

Public Document Pack



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PUBLIC

To: Members of Pensions and Investments Committee

Tuesday, 14 January 2020

Dear Councillor,

Please attend a meeting of the **Pensions and Investments Committee** to be held at **10.30 am** on **Wednesday, 22 January 2020** in Council Chamber, County Hall, Matlock, the agenda for which is set out below.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'S Hobbs', written over a light blue horizontal line.

Simon Hobbs
Director of Legal and Democratic Services

A G E N D A

PART I - NON-EXEMPT ITEMS

1. Apologies for Absence
2. To receive declarations of interest (if any)
3. To confirm the minutes of the meeting held on 11 December 2019 (Pages 1 - 6)
4. Governance in the LGPS (Pages 7 - 12)
- 4 (a) Appendix - Governance in the LGPS (Pages 13 - 28)

- 4 (b) Quarterly Pension Administration Performance Report (Pages 29 - 36)
- 4 (c) Complaints Policy (Pages 37 - 42)
- 4 (d) Pension Administration Strategy (Pages 43 - 70)
- 4 (e) Risk Register (Pages 71 - 82)
- 4 (f) Independent Investment Adviser Objectives (Pages 83 - 86)
- 4 (g) Admissions, Cessation and Bulk Transfer Policy (Pages 87 - 106)
- 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)... 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. Investment in Infrastructure (Pages 107 - 110)

PUBLIC

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

PRESENT

Councillor J Perkins (in the Chair)

Derbyshire County Council

Councillors R Ashton, N Atkin, J Boulton, P Makin, S Marshall-Clarke, R Mihaly and B Ridgway

Derby City Council

Councillor M Carr

Derbyshire County Unison

Mr M Wilson

Also in attendance – B Dodds, N Dowey, P Handford, K Riley and N Smith.

Apologies for absence were received on behalf of Councillor L Eldret and D Kinley.

69/19 **MINUTES RESOLVED** that the non-exempt minutes of the meeting held on 22 October 2019 be confirmed as a correct record and signed by the Chairman.

70/19 **INVESTMENT REPORT** This report incorporated Mr Fletcher's views on the global economic position, factual information for global market returns, the performance of the Fund and his recommendations on investment strategy and asset allocation.

The Fund's latest asset allocation as at 31 October 2019 was reported and the recommendations of the Director of Finance & ICT and Mr Fletcher, in relation to the Fund's new strategic asset allocation benchmark.

The recommendations of the Director of Finance & ICT were shown, adjusted to reflect the impact of future investment commitments. These commitments related to Private Equity, Multi-Asset Credit, Property and Infrastructure and total around £290m.

The following three categorisations were reflected in the table:

- **Growth Assets:** largely equities plus other volatile higher return assets such as private equity;
- **Income Assets:** assets which were designed to deliver an excess return, but with more stable return patterns than Growth Assets because income represented a large proportion of the total return of these assets; and
- **Protection Assets:** lower risk government or investment grade bonds.

Relative to the new benchmark, the Fund as at 31 October 2019, was overweight Cash, and underweight in Growth Assets, Income Assets and Protection Assets.

If all of the Fund's commitments were drawn-down, the cash balance would reduce by 5.2% to 0.4%. However, in practice as these commitments were drawn-down, they would be partly offset by new net cash inflows from dealing with members, investment income, distributions from existing investments and changes in the wider asset allocation.

The value of the Fund's investment assets fell by £40.5m (-0.8%) between 31 July 2019 and 31 October 2019 to just over £5.1bn, comprising a non-cash market loss of around £60m and cash inflows from dealing with members & investment income of around £20m. Over the twelve months to 31 October 2019, the value of the Fund's investment assets had risen by £360.5m (7.6%), comprising a non-cash market gain of around £260m and cash inflows from dealing with members & investment income of around £100m.

UK bond yields had risen sharply in Q4 to date (with prices falling), as fears over a 'no-deal' Brexit had receded and investors had become increasingly concerned that UK public spending was likely to increase significantly following the upcoming General Election with a significant accompanying increase in public sector borrowing.

At 31 October 2019, the overall Growth Asset weighting was 55.7%, down from 56% at 31 July 2019, reflecting relative market weakness.

At 31 October 2019, the overall weighting in Income Assets was 20.5%, up from 19.5% at 31 July 2019, principally reflecting net investment of around £30m. The IIMT recommendations would take the overall Income Asset weighting to 21.1%, and the committed weighting to 24.5%.

The Cash weighting at 31 October 2019 was 6.5%, 4.5% overweight relative to the benchmark. Mr Fletcher had maintained his 2% overweight allocation of 4% to Cash, noting that if bond yields continue to rise from their current low level, this additional allocation to cash could be deployed to the bond market if the prospects for equities markets did not improve.

