

| Function/Task   | Performance target                         |
|---|--|
| Acknowledge or respond to written or verbal enquiries from scheme employers and scheme members or their representatives or dependents and other authorised persons. | Within 2 weeks from receipt of an enquiry. |

## 2. New Scheme Joiners and 50/50 Elections

| Function/Task  | Performance target  |
|--|---|
| Set up a new scheme joiner and provide the statutory notification to the member. | Within 1 month from receipt of correctly completed starter form from a scheme employer.   |
| Set up a new 50/50 Membership.   | Within 1 month from receipt of correctly completed 50/50 election from a scheme employer. |

## 3. Aggregation, Transfers and Estimates

| Function/Task  | Performance target  |
|--|---|
| Issue statement to scheme member relating to the aggregation of previous LGPS membership.  | Within <b>2 months</b> of receipt of all necessary information  |
| Commencement of Transfer-In requests.  | Within <b>1 month</b> of receipt of request from scheme member.   |
| Completion of Transfer-In applications.  | Information provided within <b>2 months</b> of receipt of all required information.   |
| Transfer-Out quotations issued.  | Within <b>3 months</b> of the date of request or up to 6 months if the reason for a delay is outside the Fund's control.  |
| Transfer out payments processed and notification to scheme member.   | If Transfer-Out finalised within 3 month guarantee period, payment made within <b>1 month</b> of guarantee date.  |
| CETV Estimates for divorce purposes.   | Within <b>1 month</b> of receipt of request.  |
| Provide requested estimates of benefits to employees/employers including any additional shortfall/strain costs in relation to the early payment of benefits. | <p>Within <b>2 months</b> of receiving all required information from the employer.<br/>           Note: bulk requests of more than 10 estimates per month will be subject to prior agreement between the Fund and the employer.</p> <p><i>Members may receive 1 estimate for a potential retirement date no later than 2 years ahead in any 12 month period</i></p> |

## 4. Additional Contributions

| Function/Task   | Performance target   |
|---|--|
| Notify the scheme employer of any scheme member's election to purchase additional pension contributions, including all required information to enable deductions to commence. | Within <b>2 weeks</b> of receipt of election from scheme member to meet the employer's next available payroll. |



## 5. Deferred Benefits/Refunds

| Function/Task                                | Performance target  |
|--|---|
| Deferred benefits options letter to members. | Within <b>2 months</b> of the leaving date subject to the receipt of all necessary information. |
| Process Refund payments.                     | Within <b>2 months</b> from receipt of all necessary information.                               |

## 6. Retirements/Deaths

| Function/Task   | Performance target   |
|---|--|
| Provision of retirement options letters detailing member options.   | Within <b>2 weeks</b> from receipt of all necessary information.   |
| Process of retirement benefits, including deferred benefits, for payment following receipt of a request to access benefits. | Within <b>1 month</b> of retirement date or from the receipt of all necessary information with the first pension payment made on next available payroll run. |
| Notification of death.  | Acknowledge within <b>1 week</b> of initial notification.  |
| Process of death grant for payment.   | Within <b>2 weeks</b> of receipt of all necessary documentation.   |
| Processing of beneficiaries pensions for payment.   | Within <b>2 weeks</b> of receipt of all necessary documentation.   |
| Provide payslips to scheme members in receipt of a pension.   | In March, April and May of each year and where the monthly pension amount changes by at least 1%.  |

## 7. Appeals

| Function/Task  | Performance target  |
|--|---|
| Prepare a report for the Pensions and Investments Committee to consider an appeal at Stage 2 under the Applications for the Adjudication of Disagreements Procedure (AADP) | Within <b>2 months</b> of receipt of the application, or such longer time as is required to process the application where further information or clarification is required. |
| Issue a formal letter to the appellant following the Committee considering the Stage 2 Application.  | Within <b>1 week</b> of the publication of the minutes of the Committee.  |

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**DERBYSHIRE COUNTY COUNCIL**  
**PENSIONS AND INVESTMENTS COMMITTEE**

**31 July 2019**

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

**Quarterly Pension Administration Performance Report**  
**1 April 2019 to 30 June 2019**

**1 Purpose of the Report**

To notify the Pensions and Investments Committee (the Committee) of the administration activity undertaken by the Pension Administration Team (the Team) of Derbyshire Pension Fund (the Fund), and the performance levels achieved, in the first quarter of 2019/20 (Q1).

It is to be noted that, due to the implementation of the new pension administration system (Altair) on 4<sup>th</sup> March 2019, the reporting of workload data is currently being redeveloped. Also, due to the fact that cases have been migrated to the new system, backlog reporting on long-term work tasks such as transfers and aggregations cannot commence immediately.

**2 Content**

- |   |  |
|---|--|
| 3 | Workload data                                |
|   | 3.1 Membership numbers                       |
|   | 3.2 Achievement against standards            |
|   | 3.3 Monthly contribution returns             |
|   | 3.4 New academies and admission bodies       |
|   | 3.5 Application for Adjudication of Disputes |
|   | Procedure cases                              |
| 4 | Communications                               |
| 5 | Projects                                     |

### 3 Workload data

#### 3.1 Membership numbers

| Membership        | 31 March 2019 | 30 June 2019  | Change        |
|-------------------|---------------|---------------|---------------|
| <b>Actives</b>    | 41157         | 39774         | -3.36%        |
| <b>Deferred</b>   | 31136         | 31491         | +1.14%        |
| <b>Pensioners</b> | 30024         | 30369         | +1.15%        |
| <b>Totals</b>     | <b>102317</b> | <b>101634</b> | <b>-0.67%</b> |

Table 1

The facility to report in more detail on membership movements each quarter is being developed. This will enable the accurate analysis of trends.

#### 3.2 Achievement against standards

The statutory timescales against which performance is currently measured were set by The Occupational Pension Schemes Regulations 1996. Table 2 captures performance against these targets in Q1 of 2019/20.

| Case type                | Total number of cases | Hit target | Missed target | % achieved Q1 |
|--------------------------|-----------------------|------------|---------------|---------------|
| Retirement Benefits paid | 368                   | 359        | 9             | 97.5%         |
| Death cases              | 158                   | 148        | 10            | 93.7%         |
| Transfer Out paid        | 18                    | 18         | 0             | 100%          |
| Transfer In quotes       | 23                    | 17         | 6             | 74%           |
| Transfer Out quotes      | 103                   | 97         | 6             | 94%           |
| Estimate requests        | 221                   | 211        | 10            | 95.5%         |
| Refunds paid             | 344                   | 344        | 0             | 100%          |

Table 2

The performance targets will be reviewed once the new pension administration system is fully established.

### 3.3 Monthly contribution returns

There is a statutory requirement for employers to remit contributions by the 19th of the month following deduction from payroll. Employer performance in this area during Q1 was as follows:

| Month | Total no. of returns expected | Received on time | Less than a week late | Between a week and a month late | Over a month late |
|-------|-------------------------------|------------------|-----------------------|---------------------------------|-------------------|
| April | 272                           | 256              | 10                    | 4                               | 2                 |
| May   | 272                           | 252              | 10                    | 4                               | 6                 |

**Table 3**

Due to the collation of responses a month after contributions are due, this report can only include a full set of figures from the first two months of Q1. A late contribution return represents a statutory breach and each case is recorded. Where remedial efforts, including charging, are not successful in improving employer performance, this evidence will be used in support of the submission of a report to The Pension Regulator.

### 3.4 New academies and admission bodies

Thirteen new academies joined the Fund as scheme employers during Q1, as follows;

| New Academy                        | Academy Trust               | New Scheme Employer From |
|------------------------------------|-----------------------------|--------------------------|
| Chellaston Junior School           | Peak Multi Academy Trust    | 01/04/2019               |
| Chellaston Infant School           |                             |                          |
| Portway Junior School              | Odyssey Collaborative Trust |                          |
| Cherry Tree Hill Primary School    |                             |                          |
| Beaufort Community Primary School  |                             |                          |
| Holme Hall Primary School          | The Learners' Trust         | 01/05/2019               |
| Brookfield Primary School          |                             |                          |
| Richardson Endowed Primary School  | Embark Multi-Academy Trust  | 01/06/2019               |
| Woodthorpe CofE Primary School     | DDAT                        |                          |
| Ashgate Croft School               | The Learners' Trust         |                          |
| Old Hall Junior School             |                             |                          |
| Walton Holymoorside Primary School |                             |                          |
| Westfield Infant School            |                             |                          |

**Table 4**

Four new admission bodies also joined the Fund in Q1, as follows;

| New Employer           | Ceding Employer   | Type of contract | TUPE date  |
|------------------------|---|------------------|------------|
| Caterlink Ltd          | De Ferrer's Trust ,<br>Granville (Part 2)   | Catering         | 01/04/2019 |
| Parkwood (Lex Leisure) | High Peak Borough Council ( 2 <sup>nd</sup> stage<br>TUPE from Places for People) | Leisure Services | 01/04/2019 |
| Mellor's               | Two Counties Trust<br>(Wilsthorne, Frederick Gents & Heritage)                    | Catering         | 13/04/2019 |
| Express Cleaners       | Aldern House (Peak Park)  | Cleaning         | 06/05/2019 |

Table 5

### 3.5 Application for Adjudication of Disputes Procedure (AADP) update – progress on disputes involving the administering authority

There were no AADP cases presented to Pensions and Investment Committee for consideration during Q1.

## 4 Communications

### 4.1 Employer Newsletters

Two Newsletters were issued to employing authorities in Q1. Employer Newsletter 161 was issued in April 2019 and included information on the new scheme year 2019/2020, as well as reminders about revising employer discretions policies and submitting the year end return. Employer Newsletter 162 was issued in May 2019 and brought employers' attention to the exit payment cap consultation, the availability of assistance from the Fund with respect to the efficient provision of employer data, and a vacancy on the Pension Board.

### 4.2 Further written communications with employers during Q1 included;

- Employer risk profiling exercise 22/05/2019
- Briefing regarding the McCloud case 25/05/2019
- Further briefing on accounting requirements 07/06/2019
- Employer risk profiling reminders 19/06/2019
- Update regarding McCloud case 28/06/2019

#### 4.3 Employer site visits during Q1 included;

- two training sessions with new staff at Derbyshire County Council's Shared Services Centre (10<sup>th</sup> and 13<sup>th</sup> May 2019)
- a presentation with Fire Service colleagues to Fund members potentially being impacted by restructuring (7<sup>th</sup> June 2019)
- an update meeting with colleagues at the University of Derby (28<sup>th</sup> June 2019)

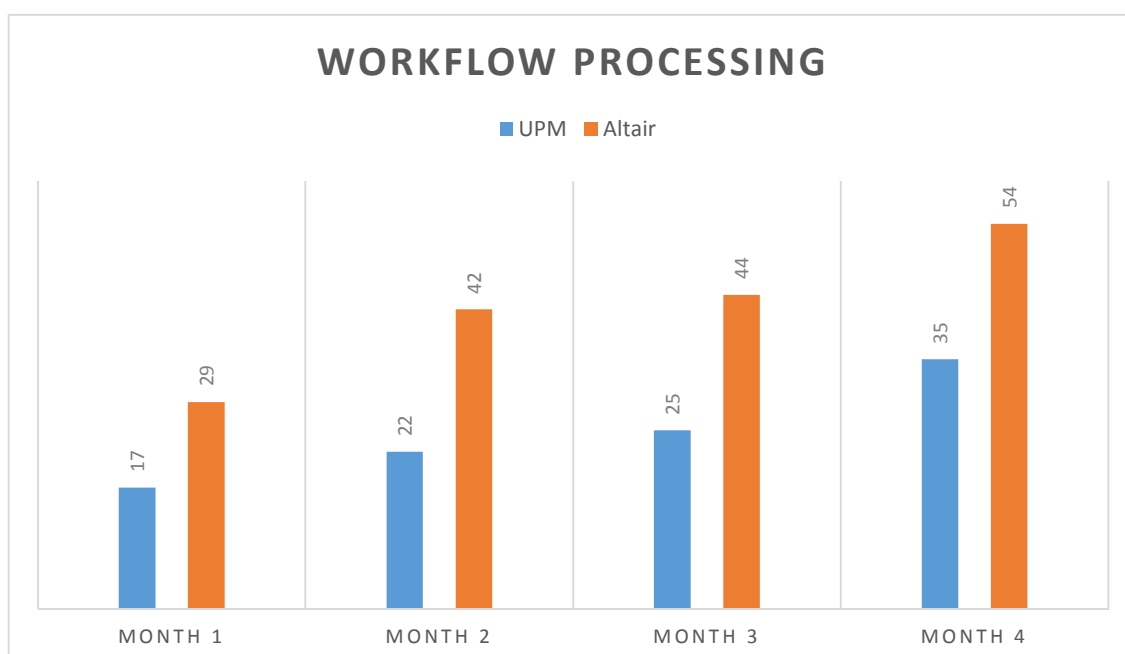
## 5 Projects

### 5.1 Replacement Pension Administration System

Activity in Q1 has been dominated by the switch to the Altair system which went live on 4<sup>th</sup> March 2019.

Data conversion and mapping difficulties were experienced by the supplier during the project, and Heywood's team continues to work with the Fund's Project Team on data cleansing and a diminishing number of 'teething troubles'.

Two Team Briefings have been held internally since 'go-live' to enable the Project Team to understand the issues being experienced by the key users and to target training and system improvements effectively. The figures in Table 6 show how much more quickly processes have been being brought on line in the months after 'go-live' than was achievable with the previous system.



**Table 6**

### 5.2 Automated Employer Data Submission and Validation Module

Planning has commenced towards the implementation and roll out of an automated monthly data submission module for use by Fund

employers. The Fund is dependent upon the receipt of prompt and accurate data from its employers to enable accurate record keeping, funding decisions and benefit calculations.

Currently, this is achieved by a number of bespoke paper, email and spreadsheet methods, and the intention is to replace this with a strategic solution that standardises, automates and validates the data received from employers each month. A further benefit of the proposed solution is that it will enable contribution reconciliation to take place monthly, thereby relieving the pressure experienced at year-end. Members will be kept updated regarding developments.

## **6 Collaboration**

Members of the Team have continued to learn, share and network with colleagues from other Funds and the wider industry at the following events during Q1;

- East Midlands Pensions Officers Group (EMPOG), Nottingham, 11<sup>th</sup> April 2019
- LGA Joint Communications Working Group, Wolverhampton, 11<sup>th</sup> April 2019
- Collaboration meeting with Leicestershire Pension Fund, Country Hall, 3<sup>rd</sup> May 2019
- Altair reporting options meeting with Staffordshire Pension Fund and South Yorkshire Pensions Authority, County Hall, 7<sup>th</sup> May 2019
- LGPS Strategic Admin Group, Stafford, 24<sup>th</sup> May 2019

## **7 Financial Considerations** None

## **8 Other Considerations**

In preparing this report the relevance of the following further factors has been considered: legal, human rights, human resources, equality and diversity, health, environmental, transport, property, value and prevention of crime and disorder.

## **9 Background Papers** None

## **10 Officer's Recommendation**

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

**Peter Handford**  
**Director of Finance and ICT**



**Agenda Item No. 4 (d)**

**DERBYSHIRE COUNTY COUNCIL  
PENSIONS AND INVESTMENTS COMMITTEE**

**31 July 2019**

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

**DERBYSHIRE PENSION FUND RISK REGISTER**

**1 Purpose of the Report**

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

**2 Information and Analysis**

The Risk Register identifies:

Risk Items

Description of risk and potential impact

Impact and Probability

Risk Mitigation Controls and Procedures

Risk Owner

Target Score

The Risk Register is kept under constant review by the risk owners, with quarterly review by the Director of Finance & ICT. A copy of both the Summary and Main Risk Registers are attached to this report as Appendix 1 and Appendix 2 respectively. Changes from the previous quarter are highlighted in blue font.

**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 includes a Target Score which shows the impact of the risk occurring once the planned risk mitigation procedures and controls have been completed. 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.

## High Risk Items

The Risk Register has the following four High Risk items:

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

## Fluctuations in assets and liabilities

There is an inevitable risk for any pension fund that assets may be insufficient to meet liabilities and funding levels fluctuate from one valuation to the next, principally reflecting external risks around both market returns and the discount rate used to value the Fund's liabilities. The Fund was 86.7% funded at 31 March 2016 and the long term target as set out in the Funding Strategy Statement is to eliminate the deficit by 2032. The Fund introduced an annual assessment of the Fund's funding position last year and a further assessment was carried out at December 2018. Whilst the Fund has a significant proportion of its assets in growth assets, the newly agreed Strategic Asset Allocation Benchmark introduced a lower exposure to growth assets with the aim of protecting the improvement in the Fund's funding level following strong market gains since the triennial valuation in March 2016. For the March 2019 valuation, the Fund's actuary has indicated that assumed investment returns over the next 20 years and the likelihood of those returns being achieved will be considered when determining the discount rate to value the liabilities for the funding level. This risk based approach, rather than relating the discount rate to bond yields on a particular day, would be in line with the approach taken by the actuary to set employer contribution rates.

## LGPS Central Pool

The Fund is expected to transition the management of the majority of its investment assets to LGPS Central Limited (LGPSC), the operating company of the LGPS Central Pool (the Pool), over the next few years. Ultimately, the Fund is expected to invest via LGPSC's pooled investment vehicles. In the shorter term, the Fund has a discretionary management agreement with the company with respect to the Fund's UK equity portfolio, and advisory management agreements with respect to Japanese and Asia Pacific equities.

LGPSC is a newly formed company which launched its first investment products in April 2018. There is a risk that the investment returns delivered by the company will not meet the investment return targets against the specified benchmarks.

The Fund continues to take a meaningful role in the development of LGPSC, and has input into the design and development of the company's product

offering to ensure that it will allow the Fund to implement its investment strategy. The company's manager selection process is scrutinized by the Partner Funds and the Fund will initially 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's discretionary and advisory mandates are reviewed and monitored internally; quarterly update meetings are held with the relevant managers within LGPSC.

### **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. On 27 June 19, the Supreme Court denied the Government permission to appeal the judgement in the case. The Chief Secretary to the Treasury subsequently announced on 15 July 19 that the Government respects the Court's decision and will fully engage with the Employment Tribunal to agree how the discrimination will be remedied; she also announced that remedies relating to the McCloud judgement will need to be made in relation to all public service schemes. It is anticipated that any remedy would be backdated to the commencement of transitional protection (April 2014 in the case of LGPS).

When the LGPS benefit structure was reformed in 2014, transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2014 by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received under the previous benefit structure. The 'underpin' ensures that these members do not lose out from the introduction of the new scheme, by effectively giving them the better of the benefits from the old and new schemes.

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

Quantifying the impact of the judgement at this stage is very difficult because it will depend on the compensation awarded, members' future salary increases, length of service and retirement age, and whether (and when) members withdraw from active service. The Government Actuary's Department (GAD) has estimated that the impact for the LGPS as a whole

could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions.

The Fund's actuary has adjusted GAD's estimate to better reflect Derbyshire Pension Fund's local assumptions. The revised estimate as it applies to the Fund is that total liabilities (i.e. the increase in active members' liabilities expressed in terms of the employer's total membership) could be around 0.4% higher as at 31 March 2019, an increase of approximately £26.7m. These numbers are high level estimates and depend on several key assumptions. The impact on employers' funding arrangements is expected be damped by the funding arrangements they have in place, however it is likely there will be unavoidable upward pressure on contributions in future years.

For cost cap changes, the Government has stated its intention to apply these from April 2019. The LGPS Scheme Advisory Board (SAB) announced a pause in the cost cap management process pending the outcome of the case. The SAB said it may resubmit the existing proposals or review the package, taking into account the cost of any remedy resulting from the McCloud case and the impact of backdating.

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 funding risk relates to the risk of there being insufficient assets within the Fund to meet the increased liabilities. The 2019 valuation is likely to be based on the current scheme benefit structure and contribution rates may need to be revisited once the McCloud/cost cap uncertainty is resolved. In the short term, the impact of this uncertainty is greatest for exit payments and credits as at a cessation event, the cost of benefits is crystallised. The Fund will determine how this uncertainty should be dealt with from a funding point of view in conjunction with the Fund's actuary. A clear approach will be set out in the Fund's Funding Strategy Statement (FSS); employers will be consulted on the FSS.

The administration risk relates to the enormous challenge that would be faced by administering authorities and employers in potentially backdating scheme changes over such a significant period; this risk has been recognised by SAB. The Fund will continue to keep up date with news related to this issue from the Scheme Advisory Board, the Local Government Association, the Government Actuary's Department and the Fund's actuary.

## **New & Removed Items**

Risk No. 32, the impact of the McCloud judgement on funding, as detailed above, has been added to the Risk Register. No items have been removed from the Risk Register.

### **3 Other Considerations**

In preparing this report the relevance of the following factors have been considered: financial, legal and human rights, human resources, equality and diversity, health, environmental, transport, property, and prevention of crime and disorder.

### **4 Officer's Recommendation**

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

PETER HANDFORD  
Director of Finance & ICT

Derbyshire Pension Fund Risk Register

Date Last Updated21-Jul-19

|   |
|---|
| 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 the planned risk mitigations and controls have been completed.                            |

Summary of Risk Scores Greater Than Eight

| Risk Ranking | Main Risk Register No | Identification          |  |
|--------------|-----------------------|-------------------------|--|
|              |                       | Risk Area               | High Level Risk  |
| 1            | 15                    | Funding & Investments   | Fund assets insufficient to meet liabilities / Decline in funding level/Fluctuations in assets & liabilities.  |
| 2            | 25                    | Funding & Investments   | LGPS Central related underperformance  |
| 3            | 32                    | Funding & Investments   | Impact of McCloud judgement on funding   |
| 4            | 40                    | Pensions Administration | Impact of McCloud judgement on administration  |
| 5            | 2                     | Governance & Strategy   | PIC / Pension Board members lack of knowledge & understanding of their role & responsibilities leading to inappropriate decisions  |
| 6            | 13                    | Governance & Strategy   | Failure to comply with General Data Protection Regulations (GDPR)  |
| 7            | 14                    | Governance & Strategy   | Failure to communicate with stakeholders   |
| 8            | 18                    | Funding & Investments   | Strength of covenant of new/existing employers   |
| 9            | 26                    | Funding & Investments   | The impact of the EU referendum results in high levels of market volatility or regulatory changes  |
| 10           | 34                    | Pensions Administration | Failure of pensions administration systems to meet service requirements / Information not provided to stakeholders as required   |
| 11           | 11                    | Governance & Strategy   | Systems failure/Lack of disaster recovery plan/Cyber attack  |
| 12           | 16                    | Funding & Investments   | Mismatch between liability profile and asset allocation policy   |
| 13           | 17                    | Funding & Investments   | An inappropriate investment strategy is adopted / Investment strategy not consistent with Funding Strategy Statement / Failure to implement adopted strategy and PIC recommendations |
| 14           | 21                    | Funding & Investments   | The LGPS Central investment offering is insufficient to allow the Fund to implement its agreed investment strategy   |
| 15           | 22                    | Funding & Investments   | The Fund is left with insufficient investment skills and experience post the launch of LGPS Central in April 2018 / Over reliance on key employees within Investment Section         |
| 16           | 23                    | 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  |
| 17           | 24                    | Funding & Investments   | LGPS Central fails to deliver the planned level of long term cost savings and performance levels deteriorate   |
| 18           | 35                    | Pensions Administration | Cyber-Liability Insurance relating to the pensions administration system   |

Appendix 1

| Risk Assessment | Impact        | Probability    |
|-----------------|---------------|----------------|
| Level 1         | Insignificant | Rare           |
| Level 2         | Minor         | Unlikely       |
| Level 3         | Moderate      | Moderate       |
| Level 4         | Major         | Likely         |
| Level 5         | Catastrophic  | Almost certain |

|                     |                           |
|---------------------|---------------------------|
| Officer Risk Owners |                           |
| DoF                 | Director of Finance & ICT |
| HoP                 | Head of Pensions          |
| PM                  | Pensions Manager          |
| IM                  | Investments Manager       |

|                        |    |
|------------------------|----|
| Summary of Risk Scores |    |
| Low Risk               | 7  |
| Medium Risk            | 29 |
| High Risk              | 4  |
| Total Risks            | 40 |

Risk Score  
0 - 4  
5 - 11  
12 and above

Low Risk  
Medium Risk  
High Risk

| Current score |             |               |
|---------------|-------------|---------------|
| Impact        | Probability | Current Score |
| 4             | 3           | 12            |
| 4             | 3           | 12            |
| 3             | 4           | 12            |
| 3             | 4           | 12            |
| 3             | 3           | 9             |
| 3             | 3           | 9             |
| 3             | 3           | 9             |
| 3             | 3           | 9             |
| 3             | 3           | 9             |
| 3             | 3           | 9             |
| 4             | 2           | 8             |
| 4             | 2           | 8             |
| 4             | 2           | 8             |
| 4             | 2           | 8             |
| 4             | 2           | 8             |
| 4             | 2           | 8             |
| 4             | 2           | 8             |
| 4             | 2           | 8             |

| Target Score |        |             |              |                           | Previous Score |
|--------------|--------|-------------|--------------|---------------------------|----------------|
| Risk Owner   | Impact | Probability | Target Score | Actual Minus Target Score |                |
| DoF/HoP/IM   | 4      | 2           | 8            | 4                         | 12             |
| DoF/HoP/IM   | 4      | 2           | 8            | 4                         | 12             |
| DoF/HoP/IM   | 3      | 3           | 9            | 3                         | New            |
| HoP/PM       | 2      | 4           | 8            | 4                         | 12             |
| DoF/HoP      | 3      | 2           | 6            | 3                         | 9              |
| DoF/HoP/IM   | 3      | 2           | 6            | 3                         | 8              |
| HoP/PM/IM    | 3      | 2           | 6            | 3                         | 9              |
| HoP/PM       | 3      | 2           | 6            | 3                         | 9              |
| DoF/HoP      | 3      | 2           | 6            | 3                         | 9              |
| PM           | 3      | 1           | 3            | 6                         | 9              |
| Hop/PM/IM    | 4      | 1           | 4            | 4                         | 8              |
| DoF/HoP/IM   | 4      | 2           | 8            | 0                         | 8              |
| DoF/HoP/IM   | 4      | 2           | 8            | 0                         | 8              |
| DoF/HoP/IM   | 4      | 1           | 4            | 4                         | 8              |
| DoF/HoP      | 4      | 2           | 8            | 0                         | 8              |
| HoP/IM       | 4      | 1           | 4            | 4                         | 8              |
| DoF/HoP/IM   | 4      | 2           | 8            | 0                         | 8              |
| HoP/PM       | 4      | 2           | 8            | 0                         | 8              |

Date Last Updated21-Jul-19

| Risk Number | Description     |  | Current score |             |               | Risk Mitigation Controls & Procedures |          |            | Target Score |             |              |                           |
|-------------|-----------------|--|---------------|-------------|---------------|---------------------------------------|----------|------------|--------------|-------------|--------------|---------------------------|
|             | High Level Risk | Description of risk and potential impact | Impact        | Probability | Current Score | Current                               | Proposed | Risk Owner | Impact       | Probability | Target Score | Actual Minus Target Score |