RESOLVED that (1) the report of the external adviser, Mr Fletcher, be noted; (2) the asset allocations, total assets and long term performance analysis in this report be noted; and (3) the strategy outlined in the report be approved.

71/19 VOTING ACTIVITY Details of the Fund's voting activity for the period 21 August 2019 to 15 November 2019 were shown. The Fund voted against management proposal as shown in Appendix 2 and total shareholder votes for the proposal were set out below. The resolution was passed.

Resolution	Votes For	Votes Against
Greene King Plc: Resolution 2	67.5%	32.5%

RESOLVED to note the report.

72/19 DERBYSHIRE PENSION FUND 2019 ACTUARIAL VALUATION

Under Regulation 62 of the Local Government Pension Scheme (LGPS) Regulations 2013, administering authorities of LGPS pension funds were required to obtain an actuarial valuation of the assets and liabilities of the pension fund on 31st March every three years.

In May 2019, MHCLG issued a consultation seeking views on proposals to amend the LGPS valuation cycle in England and Wales from a three year cycle to a four year cycle. The outcome of that consultation was not yet known, however, MHCLG had confirmed to Hymans Robertson, the Fund's actuary, that the next round of valuations for English and Welsh LGPS funds would be 31 March 2022 regardless of the ongoing consultation. Hymans Robertson would, therefore, certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

The Valuation was a planning exercise for the Fund to determine:

- The expected cost of providing the benefits built up by members at the valuation date in today's terms (the liabilities) compared to the funds held by the Pension Fund (the assets);
- The contributions needed over an appropriate time horizon to cover the cost of the benefits that active members would build up in the future (the Primary Contribution Rate);
- An adjustment for the difference between the Primary Contribution Rate above, and the actual contribution the employer needed to pay over the time horizon, referred to as the Secondary Contribution Rate. In broad terms, payment of the Secondary Contribution Rate was in respect of benefits already accrued at the valuation date.

Since the last actuarial valuation, the Fund had achieved investment returns of 33.3% compared to an anticipated investment return over that period of 12.6%, leading to a much larger increase in the value of the assets of the Fund than expected.

Longer term expectations for Consumer Prices Index (CPI) inflation had increased slightly from 2.1% per annum in 2016 to the current forecast of 2.3% per annum. Pension benefit increased (both in payment and deferment) and the revaluation of career-average earnings were in line with CPI inflation; a higher level of CPI, therefore, resulted in an increase in the forecast costs of the benefits to be paid from the Fund.

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

As part of the valuation process, the Fund reviewed the funding strategy to ensure that an appropriate contribution plan and investment strategy was in place. The funding strategy was set out in the Funding Strategy Statement (FSS) which was the Fund's key governance document in relation to the actuarial valuation.

The draft Funding Strategy Statement was attached. The main changes to the FSS since the previous valuation were:

- increased likelihoods of reaching the funding target for all employers to allow for the potential impact of the McCloud judgement;
- a larger increase in the likelihood of reaching the funding target, and a reduction in the time horizon, for Universities and Colleges to reflect changes in the assessment of the employer covenant for the sector;
- increased clarity on risk sharing options;
- the proposed treatment of exit credits;
- increased clarity on pooling arrangements.

The proposed method of setting contribution rates for Academies, and the funding basis to be adopted for Community Admission Bodies that were closed to new entrants, would be finalised upon consideration of the individual employer results. The Fund would then consult with scheme employers, Derbyshire Pension Board and other stakeholders on the proposed FSS.

RESOLVED to note (1) the initial whole fund results of the actuarial valuation at 31 March 2019; and (2) the progress on the formulation of the updated Funding Strategy Statement (FSS) and the intention to commence a consultation with the Fund's stakeholders on the FSS in late December.

73/19 **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 22 October 2019 (contains exempt information).

74/19 **MINUTES RESOLVED** that the exempt minutes of the meeting held on 22 October 2019 be confirmed as a correct record and signed by the Chairman.

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Agenda Item No. 4 (a)

**DERBYSHIRE COUNTY COUNCIL
PENSIONS AND INVESTMENTS COMMITTEE**

22 January 2020

Report of the Director of Finance & ICT

GOVERNANCE IN THE LOCAL GOVERNMENT PENSION SCHEME

1 Purpose of the Report

To inform the Pensions and Investments Committee (the Committee) of recent reports on governance in the Local Government Pension Scheme (LGPS) from the LGPS Scheme Advisory Board and The Pensions Regulator, and to note the intention of officers to work with Derbyshire Pension Board to develop the governance arrangements of the Pension Fund.