Governance & Strategy

|   |   |  |   |   |   |  |   |               |   |   |   |   |
|---|---|--|---|---|---|--|---|---------------|---|---|---|---|
| 1 | Failure to comply with regulatory requirements  | Failure to match-up to recommended best practice leads to reputational damage, loss of employer confidence or official sanction.                       | 4 | 1 | 4 | DPF maintains current PIC approved versions of a Governance Policy & Compliance Statement, Voting Policy, Communications Policy and Investment Strategy Statement (ISS) / Governance framework includes PIC and Pension Board / Appointment of third party advisor and actuary / Annual Report and Accounts mapped to CIPFA guidance / Fund membership of LAPFF / Internal and External Audit / Member training programme. | Regular review / Create central log of governance policy statements for the whole Fund.   | DoF/HoP       | 4 | 1 | 4 | 0 |
| 2 | PIC / Pension Board members lack of knowledge & understanding of their role & responsibilities leading to inappropriate decisions | Change of membership, lack of adequate training, poor strategic advice from Officers & external advisors leads to inappropriate decisions being taken. | 3 | 3 | 9 | Implementation of Member Training Programme / Attendance at LGA training program / Advice from Fund Officers & external advisors.  | On-going roll out of Member Training Programme in line with CIPFA guidance.   | PIC/DoF/HoP   | 3 | 2 | 6 | 3 |
| 3 | An effective investment performance management framework is not in place  | Poor investment performance goes undetected / unresolved.  | 3 | 2 | 6 | PIC training / Quarterly Committee reports / External Performance Measurement / Pension Board / My Plan Reviews.   |   | DoF/HoP/IM    | 3 | 2 | 6 | 0 |
| 4 | An effective pensions administration performance management framework is not in place   | Poor pensions administration performance / service goes undetected / unresolved.   | 3 | 2 | 6 | PIC training / Quarterly pension administration KPI reporting in line with Disclosure Regulations reviewed by PIC and DoF / My Plan Reviews.   | Performance benchmarks to be reviewed <a href="#">once</a> the new pension administration system <a href="#">is fully established</a> .   | DoF/HoP/PM    | 3 | 2 | 6 | 0 |
| 5 | An effective PIC performance management framework is not in place   | Poor PIC performance goes undetected / unresolved.   | 3 | 2 | 6 | Defined Terms of Reference / PIC training / Support from suitably qualified Officers and external advisors / Monitoring off effectiveness of PIC by Pension Board.   |   | DoF/HoP/PM/IM | 3 | 2 | 6 | 0 |
| 6 | Failure to identify and disclose conflicts of interest  | Inappropriate decisions for personal gain.   | 3 | 1 | 3 | Members Declaration of Interests / Officer conflict of interest declarations in respect of investment pooling / Officer disclosure of personal dealing and hospitality.  | Investment Compliance being incorporated in updated Procedures Manual. <a href="#">Conflicts of Interest Policy to be taken to PIC for approval, includes procedures to cover members of the Pension Board.</a> | DoF/HoP       | 3 | 1 | 3 | 0 |
| 7 | Failure to identify and manage risk   | Failure to prepare and maintain an appropriate risk register results in poor planning,. financial loss and reputational damage.                        | 3 | 2 | 6 | Risk Register maintained and reported to PIC and PB on a quarterly basis.  |   | DoF/HoP/PM/IM | 3 | 2 | 6 | 0 |
| 8 | Pension Fund financial systems not accurately maintained / Member or Officer fraud  | Member or Officer fraud, financial loss and reputational damage.   | 3 | 2 | 6 | Creation and documentation of Internal controls; internal/external audit; FSA regulation; monthly key control account reconciliations; on-going training & CIPFA updates.  | Updating Procedures Manual.   | DoF/HoP       | 3 | 1 | 3 | 3 |

| Risk Number | Description   |   | Current score |             |               | Risk Mitigation Controls & Procedures   |  |            | Target Score |             |              |                           |
|-------------|---|---|---------------|-------------|---------------|---|--|------------|--------------|-------------|--------------|---------------------------|
|             | High Level Risk   | Description of risk and potential impact  | Impact        | Probability | Current Score | Current   | Proposed   | Risk Owner | Impact       | Probability | Target Score | Actual Minus Target Score |
| 9           | Pension Fund accounts not properly maintained   | Unfavourable audit opinion, financial loss, loss of stakeholder confidence and reputational damage. | 3             | 2           | 6             | 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.  |  | DoF/HoP    | 3            | 2           | 6            | 0                         |
| 10          | Lack of robust procurement processes leads to poor supplier selection and legal challenge | Breach of Council Financial Regulations & Reputational damage.                                      | 3             | 1           | 3             | Database of external contracts maintained / Compliance with Financial Regulations / Procurement due diligence / Procurement advice.   | Quarterly review of all contracts.   | DoF/HoP    | 3            | 1           | 3            | 0                         |
| 11          | Systems failure / Lack of disaster recovery plan / Cyber attack                           | Service failure, loss of sensitive data, financial loss and reputational damage.                    | 4             | 2           | 8             | Robust system maintenance / Password restricted to IT systems / IGG Compliance / Business continuity plan.  |  | HoP/PM/IM  | 4            | 1           | 4            | 4                         |
| 12          | Failure to comply with The Pensions Regulator (TPR) governance requirements               | TPR breaches result in fines, other sanctions and reputational damage.                              | 3             | 2           | 6             | Dedicated in-house resource responsible for ensuring compliance   | Continue to develop O62and maintain resilience in the in-house team.   | PM         | 3            | 1           | 3            | 3                         |
| 13          | Failure to comply with General Data Protection Regulations (GDPR)                         | Breaches in data security requirements could result in reputational damage and significant fines.   | 3             | 3           | 9             | Privacy Notices and Memorandum of Understanding completed and published. GDPR Plan completed. GDPR requirements included in the Data Improvement Plan. Document Retention Schedule review completed.  | Quarterly monitoring of GDPR Implementation Plan.  | HoP/PM/IM  | 3            | 2           | 6            | 3                         |
| 14          | Failure to communicate with stakeholders  | Employers unaware of requirements / Employees unaware of benefits.                                  | 3             | 3           | 9             | Communications Policy Statement reviewed and revised in May 2019. Stakeholders receive information and guidance in line with best practice discussed at the national LGPS Comms Forum, delivered by a fully resourced, specialist team. New website and branding from October 2018 helps stakeholders to be clear about the role of the Fund. | Stage 2 of the development of the DPF website will include interactive functionality and access to ABSs and monthly pay information. Registration will enable Fund members to access more information to improve their general understanding and support them with pension planning. | HoP/PM/IM  | 3            | 2           | 6            | 3                         |

## Funding & Investments

|    |  |   |   |   |    |   |  |            |   |   |   |   |
|----|--|---|---|---|----|---|--|------------|---|---|---|---|
| 15 | 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). | 4 | 3 | 12 | Actuarial valuations and determination of actuarial assumptions / Funding Strategy Statement / Annual Assessment / Setting of contribution rates / Asset Allocation Reviews / ISS / Monitoring of investment managers' performance / Maintenance of key Policies on ill health's, early retirements, etc. | Implementation of the Fund's new Strategic Asset Allocation Benchmark which aims to reduce investment risk following the recent improvement in the Fund's funding level. | DoF/HoP/IM | 4 | 2 | 8 | 4 |
| 16 | Mismatch between liability profile and asset allocation policy   | Inaccurate forecast of liabilities / Inappropriate Strategy.  | 4 | 2 | 8  | Actuarial reviews / Funding Strategy Statements / Annual Assessment / Review by PIC / ISS / Asset Allocation Reviews / Cash flow forecasting.   |  | DoF/HoP/IM | 4 | 2 | 8 | 0 |
| 17 | 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 strategy / monitor application of strategy.  | 4 | 2 | 8  | Strategy takes into account Fund's liabilities / ISS set in line with LGPS Regulations / ISS reviewed and agreed by PIC / Quarterly review of asset allocation strategy by PIC / PIC receives advise from Fund Officers and external advisor.   |  | DoF/HoP/IM | 4 | 2 | 8 | 0 |



| Risk Number | Description  |  |
|-------------|--|--|
|             | High Level Risk  | Description of risk and potential impact   |
| 18          | Covenant of new/existing employers   | Failure to agree, review and renew employer guarantees and bonds, risk of wind-up or cessation of scheme employer with an unpaid funding deficit.  |
| 19          | Unaffordable rise in employers' contributions  | Employer contribution rates unacceptable.  |
| 20          | Employer contributions not received and accounted for on time  | Adverse audit opinion / Delays to year end accounts.   |
| 21          | The LGPS Central investment offering is insufficient to allow the Fund to implement its agreed investment strategy   | Failure to provide sufficient and appropriate product categories results in a financial loss.  |
| 22          | The Fund is left with insufficient investment skills and experience post the launch of LGPS Central in April 2018 / Over reliance on key employees within Investment Section | Inappropriate decision making.   |
| 23          | The transition of the Funds assets into LGPS Central'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.  |
| 24          | LGPS Central fails to deliver the planned level of long term cost savings  | LGPS Central 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. |

| Current score |             |               | Risk Mitigation Controls & Procedures  |   |            | Target Score |             |              |                           |
|---------------|-------------|---------------|--|---|------------|--------------|-------------|--------------|---------------------------|
| Impact        | Probability | Current Score | Current  | Proposed  | Risk Owner | Impact       | Probability | Target Score | Actual Minus Target Score |
| 3             | 3           | 9             | Employer database holds employer details, including bond review dates. Becomes an annual check of employer issues. A new post has been established to have specific responsibility for employer liaison. Commenced contacting existing employer where bond or guarantor arrangement has lapsed, to renew arrangements. Four members of the team attended an employer covenant training session run by Eversheds. Closer liaison with other Funds on this matter. | Processes are being developed to ensure that new contractors are aware of potential LGPS costs at an early stage. Employer Risk Management Framework is being developed.  | HoP/PM     | 3            | 2           | 6            | 3                         |
| 3             | 2           | 6             | Consideration of employer covenant strength / scope for flexibility in actuarial proposals.  |   | DoF/HoP/PM | 3            | 2           | 6            | 0                         |
| 3             | 1           | 3             | Monitoring within Pensions Section / Disclosure in quarterly pensions administration performance report / the development and publication of a late payment charging policy.   | The late payment charging policy is being applied to underperforming employers and the changes levied will be disclosed via P&IC Reports and Employer Newsletters.  | PM         | 3            | 1           | 3            | 0                         |
| 4             | 2           | 8             | 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.   | 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. | DoF/HoP/IM | 4            | 1           | 4            | 4                         |
| 4             | 2           | 8             | Staffing assessment post launch of LGPS Central completed by DoF & ICT and positions now recruited.  | Recruit vacant positions in respect of Assistant Fund Manager and Business Services Assistant.  | DoF/HoP    | 4            | 2           | 8            | 0                         |
| 4             | 2           | 8             | 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.  | Update control procedures now that LGPS Central has been launched and reporting structures have been established. 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 Co.  | HoP/IM     | 4            | 1           | 4            | 4                         |
| 4             | 2           | 8             | Review and challenge annual budget and changes to key assumptions / Review, challenge and validate LGPS Central product business cases / Establish quarterly monitoring reporting procedures including how cost savings are to be quantified and reported back to the Partner Funds / Reconcile charged costs to the agreed cost sharing principles / Terms of Reference agreed for PAF, Shareholders Forum and Joint Committee.                                 | Update control procedures now that LGPS Central has been launched and reporting structures have been established. 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 and the Shareholders' Forum.   | DoF/HoP/IM | 4            | 2           | 8            | 0                         |

| Risk Number | Description  |  |
|-------------|--|--|
|             | High Level Risk  | Description of risk and potential impact   |
| 25          | LGPS Central related underperformance of investment returns  | LGPS Central related underperformance of investment returns - failure to meet investment return targets against specified benchmarks.  |
| 26          | The impact of the EU referendum results in high levels of market volatility or regulatory changes  | Failure to identify and mitigate key risks caused by outcome of EU Referendum vote.  |
| 27          | Maintain liquidity in order to meet projected cash flows   | Financial loss from inappropriate sale of assets to generate cash flow.  |
| 28          | 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. |
| 29          | Inadequate delivery and reporting of performance delivery by Internal & External Investment Managers   | Expected investment returns not achieved.  |
| 30          | Investments made in complex inappropriate products and or unauthorised deals   | Loss of return/assets.   |
| 31          | Custody arrangements are insufficient to safeguard the Funds investment assets   | Loss of return/assets.   |

| Current score |             |               | Risk Mitigation Controls & Procedures  |  |            | Target Score |             |              |                           |
|---------------|-------------|---------------|--|--|------------|--------------|-------------|--------------|---------------------------|
| Impact        | Probability | Current Score | Current  | Proposed   | Risk Owner | Impact       | Probability | Target Score | Actual Minus Target Score |
| 4             | 3           | 12            | Continuing to take a meaningful role in the development of LGPS Central / On-going HoP/IM involvement in design and development of the LGPS Central product offering and mapping to the Fund's investment strategy / Quarterly performance monitoring reviews at both a DPF and Joint Committee level. 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 build in the manager selection skills of the company. | Ensure the Partner Funds priorities for determining the sub-fund launch timetable listed under 21. are regularly assessed and applied.         | DoF/HoP/IM | 4            | 2           | 8            | 4                         |
| 3             | 3           | 9             | Continual monitoring of asset allocation and performance by investment staff and quarterly monitoring by PIC. There are no proposed or imminent amendments to the proposed LGPS Investment Pooling as a result of the EU Referendum vote.  | Monitor regulatory changes and continually monitor asset allocation.   | DoF/HoP/IM | 3            | 2           | 6            | 3                         |
| 3             | 2           | 6             | Cash Flow forecasting.   |  | HoP/IM     | 3            | 2           | 6            | 0                         |
| 4             | 1           | 4             | Opt-up process complete; no issues identified.   | Monitor ability to maintain opt-up status.   | HoP/IM     | 4            | 1           | 4            | 0                         |
| 3             | 2           | 6             | Rigorous manager selection / Quarterly PIC performance monitoring / Asset class performance reported to PIC / Internal Investments Manager performance reviewed by HoP / My Plan reviews.  | Updating the Investment Compliance Manual & Procedures Manual.   | HoP/IM     | 3            | 2           | 6            | 0                         |
| 4             | 1           | 4             | Clear mandate for Internal and External Investment Managers / Compliance Manual / HoP signs off all new investment / PIC approval required for unquoted investments in excess of £25m / PIC quarterly reports / On-going staff training and CPD / My Plans.  | Updating Investment Compliance Manual & Procedures Manual / Establishment of LGPS Central should improve investment management sustainability. | HoP/IM     | 4            | 1           | 4            | 0                         |
| 4             | 1           | 4             | Regular internal reconciliations to check custodian records / Regular review of performance / Periodic procurement exercises.  |  | HoP/IM     | 4            | 1           | 4            | 0                         |

| Risk Number | Description                            |   | Current score |             |               | Risk Mitigation Controls & Procedures   |  | Risk Owner | Target Score |             |              |                           |
|-------------|--|---|---------------|-------------|---------------|---|--|------------|--------------|-------------|--------------|---------------------------|
|             | High Level Risk                        | Description of risk and potential impact  | Impact        | Probability | Current Score | Current   | Proposed   |            | Impact       | Probability | Target Score | Actual Minus Target Score |
| 32          | Impact of McCloud judgement on funding | The LGPS Scheme Advisory Board (SAB) announced a pause in the cost cap process for the LGPS pending the outcome of the McCloud case (transitional protections). On 27th June 19, the Supreme Court denied the Government permission to appeal the judgement in the case. The Chief Secretary to the Treasury announced on 15th July 19 that the government respects the Court's decision and will fully engage with the Employment Tribunal to agree how the discrimination will be remedied; she also announced that remedies relating to the McCloud judgement will need to be made in relation to all public service schemes. It is anticipated that any remedy would be backdated to the commencement of transitional protections (April 2014 in the case of LGPS). For cost cap changes the Government has stated its intention to apply these from April 2019. There is, therefore, uncertainty regarding the level of benefits earned by members from 1st April 14. The remedy and subsequent effect on LGPS benefits might not be known for some time. Quantifying the potential impact of the judgement at this stage is very difficult. The funding risk relates to the risk of there being insufficient assets within the Fund to meet the increased liabilities. The 2019 valuation is likely to be based on the current benefit structure. Contribution rates may need to be revisited once the McCloud/cost cap uncertainty is resolved. In the short term, the impact of this uncertainty is greatest for exit payments and credits as at a cessation event, the cost of benefits is crystallised. | 3             | 4           | 12            | Keeping up to date with news from the Scheme Advisory Board, the LGA, the Government Actuary's Department and the Fund's Actuary. The Actuary has made an estimate of the potential impact of the judgement on the Fund's liabilities. The Government Actuary's Department (GAD) has estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. The Fund's actuary has adjusted GAD's estimate to better reflect the Derbyshire's Funds local assumptions, particularly salary increases and withdrawal rates. The revised estimate as it applies to the Derbyshire Pension Fund is that total liabilities (i.e. the increase in active members' liabilities expressed in terms of the employer's total membership) could be around 0.4% higher as at 31 March 2019, an increase of approximately £26.7m. | Determine, in conjunction with the Actuary, how the uncertainty surrounding this judgement will be dealt with in the Funding Strategy - particularly with regards to cessation events. Set out the Fund's planned approach in the Funding Strategy Statement and consult and communicate clearly with employers on the matter. | HOP/PM     | 3            | 3           | 9            | 3                         |

Pensions Administration

|    |  |   |   |   |   |  |   |        |   |   |   |   |
|----|--|---|---|---|---|--|---|--------|---|---|---|---|
| 33 | Failure to adhere to HMRC / LGPS regulations   | LGPS benefits calculated and paid inaccurately and / or late.   | 3 | 2 | 6 | Management processes, calculation checking, dedicated technical and training resource, working with the LGA and other Pension Funds re accurate interpretation of legislation, implemented more robust pensions administration system in March 19. | Increased collaboration, <a href="#">make arrangements with Legal Services for a dedicated Pension Fund Legal Support Officer. Investigate LGPS legislation databases.</a>  | PM     | 3 | 1 | 3 | 3 |
| 34 | Failure of pensions administration systems to meet service requirements / Information not provided to stakeholders as required | Replacement pensions administration system leads to implementation related work backlogs, diminished performance and complaints.  | 3 | 3 | 9 | Dedicated Project Team continuing to test calculations, develop process solutions and arrange training for operators.  | Options for enhancing the new system's reporting functionality are under considerations with a view to achieving a 'steady state' by September 19.  | PM     | 3 | 1 | 3 | 6 |
| 35 | Insufficient cyber-Liability Insurance relating to the pensions administration system  | The contract with the system supplier limits a cyber liability claim to £2m, with a further £3m of cover provided through DCC's insurance arrangements. A catastrophic breach where scheme members' data is used fraudulently could lead to a claim in excess of the insurance cover. | 4 | 2 | 8 | DCC Internal Audit has carried out detailed testing of the supplier's data security arrangements. Combined DCC liability insurance of £5m.   | Ongoing feedback to the new supplier on the level of supplier liability insurance.  | HoP/PM | 4 | 2 | 8 | 0 |
| 36 | Data quality inadequate  | Incorrect benefit calculations, inaccurate information for funding purposes.  | 3 | 2 | 6 | Manipulate data for valuation and accounting returns, apply current and short term measures in the Data Improvement Plan.  | <a href="#">Continue to cleanse data further following migration</a> to the replacement administration system; apply longer term measures in the Data Improvement Plan. <a href="#">Commission Heywood to report on accuracy of common and conditional data held.</a> | PM     | 3 | 2 | 6 | 0 |
| 37 | Delayed Annual Benefit Statements and or Pension Savings Statements (also know as Annual Allowance)                            | Possible delays caused by late employer returns, systems bulk processing issues and lack of resource / Reputational damage.   | 3 | 2 | 6 | 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.                           | Continue work with employers to ensure better data quality, complete address checking exercise and reduce additional backlogs caused by migration.  | PM     | 3 | 1 | 3 | 3 |

| Risk Number | Description   |  | Current score |             |               | Risk Mitigation Controls & Procedures   |   | Risk Owner | Target Score |             |              |                           |
|-------------|---|--|---------------|-------------|---------------|---|---|------------|--------------|-------------|--------------|---------------------------|
|             | High Level Risk   | Description of risk and potential impact   | Impact        | Probability | Current Score | Current   | Proposed  |            | Impact       | Probability | Target Score | Actual Minus Target Score |
| 38          | Failure to recruit and retain suitable staff / Over-reliance on key staff due | Inadequate benefits package / remote location / lack of succession planning.   | 2             | 3           | 6             | Knowledge sharing / Targeted internal training sessions / Regular My Plan reviews / the development of more resilient structures / work with the LGA to develop their training. | Ensure the replacement system automates the majority of the calculations to reduce the burden on specialist staff. New Staff Development group considering staff training/development needs. Also considering staff rotation further to the implementation of the replacement pensions administration system. | PM         | 2            | 2           | 4            | 2                         |
| 39          | Insufficient technical knowledge  | Failure to recruit, retain, develop, train suitably knowledgeable staff.   | 3             | 2           | 6             | Updates from LGE/CLG Pensions Office meetings Quarterly EMPOG meetings/On-site training events.   | Skills gap audit / formal training programme / new Staff Development group/My Plan reviews.   | PM         | 3            | 2           | 6            | 0                         |
| 40          | Impact of McCloud judgement on administration                                 | The LGPS Scheme Advisory Board (SAB) announced a pause in the cost cap process for the LGPS pending the outcome of the McCloud case (transitional protections). On 27th June 19, the Supreme Court denied the Government permission to appeal the judgement in the case. The Chief Secretary to the Treasury announced on 15th July 19 that the government respects the Court's decision and will fully engage with the Employment Tribunal to agree how the discrimination will be remedied; she also announced that remedies relating to the McCloud judgement will need to be made in relation to all public service schemes. It is anticipated that any remedy would be backdated to the commencement of transitional protections (April 2014 in the case of LGPS). For cost cap changes the Government has stated it intention to apply these from April 2019. There is, therefore, uncertainty regarding the level of benefits earned by members from 1st April 14. The remedy and subsequent effect on LGPS benefits might not be known for some time. SAB recognises the enormous challenge that could be faced by administering authorities and employers in potentially backdating scheme changes over a significant period. | 3             | 4           | 12            | Keeping up to date with news from the Scheme Advisory Board, the LGA, the Government Actuary's Department and the Fund's Actuary.   | Formulate a plan of how to deal with any scheme changes as soon as the relevant details are known.  | HOP/PM     | 2            | 4           | 8            | 4                         |

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**Agenda Item No 4 (e)**

**DERBYSHIRE COUNTY COUNCIL**  
**PENSIONS AND INVESTMENTS COMMITTEE**

**31 July 2019**

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

**LGPS CENTRAL JOINT COMMITTEE MEETING**

**1 Purpose of the Report**

To note the items that were considered at the recent LGPS Central Joint Committee Meeting.

**2 Information and Analysis**

A meeting of the Joint Committee of the LGPS Central Pool was held in Nottingham on 21 June 2019. The Vice Chair of the Pensions and Investments Committee represented Derbyshire at the meeting.

The Joint Committee is a public forum for the Councils within the LGPS Central Pool to provide oversight of the delivery of the objectives of the Pool, the delivery of client services, the delivery against the LGPS Central business case and to deal with common investor issues.

The agenda for the meeting is attached as Appendix 1; the other meeting papers are also attached as appendices and covered:

Minutes - Joint Committee Meeting 14<sup>th</sup> December 2018 (Appendix 2)

Procedural Matters

Joint Committee Terms of Reference (Appendix 3)

National Picture –briefing on pooling and wider LGPS developments

Practitioners' Advisory Forum Report (Appendix 4)

Pool Risk Register (Appendix 5)

Assurance Framework – presentation by Audit Working Group

LGPS Central Limited Performance/Progress Update (Appendix 6)

Cheshire West and Chester Council clerk meetings of the LGPS Central Joint Committee and all meeting papers are held on the website of Cheshire Pension Fund: <http://www.cheshirepensionfund.org/governance-of-the-cheshire-pension-fund/lgps-central-committee/>. There is a link to this page on the LGPS Central Pool section of Derbyshire Pension Fund's website.

Councillor Eric Kerry, representing Nottinghamshire County Council, was appointed as the new Chair of the Joint Committee. The outgoing Chair, Councillor Ian Brookfield has now been appointed as Leader of Wolverhampton City Council. Councillor Thomas Biggins, representing Shropshire Council, was appointed as the Vice Chair of the Committee. The Chair and Vice Chair of the Joint Committee hold the offices until the first meeting after 1 May in the following year and may be re-appointed to serve a further term or terms.

The agenda items for the Joint Committee will continue to develop as more performance data from LGPS Central Ltd and data from a new cost savings model becomes available. No recommendations were made at the meeting of the Joint Committee for consideration by the Pensions and Investments Committee.

The minutes of the LGPS Central Joint Committee meeting will be circulated to members of the Pensions and Investments Committee when they become available.

### **3 Considerations**

In preparing this report the relevance of the following factors have been considered: financial, legal and human rights, human resources, equality and diversity, health, environmental, transport, property, and prevention of crime and disorder.

### **4 Officer's Recommendation**

That the items considered at the recent meeting of the LGPS Central Joint Committee are noted.

PETER HANDFORD

Director of Finance & ICT

-      **LGPS Central Joint Committee Meeting**  
**Friday 21<sup>st</sup> June 2019 10.30 am**  
**County Hall, West Bridgford, Nottingham NG2 7QP**

**Arrival and Welcome**

1. Procedural matters

- Appointment of Chairman and Vice-Chairman
- Apologies
- Declarations of interest

2. Minutes of the last meeting – matters arising

3. Joint Committee Terms of Reference Chris Mann

4. National picture – briefing on pooling and wider LGPS developments -  
verbal update from Rachel Brothwood

5. Practitioners Advisory Forum Report Justin Bridges

6. Pool Risk Register Jill Davys

**Refreshments**

7. Assurance Framework – presentation by Internal Audit Sub-Group

8. LGPS Central Performance/Progress Update Joanne Segars & Mike Weston

**Lunch**

**Attendees:**

**Councillor Neil Atkin, (Derbyshire)**

**Councillor Peter Osborne (Leicestershire)**

**Councillor Eric Kerry (Nottinghamshire)**

**Councillor Thomas Biggins (Shropshire)**



LGPS Central Joint Committee Meeting  
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**Councillor Colin Greateorex (Staffordshire) representing Councillor Philip Atkins**

**Councillor Bob Banks (Worcestershire) representing Councillor Paul Middlebrough**

**Representation from West Midland Pension Fund to be confirmed**

**Joanne Segars – LGPS Central Ltd**

**Eithne McManus – LGPS Central Ltd**

**Mike Weston – LGPS Central Ltd**

**Callum Campbell- LGPS Central Ltd**

**For further information or advice, please contact:**

Charles Riley, Clerk to LGPS Central Joint Committee

Cheshire West and Chester Council, HQ, Nicholas Street, Chester, CH1 2NP

[charles.riley@cheshirewestandchester.gov.uk](mailto:charles.riley@cheshirewestandchester.gov.uk)

**LGPS CENTRAL JOINT COMMITTEE**  
**MINUTES OF THE MEETING HELD ON 14 December 2018**  
**Shire Hall, Abbey Foregate, Shrewsbury**

**Attending:** Councillors, Hogg, Atkin, Osborne, Kerry (Vice-Chair), Biggins, Brookfield (Chair), Inston, Banks.

**Other Attendees:**

Partner Fund representatives : Chris Mann , Rachel Howe (Clerk), Peter Handford, Chris Tambini, Rachel Brothwood , Melanie Stokes , Justin Bridges, Keith Palframan

Unison representative: Malcolm Cantello

LGPS Central Ltd (LGPSC): Joanne Segars (JS), John Burns (JB), Michael Marshall (MM)

Hermes EOS Ltd: Alice Musto (AM) and Bruce Duguid (BD)

**Item 1 - Procedural Matters**

**Apologies** - Councillors Greatorex, Atkins, Mark Wynn, Nigel Stevenson, Michael Hudson, James Walton, Andy Burns

**Declarations of Interest** – No declarations of interest were received

**Item 2 - Minutes of the last meeting (29<sup>th</sup> June 2018)**

The minutes were confirmed as a correct record.