2 Information and Analysis

Governance in the LGPS is evolving to take into consideration increased oversight by The Pensions Regulator (TPR), the introduction of Local Pension Boards, increasing complexity in the administration of the scheme and the development of investment pooling.

Good Governance Report

In February 2019, the LGPS Scheme Advisory Board (SAB) appointed Hymans Robertson (Hymans) to examine the effectiveness of LGPS governance models and to consider alternatives or enhancements to existing models which could strengthen LGPS governance arrangements. Hymans were, particularly, asked to look at potential conflicts of interest between the pension function of administering authorities and their host local authority.

Hymans engaged extensively with stakeholders and considered four governance models:

- Model 1 - Improved practice
- Model 2 - Model 1 plus greater ring-fencing
- Model 3 - Joint Committee
- Model 4 – Separate Local Authority Body

The key findings from the resulting Good Governance Report were:

- An **‘outcomes-based’ approach** to LGPS governance with minimum standards rather than a prescribed governance model. Critical features of the ‘outcomes-based’ model should include:
 - robust conflict management including clarity on roles and responsibilities for decision making
 - assurance on sufficiency of administration and other resources (quantity and competency) and appropriate budget
 - explanation of policy on employer and scheme member representation in governance
 - regular independent review of governance – this should be based on an enhanced governance compliance statement which should explain how the required outcomes are delivered
- **Enhanced training requirements** for S151s and s101 committee members (requirements for s101 should be on a par with local pension board members)
- **Update relevant guidance and better sign-posting.** This should include 2014 CIPFA guidance for S151s on LGPS responsibilities and 2008 statutory guidance on governance compliance statements. This guidance pre-dates both TPR involvement in LGPS oversight, local pension boards and LGPS investment pooling.

Phase II Good Governance Project

In August 2019, the SAB appointed Hymans to assist the following two working groups in the next phase of the good governance project:

- **Standards and Outcomes Workstream** – which was asked to focus on specifying clearly the outcomes and standards that the SAB wanted to see achieved by funds under the proposed approach, and how these outcomes could be evidenced
- **Compliance and Improvement Workstream-** which was asked to focus on establishing the compliance regime that will be required to independently assess funds against this framework

The Phase II Report containing the proposals of both workstreams was published in November 2019 and is attached as Appendix 1. It is envisaged that all the proposals made in the report will be enacted via the introduction of new statutory governance guidance (the Guidance) issued on behalf of MHCLG. The main proposals are:

General

- each administering authority must have a single named officer who is responsible for the delivery of the pension function
- each fund must produce an enhanced annual governance compliance statement which sets out details of how each fund has addressed key areas of fund governance

Conflicts of Interest

- administering authorities must evidence that conflicts, and in particular, potential and perceived conflicts, as well as actual conflicts are being identified, monitored and managed
- the Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB

Representation

- each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party (the Guidance should acknowledge the principal that administering authorities may wish to retain a majority vote on decision making bodies in order to reflect their statutory responsibilities for maintaining the fund)

Skills & Training

- the introduction of a requirement for key individuals within the LGPS, including LGPS officers and pension committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively
- the introduction of a requirement for S151 officers to carry out relevant training as part of their Continuing Professional Development requirements to ensure good levels of knowledge and understanding
- administering authorities must publish a policy for setting out their approach to the delivery, assessment and recording of training plans to meet these requirements
- CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their training qualification syllabus

Service Delivery for the LGPS Function

- funds should document roles and responsibilities and develop, maintain and publish a 'roles and responsibilities matrix'
- each administering authority must develop, maintain and publish an administration strategy
- a series of some 10 to 15 key indicators or measures of standards of LGPS service delivery to members and employers should be agreed,

with all administering authorities required to report against these as part of their governance compliance statement

- budgets for pension fund functions should be sufficient to meet all statutory requirements, the expectations of regulatory bodies and provide a good service to Scheme members and employers
- each administering authority must give proper consideration to the utilisation of pay and recruitment policies, including as appropriate market supplements, relevant to the needs of their pension function

Compliance and improvement

- each administering authority must undergo a biennial independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified
- LGA to consider establishing a peer review process for LGPs funds

Phase III Good Governance Project

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

The Pensions Regulator – Governance and Administration Risks in Public Service Pension Schemes: An Engagement Report

In September 2019, the Pensions Regulator (TPR) published its findings of an engagement with ten local government funds which sought to understand scheme managers' approaches to a number of key risks. The report summarised the key findings against the Regulator's Code of Practice 14 and can be found [here](#).