**Matters arising**

Rachel Brothwood (RB) advised the Committee that a response from the regional branch secretaries of the North West and Midlands Trade Union Congress (TUC) regarding the nomination of a trade union representative was still awaited. The Chair confirmed that he had issued a letter encouraging their nomination, stressing the importance the Committee attached to Trade Union participation.

In the interim, Malcolm Cantello, the trade union representative from the West Midlands Pension Fund was welcomed to the meeting.

The Chair updated the Committee on the Risk Register workshop held with LGPSC earlier in the month, noting the work undertaken jointly by the Company and Partner Funds to align their respective risk registers. Further work will be

undertaken, in the light of the workshop outcomes, to refine the approach, with the final outcome being presented at the Committee's next meeting .

### **Item 3 National Picture – Briefing on pooling and wider LGPS matters**

Rachel Brothwood updated the committee on developments following the submission of LGPS Central's latest progress report to MHCLG in October. A follow up call with MHCLG and a meeting with the Minister had taken place, attended by the Chair of the Joint Committee, LGPS Central's Chair, Joanne Segars and Chief Investment Officer, Jason Fletcher; and senior officers from the Cheshire and West Midlands Pension Funds.

Feedback from the Minister on progress had been positive, he had been particularly complimentary about the spirit in which pooling is being taken forward by the Central team, and the consensual approach to decision making. The fee savings secured on the recently launched Global Equity Sub-Fund, and progress on alternatives was also noted.

The Minister recognised that changes to Partner Funds' investment strategies arising from the 2019 actuarial valuations may impact the LGPS Central delivery programme going forward.

He also referenced further guidance due to be released on pool governance and the management of transition costs, which would provide helpful clarification on a number of issues which pools had encountered since operational 'go-live'.

The Committee noted the update and the positive ministerial feedback, the Chair thanked all parties for their contribution to the progress achieved.

### **Item 4 – LGPS Central company presentation – progress to date**

Joanne Segars (JS) introduced John Burns (JB), who will be acting as interim Chief Executive pending the appointment of Andrew Warwick-Thompson's successor.

JS and JB presented an update on the work of the Company since the last meeting of the Joint Committee and the focus and priorities for the next 6 months.

Key milestones achieved include:-

- LGPSC signing up to the Transparency Code on investment costs reporting.
- Conclusion of the Cost Sharing Agreement with Partner Funds.
- Launch of company website.
- Launch of Global Equity Active Multi-manager Fund
- FCA permissions for Private Equity offer secured.
- Significant savings negotiated (and being negotiated), over and above those planned.



The Company's main focus has been on making sure that solid foundations are in place to support future operational delivery and development, including robust legal, governance and compliance arrangements, staff training and performance management. JS also reminded the Committee that in addition to launching new sub-funds, the Company were also managing a number of segregated mandates for Partner Fund on an advisory or discretionary basis.

She outlined some key learning points from the Company's experience so far, specifically the need for earlier engagement and more effective working with Partner Funds on development of the Strategic Plan and Budget. Recent work with the Practitioners Advisory Forum (PAF) Finance Sub-group demonstrated a clear commitment to improvement.

JS explained that the Board fully recognised the need for the Company to move beyond 'start up', into 'business as usual' mode. Key areas of focus will include:-

- Building stronger relationships with Partner Funds, and a better understanding of their investment requirements and wider political and operational challenges. (The website, and soon to be launched Client Information Library, Log-in and Access portal (CILLA) will be key to improving communication and transparency).
- Building the pool's assets under management (AUM), by listening to clients and developing a joint transition plan, which is both realistically deliverable, and aligned with the pool's shared objectives.
- Succession planning and reduction of key man risk.
- Developing a sharper and more focussed set of Key Performance Indicators so that there are some clear measures against which LGPSC can be held to account.

In closing the presentation JS noted that success (in terms of cost savings) was not to be at the expense of performance, and key to all actions and decisions was the recognition that investment pooling needed to deliver for the scheme members by ensuring Partner Funds are able to pay pensions when due.

**Councillor Osborne** stressed the importance of investment performance to individual pension committees, given their 'trustee' responsibilities, and reminded the Company that ultimately they would be judged on that basis. He cautioned against over-emphasis on 'process', as a means of providing assurance to Partner Fund investors.

JS confirmed that investment performance is the company's overriding priority, but as a regulated body, due regard also needed to be given to operational compliance. JB added that the delivery of superior long term investment returns net of costs, lies at the heart of all manager selection and monitoring decisions, acknowledging that communication and performance reporting tools for Partner Funds will be key in terms of providing investor assurance and transparency.

**Councillor Brookfield** stressed the need for a comprehensive performance reporting to feature as a key item on future Joint Committee agendas.

**Councillor Kerry** acknowledged that the Company had direct responsibility for performance delivery, but stressed that Pension Fund Committees had a key role in accounting publicly for the effective delivery of their investment strategies, and needed to be able to justify the not inconsiderable ‘overhead’ the regulated company structure had imposed.

**Councillor Atkin** requested an update on the position with regard to the Chief Executive Officer (CEO) appointment, and also progress on LGPSC’s 2019-20 Strategic Plan, Budget and staffing plan which members were keen to see ahead of the company Shareholder Meeting in February.

JS explained that good progress had been made with the CEO appointment process, following a strong candidate response. Arrangements are being made for an informal ‘meet and greet’ with members early in the New Year and ahead of the final appointment decision which will need to be approved at the Shareholder Meeting.

With regard to the Strategic Plan, Budget and staffing requirements, JB stated that the business plan was currently under discussion with a working group of officers representing Partner Funds. A draft for sharing with members would be available early in January, with a view to final approval at the Shareholder Meeting. He referred to the on-going recruitment challenges faced by the company, arising from the wide range of skills required to support the scale and scope of the planned investment offer, and the need to address long term succession and key person risks.

**Councillor Biggins** asked how LGPSC will address manager performance issues, particularly in respect of multi-manager funds where results for individual managers could vary.

JB explained that performance will be reported on a monthly basis to all investors, so that they have a clear ‘line of sight’ in terms of under/over performance. No fixed triggers have been set to determine when a manager might be fired, but all mandates include appropriate termination clauses. JS added that it will be for LGPSC to decide if, and when a manager should be fired (this is a clear requirement of the Investment Regulations). Excessive manager ‘churn’, especially in the face of short term market volatility is not however, in investor’s best interests, and any decision to terminate would not be taken lightly.

**Councillor Kerry** made the point that ultimately (and as a last resort) Funds could simply choose to disinvest if they weren’t happy with performance.

Rachel Brothwood reminded the Committee that part of their the role, as investors and customers of the company will be to oversee performance, raise issues of concern and to support/challenge LGPSC, as appropriate in their management of investment service providers.

**Malcolm Cantello** referred to the LGPSC website home page, and the inclusion of the 'Partnership is our Purpose' headline, stressing that the 'partnership' extended not just to Partner Funds, but also to more than a million individual scheme members who participated in the Local Government Pension Scheme via LGPS Central. Public transparency and reporting (via the website) should therefore, be given equal priority to client reporting via the secure portal (CILLA).

He also requested specific clarification on how transition costs are being monitored and managed, and whether tax incurred on transition could be recouped, given that pooling is a mandatory requirement.

JS explained that extensive work had been undertaken, with Partner Funds and transition advisors to establish the most cost effective approach. LGPSC will appoint specialist transition managers to provide collective co-ordination across all parties involved. Melanie Stokes (MS) confirmed that in respect of the Global Active Equities transition, co-investors are being engaged via weekly calls with LGPSC and the transition manager. Whilst some risks (such as market timing) are not controllable, this approach should ensure that costs are minimised as far as possible.

JS confirmed that tax incurred on transition was not recoverable. Every effort is being made to minimise tax liability however, by undertaking re-balancing post transfer into the Approved Contractual Scheme (ACS) and by taking advantage of reciprocal tax agreements negotiated with foreign and overseas tax authorities.

**Councillor Brookfield** queried the extent to which partnership and relationship building skills had featured in the CEO selection process. JS confirmed that the CEO job description had been reviewed and updated to give appropriate emphasis to relationship management and 'political' skills and that these had been given key focus throughout the process.

Clarification was also requested on the plan and timetable for further sub-fund launches and how Responsible Investment is being /will be factored into the manager selection process.

JS explained that discussions were on-going with Partner Funds to confirm transition priorities and this will inform the next iteration of the transition plan. The company are currently focussing on two sub-funds (Global Emerging Markets and Corporate Bonds) for launch in the first quarter of 2019. Product Information days to brief Partner Funds on the detailed proposals are being factored into the launch timetable and a Stakeholder Day to update more generally on transition plans is being arranged.

Michael Marshall (MM), Director of Stewardship & Responsible Investment explained how he had been involved in the recent selection process for Global Equity managers. Responsible Investment (RI) had been given a significant weighting at all stages of the process. He had been involved in developing a clear pass/fail RI test, to ensure that shortlisted managers' approach to stock selection, voting and engagement were aligned with LGPS Central's agreed policies and frameworks. Future

monitoring arrangements will ensure that managers are held to account for their management of RI issues as an integral part of their overall performance.

### **Item 5 – Update from the Practitioner’s Advisory Forum (PAF)**

MS from the Staffordshire Pension Fund presented an update on the PAF’s work over the last six months, explaining the role and key areas of focus for the five sub-groups, through which the majority of the detailed work is progressed.

The work of the Finance Sub-group in supporting the internal audit teams of the Partner Funds to develop a Pooling Assurance Framework and a joint approach to future audit planning and delivery was specifically highlighted, as an area which the Joint Committee may wish to discuss at a future meeting, given its relevance to their wider oversight role.

In terms of current priorities, the transition of assets to the recently launched Global Equities sub-fund, development of the product delivery ‘pipeline’, 2019/20 Strategic Business Plan and Budget and updating the Cost Savings Model are key areas of focus.

MS explained that whilst the PAF agenda presented many challenges, the process of building consensus through compromise is delivering benefits in terms of questioning established approaches, developing (new) ways of thinking, and opening up opportunities for wider joint working and co-operation between the Partner Funds. The benefits of a collective approach on RI in particular, in terms of increased capacity and expertise, are being recognised by all parties.

**Councillor Brookfield** on behalf of the Committee, thanked MS for her update, and all members of PAF for the extensive work that goes on behind the scenes to support LGPS Central’s progress, acknowledging that this has largely been taken on in addition to their pre-existing Pension Fund responsibilities. He also noted that the value of pooling lay not just in the successful delivery of a government objective, but also in the collaboration and partnership fostered by the process, which had the potential to unlock much wider benefits.

**Councillor Kerry** suggested that the extensive due diligence that is being undertaken on behalf of scheme members by PAF and others is not perhaps fully appreciated and that more should be done to address this.

RB suggested a joint communication release by the LGPSC and Partner Funds to update on progress so far and the benefits being secured for scheme members.

### **Item 6 – LGPS Central responsible investment and stewardship service presentation**

MM introduced representatives from Hermes EOS, recently appointed as LGPSC's Engagement and Stewardship partner.

Bruce Duguid (BG) Head of Stewardship, and Alice Musto (AM) Relationship Manager explained Hermes integrated stewardship approach and capabilities, which includes; company engagement, voting, advisory services and portfolio screening. The approach is collaborative, given the importance of scale in securing access to companies at Board level and decisive influence through voting. Hermes currently represent 40 clients globally, with over £367bn assets under advice.

BG referenced conclusions from recent academic research, which support LGPS Central's view that :

- environmental, social and governance (ESG) factors can enhance corporate value
- there is a clear link between engagement and improved long term value
- direct, personal engagement at Board level (with the chair) has a major influence on engagement success.

During 2018 Hermes engaged with 670 companies on 1783 issues.

A number of company specific case studies were used to demonstrate the impact achieved through successful engagement.

BG also outlined some of the key ESG risks facing companies, many of which receive only limited attention at senior board level . Hermes engagement 'themes' are developed to increase focus on these issues at strategic level. Current themes include climate change (both the demand and supply side), human rights, human capital investment, gender diversity, executive remuneration and cyber risk. New and emerging themes include sustainable meat and alternatives, plastics, global fair pay, financial inclusion, anti-microbial resistance and artificial intelligence.

**Councillor Osborne** asked what options shareholders had if engagement didn't prove successful. BG explained that engagement is a long term process, but ultimately active investors have the option to disinvest. This is not the case for passive investors, such as large pension funds.

**Councillor Kerry** queried whether other shareholders would benefit from LGPSC's investment in active stewardship and engagement . BG agreed that this would be the case, as engagement increases corporate value, rather than individual stakeholder value. Large, active shareholders (such as pension funds) benefit more however, simply as a result of their scale.

**Malcolm Cantello** asked about the impact of shareholder resolutions on company behaviour. BG advised that they can sometimes be helpful in 'unblocking' issues, but that they needed to be used selectively, and as an escalation tool. There are obvious risks where majority support is not achieved, because companies can use this as a reason to close down further engagement. In response to a follow up question

regarding collaboration with other shareholders, BG confirmed that this was part of the Hermes approach, but it presented some challenges.

**Councillor Osborne** asked about Hermes approach to executive remuneration, given that current government policy creates a framework that appears to allow excessive remuneration packages, even in failing companies. BG agreed that there was a structural problem in terms of the ratio of fixed to variable pay, with too much focus placed on performance against short term objectives, rather than the creation of long term shareholder value. Hermes regularly contribute, along with other shareholder representative bodies, to initiatives aimed at influencing government and other public policy makers.

**Councillor Brookfield** asked about client reporting and how Partner Funds could monitor voting and other stewardship activity undertaken on their behalf. MM explained that detailed information on individual company votes, for example would be available daily and reported via the website, but quarterly summaries of engagement and other activity would be incorporated into the LGPSC Quarterly Stewardship reports. He undertook to share relevant ad hoc reports and materials directly with the Joint Committee.

**Councillor Atkin** referred to specific issues raised at the Derbyshire Pension Fund with regard to fracking, and asked how easy it is for Fund's to measure their exposure to this form of energy extraction. BG advised that this is currently very difficult, as large energy companies may not be directly involved in fracking but are often invested in subsidiary or other companies who are. Also, energy companies do not routinely disclose how much of their extraction is attributable to a specific source.

The Chairman thanked BG and AM for their presentation.

In closing the meeting the Chairman wished all members a Merry Christmas and Happy New Year, thanked Shropshire Pension Fund for hosting the meeting, and thanked the officers for their commitment and hard work over the last twelve months.



# **LGPS Central Joint Committee Meeting**

**Friday 21<sup>st</sup> June 2019**

## **Joint Committee Terms of Reference**

### **Report of the Joint Committee Clerk**

#### **1. Purpose of the report**

This report asks the Committee to endorse its Terms of Reference and also to agree a protocol for dealing with public questions at future meetings.

#### **2. Background**

The Joint Committee's current Terms of Reference (attached at Appendix 1) were originally adopted in March 2018. They provide for review on an annual basis, to ensure that they remain fit for purpose as the partnership between the eight LGPS Central pool funds develops, and in the light of shared experience.

The Joint Committee has met on two occasions since the LGPS Central pool was formally launched on 1<sup>st</sup> April 2018.

#### **3. Content**

Whilst considerable progress has been made over the last twelve months, the LGPS Central partnership, including the Joint Committee arrangements are still to a large extent, in their infancy. The process of transition to the new pooled working arrangements will be on-going for some while, and will need time to embed and mature.

No fundamental changes to the role and function of the Committee are therefore proposed at this stage, although a review of all legal documents, (including the Inter-Authority Agreement which provides the legal framework for the establishment and operation of the Joint Committee), is being undertaken to update names, job titles, contact details etc. and to correct/improve drafting where required.

Given however, that meetings of the Committee are open to the public, and that there is a general expectation that business will be conducted in accordance with the requirements of the Local Government Act 1972, it would

be helpful to agree a procedure for dealing with questions from members of the public at future meetings.

A suggested procedure is attached at Appendix 2. This has been agreed by the Practitioners Advisory Forum and follows in all significant respects, the arrangements most local councils have adopted for the conduct of their committee meetings.

The procedure requires that questions are submitted in writing, to the Committee clerk by noon on the second working day before the relevant Joint Committee meeting, with fifteen minutes being allowed on the agenda for responses.

The procedure also outlines the discretion to be exercised by the Chairman and Vice-Chairman where the time allowed for public questions is likely to be exceeded and the circumstances in which questions will be rejected.

#### **4. Recommendation**

The Joint Committee is recommended to:-

- Endorse the Terms of Reference included at Appendix 1, subject to further review in twelve months' time
- Approve the procedure for Public Questions included at Appendix 2 for all future meetings.



## **LGPS CENTRAL JOINT COMMITTEE**

### **TERMS OF REFERENCE**

The Joint Committee is a public forum for the Councils within the LGPS Central Pool (the Pool) 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 shall provide assistance, guidance and recommendations to the individual Councils in connection with the functions set out below 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**

- The Joint Committee shall consist of one elected member from each Council.
- Each council may nominate one or more elected member (s) to attend any meeting of the Joint Committee or its sub-committees in place of an appointed member from a Council, subject to prior notification being given to the Clerk to the Joint Committee or his or her nominee.
- Each council may remove its appointed members or substitute members and appoint different members and substitutes by giving written notice to the Clerk to the Joint Committee or his or her nominee.
- Each appointed member or substitute shall be entitled to remain on the Joint Committee for so long as the Council appointing them so wishes, but shall cease to be a member or substitute if he or she ceases to be a member of the appointing Council or if that Council removes the appointed member.
- Any casual vacancies will be filled as soon as reasonably practicable by the Council from which such vacancy arises by giving written notice to the Clerk to the Joint Committee or his or her nominee.
- Each member of the Joint Committee shall comply with any relevant codes of conduct of their Council when acting as a member of the Joint Committee.
- A Trade Union representative shall be appointed as a non-voting member of the Joint Committee to represent the scheme members across the Councils' pension funds.

#### **Role and function**

1. To provide oversight of the objectives of the Pool as listed below:
  - to meet the investment objectives of the participating LGPS funds;
  - to establish a collaborative platform through which the Councils can aggregate their pension assets with a view to providing scale economies and improved investment efficiency;
  - to develop internal investment management capabilities for the collective benefit of the Councils in order to provide wider investment choice and market competition;

- to create capacity to invest in asset classes which individual funds may find difficult to access;
  - to stimulate innovation, and provide an opportunity for funds to engage with the investment industry in finding new and creative approaches to the funding challenges faced by the LGPS (and the wider pensions sector);
  - to act as a responsible, long term investor, using its influence to promote the highest standards of corporate stewardship;
  - to create a regional centre of excellence for investment management, able (in the long term) to offer services to other pension funds, charities and endowments; and
  - Following transitioning arrangements, to invest each Shareholder's pension assets including any assets administered for and on behalf of other parties either through the collective investment vehicle(s) operated by LGPS Central Ltd, as the primary and exclusive collective investment vehicle(s) for all eligible pension assets, or by appointing LGPS Central Ltd to manage any non-eligible pension assets outside of such vehicle(s).
2. To provide oversight of the delivery of client service.
  3. To provide oversight of delivery against the LGPS Central business case.
  4. To deal with common investor issues, with a particular focus on Responsible Investment

### **Practitioners' Advisory Forum**

The Practitioners' Advisory Forum (PAF) shall provide a central resource for advice, assistance, guidance and support for the Joint Committee and shall support the functions of the Joint Committee. PAF shall provide technical support at meetings of the Joint Committee and shall act as a conduit for the Joint Committee to communicate back to the respective Councils and/or direct to LGPS Central Ltd as appropriate.

### **Meetings**

- The Clerk to the Joint Committee will be the Head of Paid Service or nominee of Cheshire West and Chester Council who will work within a budget set by the Councils.
- The Joint Committee will meet twice a year in June and December with the location to be rotated around the Shareholding Councils.
- The Clerk to the Joint Committee or his or her nominee will give notice to the public of the time and place of the meeting in accordance with Part VA<sup>1</sup> of the Local Government Act 1972. At least five clear working days before a meeting, the clerk to the Joint Committee or his or her nominee will send a summons signed by the Clerk to the Joint Committee or his or her nominee electronically to every Member. The summons will give the date, time and

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<sup>1</sup> Meetings of councils and their committees are expected to be open to the public, except in the circumstances set out in Part VA of the Local Government Act 1972.

place of each meeting and specify the business to be transacted, and will be accompanied by such reports as are available.

- Each Council within the LGPS Central Pool will publish a link on its own website to the relevant page on Cheshire West and Chester Council's website providing access to the Joint Committee's agendas and minutes.
- The Chair and Vice Chair of the Joint Committee will be elected by the Joint Committee from amongst its members and shall hold those offices until the first meeting after 1<sup>st</sup> May in the following year.. Both the initial and subsequent Chairs and Vice Chairs may be re-appointed to serve a further term or terms.
- If there is a quorum of members present but neither the Chair nor the Vice Chair is present at the meeting of the Joint Committee, the other members of the Joint Committee shall elect one of the members of the Joint Committee as Chair of the Joint Committee for that meeting only.
- The quorum of a meeting will be at least five members who are entitled to attend and vote.
- Each elected member shall have one vote on any recommendations. Any matter will be decided by a simple majority of those members of the Councils represented in the room at the time the question was put. In the case of an equality of votes the Chair shall have a second or casting vote but before exercising this, the Chair shall consider whether it is appropriate to defer the matter to the next meeting of the Joint Committee. The Chair shall take account of the governing principles to the LGPS Central pooling agreement when exercising the casting vote.
- The member appointed as a substitute shall have the same voting rights as the member for whom he or she is substituting and who does not attend. Where the appointed member attends the substitute member shall not have any right to vote after the conclusion of the item of business being discussed when the appointed member arrives, but may remain at the meeting as an observer.
- The Chair will take the vote by show of hands, or if there is no dissent, by the affirmation of the meeting.
- The Clerk to the Joint Committee or his or her nominee shall arrange for written minutes to be taken at each meeting of the Joint Committee and shall send them to the members of the Joint Committee for on-line approval within three weeks of the meeting. At the next meeting of the Joint Committee, the Chair shall move that the minutes of the previous meeting be ratified as a correct record. If this is agreed, the Chair of the Joint Committee shall sign the minutes.
- Any elected member of the Councils who is not a member of the Joint Committee may speak at a meeting of the Joint Committee if the Chair of the Joint Committee invites him or her to do so but an elected member of the Councils who is not a member of the Joint Committee shall not be entitled to vote at a meeting of the Joint Committee.
- Meetings of the Joint Committee shall be open for members of the public to attend unless the Joint Committee determines that it is necessary to exclude members of the public in accordance with Part VA of the Local Government Act 1972 or the Joint Committee determines that it is necessary to take action because of a disturbance. Copies of the agenda for meetings of the Joint

Committee and any reports for its meetings shall be open to inspection by members of the public at the offices of all of the Councils unless the Clerk to the Joint Committee determines that any report relates to items in which his or her opinion are likely not to be open to the public.

- In accordance with Part VA of the Local Government Act 1972, the Joint Committee shall exclude the public from its meetings whenever it is likely, in view of the nature of the business to be discussed or the nature of the proceedings that, if members of the public were present, confidential information would be disclosed to them in breach of the obligation of confidence.
- If any member of the public interrupts proceedings, the Chair will warn the person concerned. If they continue to interrupt, the Chair will arrange for their removal from the meeting room and will suspend the meeting until the member of the public has left or been removed.
- If there is a general disturbance in any part of the meeting room open to the public, the Chair may call for that part to be cleared.
- Each Council will undertake the overview and scrutiny function on its own behalf in accordance with their constitutions.
- Items for inclusion in the meetings:
  1. Update on delivery against the objectives of the Pool
  2. Investment Performance & Cost Reporting
  3. Benchmark Reporting
  4. Service Level Agreement Reporting
  5. Update on delivery against the LGPS Central Business Case
  6. MHCLG & SAB Reporting
  7. Responsible Investment
  8. Investment Outlook
  9. Training/LGPS Central Events Programme
  10. Other Relevant Common Investor Issues

### **Terms of Reference Review**

These terms of reference will be reviewed annually.

**LGPS CENTRAL JOINT COMMITTEE – PUBLIC QUESTIONS**

This note sets out the procedure for members of the public who wish to submit a question to be asked at the Joint Committee.

At each meeting of the Joint Committee, the public (including active members, deferred members, survivor members or employee members of the local authorities administering the pension funds that comprise LGPS Central) will be able to submit questions to the Chair of the Joint Committee to which the relevant member or officers supporting and attending the Joint Committee will respond.

A period of up to 15 minutes will be set aside for the taking of questions and answers.

Questions must be received by noon of the second working day before the day of the relevant meeting. This normally means, for example, that when a Joint Committee meeting takes place on a Wednesday, the deadline for receipt of questions is noon on the Monday of the week of the Joint Committee meeting.

Questions must be submitted in writing to the address below:

Charles Riley  
Clerk to LGPS Central Joint Committee  
Cheshire West and Chester Council  
4 Civic Way, Ellesmere Port, Cheshire CH65 0BE  
[charles.riley@cheshirewestandchester.gov.uk](mailto:charles.riley@cheshirewestandchester.gov.uk)

Please state your name and address. The Chair cannot accept anonymous questions.

Questions that have been accepted will be published on the Councils' website together with the name (but not the address) of the questioner. No person may submit more than one question to any one meeting and no more than one question may be asked on behalf of an organisation at any one meeting. No question may be sub-divided into more than two related parts.

If the Chair of the Joint Committee considers that the number of questions received is such that they cannot all be answered within 15 minutes, they will, after consulting with the Vice-Chair, select those which are to be put to the Joint Committee meeting. Any question which cannot be dealt with at the meeting because of lack of time will be dealt with by a written answer to be sent within 5 working days of the Joint Committee meeting by the member or officer of whom the question was asked.

The Chair will determine the order in which questions will be put and may group together similar questions. Questions will be read out at the relevant meeting by the Chair or Vice-Chair.

A question **must** relate to a matter for which the Joint Committee has responsibility.

A question may be rejected if it is:-

- i) illegal, improper, irregular, frivolous or offensive;
- ii) will, if answered, disclose confidential or exempt information;
- iii) relates to a matter or issue in respect of which a response has already been given under any of the pension administering Councils' complaints procedures, or which is currently being dealt with in accordance with other formal processes, such as court or tribunal proceedings or which is the subject of threatened court or tribunal proceedings by the person asking the question or a person or group which they represent;
- iv) relates to a matter or issue of a purely personal concern to the individual asking the question or their family members;
- v) is lengthy or a speech;
- vi) is an unintelligible question.

# **LGPS Central Joint Committee Meeting**

**21<sup>st</sup> June 2019**

## **Practitioners' Advisory Forum Report**

### **1. Purpose of the report**

To update the Joint Committee on the work of the Practitioners' Advisory Forum (PAF) and its constituent working groups.

### **2. Background**

PAF is a working group of Section 151 and Pensions Officers appointed by the Partner Funds within the LGPS Central Pool (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. It is intended that, where possible, PAF should speak as "one voice" to reduce the duplication of costs and resources and maximise the benefits of scale.

PAF is supported by four individual working groups:

- Client Oversight & Governance Group
- Finance Working Group
- Investment Working Group
- Responsible Investment Working Group.

The working groups share the pool related workload of the Partner Funds and assist with the delivery of PAF priorities. The working groups report to PAF and support Partner Fund decision making.

### **3. PAF Update**

Since the last meeting of the Joint Committee in December, PAF and individual working group meetings have focused on the following:

- Product Development & Future Sub-Fund Launches
- The LGPS Central Limited (LGPSC) Business Plan, Annual Budget & KPIs
- Transition to the Global Equity Multi-Manager Sub-Fund
- LGPS Central Pool Risk Register & Audit Assurance Framework
- Development of the Pool's Stewardship Themes
- Preparation for the Shareholders' Forum and for the Joint Committee

Current priorities for PAF and its working groups include:

- To complete the Global Emerging Markets Equity Multi-Manager and Global Corporate Bond Sub-Fund transitions
- Implement the agreed Product Development Protocol

- Cost Sharing Review & Update of the Cost Savings Model following the completion of a cost transparency review
- Ensure that LGPSC reporting meets the needs and requirements of its invested funds and to ensure that there is clarity over the governance arrangements for the Pool
- Delivery of a Responsible Investment event for Members and the Local Pension Boards across the eight Partner Funds

The reports of the individual working groups are attached as Appendix 1.

#### **4. Recommendation**

It is recommended that the Practitioners' Advisory Forum Report be noted.



## Appendix 1

### Client Oversight & Governance Group (COGG)

The Client Oversight and Governance Group (COGG) was formed out of combining the Governance and Client Reporting groups of the Practitioners Advisory Forum and commenced work in January 2019. LGPSC Ltd have been in attendance at all meetings. The focus of the group has been to cover key areas of governance and oversight and to develop reporting not only on LGPSC Ltd sub-funds but also to focus on other key performance areas. The remit of the group is set out below:

- Support the wider PAF in undertaking oversight of the governance arrangements and client reporting functions of the LGPS Central Investment Pool
- Assist LGPSC Ltd in developing its understanding of local government operations and governing bodies through the assistance on, and review of, draft documents in advance of their presentation to PAF and to Partner Funds' governing bodies for approval
- Develop, monitor and implement, in conjunction with the other PAF Working Groups, the necessary arrangements for the effective monitoring and oversight of LGPSC by PAF
- Ensure the necessary arrangements and effectiveness thereof are in place to review and monitor the LGPS Central Pool's adherence to the government's pooling criteria and statutory guidance
- Work on the development and implementation of and monitoring the effectiveness of client reporting protocols between LGPSC and the Partner Funds ensuring LGPSC's investment reporting meets client requirements
- Review and consider any actions resulting from LGPSC's client reporting
- Review the LGPS Central Pool governing documents
- Develop, test and assess effectiveness of compliance monitoring and internal controls framework, including development and ongoing assessment of the risk register for the wider LGPS Central pool
- Oversee the audit assurance framework

Since the group was formed in January it has met 5 times with good attendance and engagement from both Partner Funds and LGPSC Ltd. Task and Finish groups have been set up with smaller focused groups to progress key pieces of work and feedback to the main COGG meetings, this has included the following:

- Product Development Protocol – now agreed and in the process of being implemented. This key piece of work has set out how new products for LGPS Central will be developed and delivered going forwards and will enable Partner Funds and their advisers a greater number of touch points to check products being developed meet their strategic requirements. This will also enable the company to gain greater certainty over the level of Partner Fund commitments. The protocol is in process of being fully

implemented for all new products going forwards, as well as picking up those products in various stages of development

- **LGPS Central Pool Risk Register** – This has been developed to recognise, assess and monitor key risks for the Pool as a whole and reflects shared risks (i.e. not specifically company or partner fund risks), but risks that the Joint Committee should be aware of that could lead to delays or disruption to the development and delivery of investment pooling. It is recognised that there are a relatively high number of highly rated risks at this time, but it should be recognised that investment pooling is still in relatively early stages of implementation for what is a major change project and it is anticipated that over time that some of these risks will see ratings downgraded. The register will be reviewed regularly by COGG and will be presented to the Joint Committee meetings as part of regular reporting going forwards
- **Governance working group** – This group has been formed to review the legal agreements in place and where appropriate to update for changes to legislation, e.g. GDPR (general data protection regulations). The group is also reviewing the existing agreements to update to reflect the fact that LGPSC Ltd is now operational, some of the wording in the existing agreements reflects pooling in development and now needs to refer to the company and its operations. External legal advisers have been appointed to assist with this process. Further updates will be brought to the Joint Committee on progress
- **Investment Reporting group** – Whilst sub-fund reporting has been in place since the first 3 sub-funds were created in April 2018 and related to passive equity funds, the demands of sub-fund reporting for active managed sub-funds requires a greater level of information and this group is working closely with the company to further develop investment reporting

In addition, COGG is working with LGPSC Ltd on events planning and feedback, communications and audit assurance work in conjunction with the internal audit working group. Members of the internal audit working group have also attended some of the COGG meetings to help with understanding of the oversight and monitoring of Central.

## **Finance Working Group (FWG)**

The Finance Working Group has been established to:

- Review LGPSC's Annual Budget, represent Partner Funds in budget discussions with LGPSC, present budget reviews to PAF, co-ordinate Partner Fund responses to LGPSC and prepare budget briefing notes for the Shareholders' Forum
- Review LGPSC Quarterly Budget Monitoring Reports, represent Partner Funds in discussions on the quarterly reports and prepare relevant briefing notes for the Shareholders' Forum
- Monitor LGPSC cost sharing arrangements and determine whether Partner Funds need to trigger a cost sharing review
- Review LGPSC Final Accounts and prepare briefing notes for the Shareholders' Forum
- Develop a new LGPS Central Pool Cost Savings Model in collaboration with LGPSC
- Take a lead on final accounts and annual report disclosures for the Partner Funds

Since the last Joint Committee meeting in December, the FWG has:

- Reviewed LGPSC's Quarterly Financial Reports to Shareholders and carried out a review cost sharing arrangements for 2018/19
- Carried out due diligence on LGPSC's 2019/20 budget, reported back to PAF and co-ordinated PAF's response to LGPSC
- Prepared a briefing note for the Shareholders' Forum on LGPSC's 2019/20 Business Plan (including Annual Budget) and Regulatory Capital Statement
- In collaboration with LGPSC commenced a review of LGPSC's Key Performance Indicators (both financial and non-financial)
- Commenced a review of the LGPSC Cost Sharing Model for 2019/20, and provided input into the development of recharge bridges to allow Partner Funds to understand the changes in costs from one year to the next
- Carried out due diligence on the Business Plans for Global Active Equity Multi-Manager sub-fund, Global Emerging Market Equity Multi-Manager sub-fund, Global Corporate Bond sub-fund; Master Private Equity Pooling Partnership LP vehicle and Low Carbon Multi Factor sub-fund in collaboration with the IWG
- Reviewed CIPFA's new guidance on *Preparing the Annual Report* and co-ordinated the consultation response on behalf of Partner Funds. Subsequently developed a disclosure template to be populated by LGPSC on allow Partner Funds to meet their annual account and annual report pooling disclosure requirements
- Started to develop the new Cost Savings Model in collaboration with LGPSC

## **Investment Working Group (IWG)**

The Investment Working Group (IWG) has continued to meet monthly over the last six months with representation from Officers of all 8 Partner Funds, together with multiple attendees from LGPS Central Limited (LGPSC), dependent on the Agenda and other items for discussion and development.

Meetings have followed a similar format thus far, beginning with Partner Fund discussions on Strategic Asset Allocation (SAA) and the potential for shared investment opportunities; specifically, in the Alternatives space, where it is recognised that LGPSC may not be able to provide a sub-fund in the short to medium term. Product Development, given the combined investment priorities identified by the Partner Funds in December 2018, has been the main discussion topic with LGPSC.

Members of IWG, alongside Members of the Client Oversight and Governance Working Group (COGG) have been instrumental in the development of a Product Development Protocol (PDP) with LGPSC. This is a 9 Phase approach which documents the various stages of developing any new sub-fund, beginning with a strategy discussion at IWG and ultimately ending with the transition of assets into the sub-fund. Key to the PDP, however, is that at every Phase there is a 'client touch-point' for LGPSC which ensures that Partner Fund's (and their Advisors) continue to buy-into the product being developed and the investment managers appointed as part of the procurement process. If a Partner Fund (and their Advisors) or LGPSC are not in complete agreement, then the development of the product or procurement stage does not proceed to the next Phase, or it may be that the previous Phase gets revisited. Whilst this may seem onerous and bureaucratic and is likely to take 6-9 months in totality, it will ensure that sub-funds are launched with information being made available to all parties and within the full knowledge of all Partner Funds (and their Advisors). It should also ensure that the maximum assets available are invested.

Over the last six months, IWG has been focussed on the transitions of the:

- Global Active Equity Multi-Manager sub-fund
- Global Emerging Market Equity Multi-Manager sub-fund

And has approved Business Plans for the:

- Global Corporate Bond sub-fund
- Master Private Equity Pooling Partnership LP vehicle
- Low Carbon Multi Factor sub-fund

IWG's ongoing work includes:

- Development of the Infrastructure sub-fund
- Development of the Multi-Factor sub-fund
- Development of the Multi-Asset Credit sub-fund
- Development of the Emerging Market Debt sub-fund

Papers have also been received from LGPSC on:

- The case for investing in Global Smaller Companies
- The case for a 2% capped UK benchmark

Collaborating with IWG, LGPSC appointed both a Transition Advisor and a Transition Manager to assist with the transition of Partner Funds' assets into the Active External Global Equity Multi Manager sub-fund in March 2019. The Product Development Liaison Group (PDLG) was formed as part of this process.

PDLG consisted of a weekly 9am conference call on a Thursday morning with all interested parties involved; this included Partner Funds, the Transition Advisor and Transition Manager, Company representatives and Northern Trust as Depositary. All involved agreed this was a positive way to communicate and thus ensure a successful outcome to an extremely complicated multi-stakeholder transition. The PDLG format will be repeated with the Global Emerging Market Equity and Global Corporate Bond sub-funds in due course.

Given that LGPSC has been fully operational for over 12 months and now has considerable assets under management (AUM) the role of IWG needs to adapt. This became apparent in developing the PDP and it has been agreed that as well as Product Development and Investment Strategy, IWG has a significant role to play in monitoring Investment Performance, both performance of the individual sub-funds and the value add of LGPSC. To facilitate this, in April 2019, IWG meetings moved to a new quarterly cycle whereby the focus changes each month:

- Month 1 (Jan, Apr, Jul, Oct) – Product Development
- Month 2 (Feb, May, Aug, Nov) – Policy & Performance Monitoring
- Month 3 (Mar, Jun, Sep, Dec) – Strategy and New Products

Following Partner Fund's 2019 Actuarial Valuations and subsequent reviews of Investment Strategy, the IWG in September 2019 will be dedicated to Strategic Asset Allocation and agreeing the collective investment priorities of the Partner Funds with LGPSC to inform the product development, work plan and business case for the LGPS Central pool in 2020/21.

## **Responsible Investment Working Group (RIWG)**

Over the last six months, the group's focus has shifted more towards development of a "toolkit" for supporting Partner Funds develop and monitor activity and initiatives in delivering Responsible Investment across the pool.

***Annual review of the Company RI&E framework*** – the group engaged in the first annual review of the LGPS Central Limited's responsible investment framework and voting principles, with no significant changes to report. Compliance with the UK Stewardship Code will be reviewed for signatories (Partner Funds and LGPS Central Limited) following release of a new code by the FRC in July 2019.

***Stewardship themes*** – following discussion and survey of Partner Funds, four top-down engagement themes have been agreed for the year. These will provide a focus for engagement activity, running alongside a number of other ongoing engagement themes (for example, executive pay). The stewardship themes for 2019/20 are:

- Climate Change
- Single-use plastics
- Technology and disruptive industries risk
- Tax – transparency and fair tax payment

Further information about these themes is set out in Appendix 2.

***Engagement activity and reporting*** – the group continues to receive updates on company engagement activity noting in particular the progressive outcomes of the Climate 100+ initiative which is making marked progress in changing company behaviour in the management of Climate Change risk, as a direct result of engagement with institutional investors. The Quarterly Engagement Report provides an overview, with individual sub fund reporting being developed to include more specific detail on engagement relevant to holdings in LGPS Central's underlying investment funds.

***AGM season and active ownership through voting*** – in preparation for a heavy voting season, a process has been established for Partner Funds to receive updates and feedback on voting advice and intentions, in line with the agreed Voting Principles, where these may be material and of interest and voting delegated to LGPS Central Limited through investment in pooled sub-funds.

***Manager oversight*** – a framework for assessing and monitoring manager integration of RI considerations has been developed to run alongside the manager monitoring programme; with reporting back to Partner Funds being developed alongside wider sub fund reporting.

***RI event for pool members*** – as interest in pension fund responsible investment activity continues to grow, together with the range of issues to discuss the group are currently working to develop a event for pool members, giving opportunity to come together, consider and debate issues first hand.



The Director of Responsible Investment & Engagement continues to support Partner funds individually with member training, development of Fund policies, responses to individual enquiries, and presentations to a variety of audiences. Following successful recruitment, the support team for this work is set to expand in June.

The group continues to monitor wider-market activity including the emergence of new research and guidance to inform policy review. Representatives from the pool continue to engage with the Cross-Pool RI group and LAPFF. New guidance for Funds on RI policy is being developed by the Scheme Advisory Board.

### **Background to working group**

The RI Working Group (RIWG) has been established to work with the Company operator, LGPSC, to:

- Assist with the development and annual review of the Responsible Investment and Engagement (RI&E) Framework and supporting policies which govern the implementation of RI strategy within the Pool
- Establish working practices which enable the Company to support each Partner Fund in developing and delivering its own RI strategy
- Facilitate discussion on common issues (individual company and themes for engagement or relating to investment mandates) identifying areas for deeper dive review
- Receive updates on the Company's voting and engagement activity, supported by the appointed stewardship provider, and develop RI information and activity reporting to Partner Funds, the Joint Committee and individual Pension Committees

The RIWG is made up of representatives of four Partner Funds (Cheshire, Staffordshire, West Midlands and Worcestershire) and the Company's Director of Responsible Investment & Engagement. Feedback and recommendations from the RIWG are provided to each monthly PAF meeting.

## Appendix 2 – Pool Stewardship Themes

Whilst stewardship activities will continue across a wide range of topics, the following have been selected as areas of focus for 2019/20

| Theme                                     | Rationale   |
|---|---|
| Climate Change                            | <p>Climate change is regularly among the World Economic Forum's top five global risks, both in terms of likelihood and impact. Through both physical risks (e.g. increases in extreme weather events) and market risks (e.g. impact of carbon pricing or technology substitution), climate change could come to impact institutional portfolios. In addition, greater incidence of flooding, wildfires, chronic precipitation, sea level rise, and so on, could have profound societal consequences.</p> <p>In the UK, campaign groups' governments and regulators are increasingly taking an interest in the extent to which investors are managing climate-related risks.</p>   |
| Single-use plastics                       | <p>Plastic pollution is a global problem that is continually growing due to both an increase in consumerism and an increase in the number of plastics used to manufacture the things we use on a daily basis. Many of these are single-use items, which are used once and then end up polluting the environment for hundreds of years. Some companies are starting to change the way they use these plastics, and are actively taking steps to reduce waste.</p> <p>As well as the negative effects on the planet, companies that purchase, use, or produce significant amounts of plastic could face regulatory tightening, more plastic taxes, and reputational damage as consumers and policy-makers become more aware and mindful of the problem.</p>   |
| Technology and disruptive industries risk | <p>In recent times child screen addiction has become a very real issue along with inappropriate content online, often spread via social media. These issues pose a threat to both the mental and physical health of future generations, the costs of which could be far-reaching. Evidence suggests that technological improvements have also contributed to over-consumerism within society (due to the ease of online shopping around the clock). This additional consumption contributes to environmental issues due to excessive packaging and the transportation of goods around the globe.</p> <p>Another modern technological threat is the risk of malicious political interference, which has been suspected in both the 2016 EU referendum and the most recent US presidential elections, posing a threat even to mature democracies. With technology stocks being a significant driver of global equity performance on a 3-5 year view, were ESG risks to further crystallise in this sector there could be material consequences for portfolios with an equities (particularly growth equities) bias.</p> |
| Tax - transparency and fair tax payment   | <p>The trust an organisation builds with its stakeholders is of critical (though intangible) value. As a measure of an organisation's contribution to the economies it operates in, tax is a key dimension in building that trust. In the current economic climate, the public is calling for a clearer picture of organisations' tax policies, and the amount of tax they pay. At a societal</p>   |



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|  | <p>level, the more companies that fail to pay their fair share of tax, the greater the financial strain on essential social infrastructure.</p> <p>Global corporate tax avoidance is estimated to cost governments \$240 billion globally in foregone revenues each year. Companies with overly aggressive tax strategies could be storing up liabilities and could damage their reputation with key stakeholders.</p> |
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# **LGPS Central Joint Committee Meeting**

**Friday 21<sup>st</sup> June 2019**

## **LGPS Central Investment Pool Risk Register**

### **Report of the Practitioners Advisory Forum**

#### **1. Purpose of the report**

This report asks the Committee to review the LGPS Central Investment Pool risk register, developed in collaboration with LGPSC Ltd and Officers of the Practitioners Advisory Forum, to assist with monitoring the risks associated with the Investment Pool and its implementation.

#### **2. Background**

The Joint Committee at its meeting on 27 June 2018, considered an initial draft risk register provided by the Practitioners Advisory Forum. It was agreed at that meeting, that further work was required to incorporate wider input from LGPS Central Ltd., and that a working group comprising the Chair and Vice Chair of this Committee (or their nominated substitutes), along with the Board of LGPSC Ltd, and fund officers be set up to progress a collaborative approach to the Investment Pool Risk Register, before bringing an updated version to the Joint Committee. The Risk Register being presented to this Committee is the outcome of that collaboration to agree key risks, controls and an assessment of risks.

#### **3. Content**

Pension Funds will typically maintain a risk register to identify the key risks faced by the Funds themselves, and how these might feed into the overarching Administering Authority risk management process. For each Fund, it is likely that the individual risk registers will include risks surrounding investment pooling as it applies to the operation of their Fund. LGPS Central Ltd similarly has its own risk register which reflects the assessment, controls and status of risks to the company.

The risk register being presented reflects the risks as assessed by the working group, to the Investment Pool in its widest definition, and should not be seen as a reflection of the risk assessment of either the company, or individual partner funds, although there are inevitably some areas of common ground.



As members of this Committee will recognise, the management of risks is key to delivery of wider strategic objectives, but also the identification of opportunities. Risk management is the process of identifying risks which impact on the achievement of objectives, the evaluation of their probability/likelihood and potential consequences/ impact, and the determination of appropriate management action across 5 broad categories:

- Control;
- Minimise;
- Eliminate;
- Transfer the risk exposure;
- Accept

The Pool Risk Register under consideration by the Joint Committee has been developed to capture key risks surrounding pooling that could impact across all parties involved in LGPS Central Pool. Reflecting on their governance role as both shareholders and clients for LGPS Central, it is important for members of this Committee to consider the high-level strategic risks that could impact on the successful delivery of investment pooling and how these risks can be managed or mitigated.

The risks covered in the risk register have been divided into 8 categories to identify the types of risk that the investment pool might face as it moves forward. The risks have therefore been categorised (in no particular order), as:

- Resources – This includes recruitment and retention at LGPSC Ltd but also Partner Funds, as well as budgetary constraints.
- Regulatory Environment – This section recognises the regulatory arena in which both the pension funds and the company operate and the risks.
- Political – This encompasses both changing attitudes to investment pooling, but also the wider political environment.
- Reputational – This includes risks around negative press coverage around what is a major change management project, but also challenges around ESG risks.
- External and Third Party – Recognises reliance placed on external providers and concentration of suppliers in some areas.
- Strategic – Recognition of risks of divergence from strategic objectives, and implementation risks including delays to product development and transition of assets.
- Investment – It is recognised that all investments come with risks and that returns do not always meet targets, changing asset allocation requirements may mean products no longer meet strategic requirements



- Operational and Financial – These risks encompass cyber security and budget management, as well as the cost sharing agreement

The magnitude of risks within the register are assessed along two dimensions:

- Likelihood – the probability that a risk will materialise
- Impact – the consequences if the risk were to materialise

These are scored on a matrix, which indicates overall levels of risk as follows:

- High risk (red) – need for early action / intervention where feasible, although recognising that there are some high risks that may have to be just accepted, as they arise as a result of external forces which cannot be controlled
- Medium risk (amber) – action is required in the near future.
- Low risk (green) – willing to accept this level of risk or requires action to improve over the longer term.

Whilst the majority of the risks before controls are applied are assessed as high risks at this stage, this does in part, reflect the early stage development of investment pooling. However, after applying controls, the number of risks with a red rating drops to one, namely political risk; where a lot of the factors are, and are likely to continue to be, outside the control of the investment pool as a whole. The remainder at this stage, have been assessed as medium risk, but it is anticipated that as LGPS Central investment pool continues with implementation, these risks will be further reduced as a result of effective management action and collaborative, partnership working between Funds and the company.

The risk register attempts to identify a series of risks that apply across LGPS Central Investment Pool. The Joint Committee will receive a presentation on the risk register that has been developed and discussed in detail with working group.

The risk register is very much seen as a live document, and will be considered as part of the ongoing work of PAF in conjunction with the company. The risk register will form part of the regular reporting to the Joint Committee; any new or emerging risk will be captured and reported along with changes in risk ratings.

#### **4. Recommendation**

The Joint Committee is recommended to:-

- Note the contents of this report and the presentation.



## Joint Committee Meeting

*21<sup>st</sup> June 2019*

*Nottingham*

### **1.0 INTRODUCTION**

**1.1** It is now over 12 months since LGPS Central Limited (LGPSCL) was launched in April 2018. Much work has been done during that period, and with the collaboration of its 9 Partner Funds, much has been achieved. However, LGPSCL is aware that there is still plenty to do.

**1.2** LGPSCL is responsible for approximately £17bn of assets under its stewardship including Pooled, Discretionary, Advisory, Advisory & Execution and Execution-only mandates.

**1.3** To date, the Company has launched 4 ACS funds – 3 of which are Passive and 1 of which is Active. It has also launched the Private Equity 2018 Vintage Fund, which sits within a Scottish Limited Liability Partnership structure. The launch of 2 further Active ACS Funds (Global Emerging Markets and Corporate Bonds) is well under way. Through the Company's Product Development Protocol, it plans to launch more products over the coming year, ensuring that its products are designed to meet the investment needs of its Partner Funds and, ultimately, the requirements of those pensioners who are members of the Local Government Pension Scheme.

**1.4** During this period, LGPSCL has also grown its staff from a handful at start, to over 50 today. The Team includes a mixture of those who have experience in both the Public and Private Sectors and who have considerable experience of working in the field of investments and pension fund management.

**1.5** Since launch, global financial markets have faced many geo-political challenges ranging from Brexit to international trade wars. Market volatility increases the importance of regular performance reporting to our Clients, and LGPSCL has in place a regular schedule of reporting to keep Clients fully informed.

**1.6** Equally, the Company has identified key performance areas of the business which impact upon its Clients. A series of Key Performance Indicators will be used to monitor and measure how the Company serves its Clients.

## **2.0 KEY PERFORMANCE INDICATORS**

**2.1** LGPSCL has identified 14 Key Performance Indicators (KPIs).

**2.2** 8 of these KPIs have an impact on The Company's Clients. Other KPIs have an impact on its Shareholders.

**2.3** The 8 KPIs which impact Clients are –

- The delivery of superior investment returns, net of costs
- The reduction of Asset Management Costs in each asset class
- Timely performance reporting
- Client service
- Meeting agreed product delivery schedules
- Integrating Responsible Investment & Engagement policies within all products
- Recruiting and retaining highly qualified staff

## **3.0 ASSETS UNDER STEWARDSHIP**

**3.1** Total assets under the stewardship of LGPSCL is currently approximately £17bn

**3.2** The total assets under management include those which are Pooled, Discretionary, Advisory, Advisory & Execution and Execution Only mandates.

## **4.0 INVESTMENT PERFORMANCE**

The Investment Performance of the 3 Passive ACS Funds, and the single Active ACS Fund is included in the presentation to the Joint Committee.

## **5.0 COST SAVINGS**

**5.1** LGPSCL's key goal is to ensure that it saves costs for its Clients.

**5.2** Instrumental in achieving this goal is to ensure that external fund management fees are fully scrutinised. The Company is fully cognisant, however, that low management fees should not be detrimental to investment performance

**5.3** The appointment of an independent third party to manage and monitor costs will assist the Company in achieving its cost savings goals on behalf of its Clients.

**5.4** Transitioning assets can be a complex and lengthy process. In order to ensure that Clients are transitioning their assets into the LGPS Central Pool in the most cost effective and efficient manner, the appointment of external Transition Advisers and Transition Managers has been adopted. Pre and Post-Transition analysis is available to all Clients as a result.

## **6.0 PRODUCT DEVELOPMENT PROTOCOL**

**6.1** In close collaboration with its Partner Funds, LGPSCL has introduced a Product Development Protocol to support new product launches. This helps to ensure that the products which are developed meet the investment needs of the Company's Clients.

**6.2** The Product Development Protocol is a 9-phase process which includes 9 "touch points" that involve close engagement between LGPSCL and its Clients.

**6.3** The Product Development Cycle can take between 6 to 9 months. The length of the cycle is dependent upon a number of fund characteristics such as whether it is Active or Passive, sits within an ACS or SLP structure, is managed in-house or externally etc.

**6.4** There are currently 10 products that sit within the Product Development pipeline. The most advanced products, nearest launch, are Global Emerging Markets (Phase 8), Global Corporate Bonds (Phase 6), and the All World Climate Change Factor Based Fund (Phase 6). Other products in the pipeline include;

- Global Factor Based Strategy (Phase1)
- Multi Asset Credit (Phase 1)
- Emerging Market Debt (Phase1)
- Targeted Return (Phase1)
- UK Active Equity (Phase2)
- Private Equity, 2019 Vintage (Phase 3)
- Infrastructure (Phase 4)

## **7.0 RESPONSIBLE INVESTMENT & ENGAGEMENT**

**7.1** LGPSCL works in partnership with a number of organisations who share its values in respect of Responsible Investment & Engagement

**7.2** There are 4 Key RI& E Themes for 2019/20. These are;

- Climate Change
- Technology & Disruptive Industries
- Single Use Plastics
- Tac Transparency

## **8.0 Conclusion**

**8.1** Good progress is being made -but there is plenty still to do!

**8.2** Progress would not have been possible without the collaborative support of all LGPSCL's Partner Funds / Clients

**8.3** LGPSCL goals continue to be to save costs for our Clients, but not at the expense of investment performance

**8.4** LGPSCL's business model is based upon economies of scale. Greater benefits can be achieved by Partner Funds the sooner, and the greater, the amount of investment assets are transferred into the LGPS Central Pool.



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