On the publication of the report, the Chair of the SAB, Councillor Roger Phillips said: 'This key area of work ties in closely with the Board's own Good Governance project. In identifying examples of best practice as well as areas for further improvement the report will undoubtedly be of great assistance to LGPS funds in seeking to enhance their own governance and administration arrangements.'

Overall, TPR found a number of common areas, some requiring improvement but others demonstrating good practice, relating to the various risk areas investigated. The key improvement areas identified by TPR were:

- **Key person risk:** While most scheme managers demonstrated a good knowledge of what TPR expect, many funds have a lack of comprehensive documented policies and procedures. TPR also found an over-reliance on controls put in place by the Local Authority with little interaction between the scheme manager and Local Authority. This

was particularly prevalent in relation to cyber security, but this theme overlay several of the risk areas explored.

- **Pension boards:** Engagement levels varied, with concerns being raised about the frequency some pension boards meet and their appetite to build their knowledge and understanding. TPR saw evidence of some pension boards not wanting to review full documents, instead relying on much reduced summaries and leading TPR to question how they could fulfil their function. Others were well run and engaged.
- **Fraud/scams:** TPR saw evidence of scheme managers learning from wider events and taking steps to secure scheme assets. However, not all were as vigilant when it came to protecting members from potential scams.
- **Employers:** TPR saw considerable variance in the approaches taken to dealing with the risks surrounding employers, such as receiving contributions and employer insolvency. Generally this was connected to fund resourcing, but also related to different philosophies related to taking security over assets.

Derbyshire Pension Fund's Governance Arrangements

The recent SAB and TPR governance reports will be taken into consideration in the Pension Fund's ongoing review of its governance arrangements. In particular, the reports will help to inform the Fund's review of its policies and procedures and assist with the identification of areas where Fund specific policies should be developed.

Officers will work with Derbyshire Pension Board to develop the governance arrangements of the Fund to comply with the new statutory governance guidance as it is developed and to emulate best practice.

3 Other Considerations

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

4 Officer's Recommendation

That Committee notes the recent LGPS governance reports from the SAB and TPR.

That Committee notes the intention of officers to work with Derbyshire Pension Board to develop the governance arrangements of the Fund.

PETER HANDFORD
Director of Finance & ICT

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Good governance in the LGPS

Phase II report from Working Groups to SAB

November 2019

Process

Following on from the presentation of the Good Governance Report to the SAB on 8 July 2019, the Board agreed to constitute two working groups to take forward the proposals included in the report. Hymans Robertson were appointed to assist the working groups in this next phase of the good governance project.

The first working group (Standards and Outcomes Workstream) was asked to focus on specifying clearly the outcomes and standards that the SAB wishes to see achieved by funds under the proposed approach, and how these outcomes should be evidenced.

The second working group (Compliance and Improvement Workstream) was asked to focus on establishing the compliance regime that will be required to independently assess funds against this framework.

This report has been prepared for the SAB by both working groups and includes detailed implementation proposals for their workstream including a list of the changes required to guidance to implement this framework.

Thanks to contributors

Thank you to the following who contributed to the working groups and this report.

Euan Miller Assistant Director of Pensions
(Funding and Business Development),
Greater Manchester Pension Fund

Peter Moore Chair of CIPFA's Pensions Panel

Mark Wynn Director of Corporate Services
at Cheshire West and Chester Council, SCT

Nick Gannon TPR

Con Hargrave MHCLG

Jenny Poole Head of Finance & Audit/GO Shared
Services at Cotswold District Council

John Raisin Independent Advisor

Joe Dabrowski Head of DB, LGPS and Standards,
PLSA

Karen McWilliam Consultant, Aon

Jeffrey Dong Chief Treasury Officer at
City & County of Swansea, SWT

Caroline Holland Director of Corporate Services
at London Borough of Merton, SLT

Nicola Mark Head of the Norfolk Pension Fund,
Practitioner representative to SAB

Annemarie Allen Consultant, Barnet Waddingham

Chris Moore Director of Corporate Services and
Section 151 Officer, Carmarthenshire County Council

Rachel Brothwood Director of Pensions,
West Midlands Pension Fund

Robert Holloway SAB secretariat, LGA

Jeff Houston SAB secretariat, LGA

Jon Richards Unison

David Aldous National Audit Office

Yvonne Johnson Chair of the Pension Fund Panel,
London Borough of Ealing, Scheme Employer
Representative, SAB.

Hymans Robertson facilitators:

Catherine McFadyen, John Wright, Ian Colvin, Steven Law

Contents

Terminology	1
Workstream 1: Standards and outcomes	3
Workstream 2: Compliance and improvement	4
Next steps.....	6
Appendix A: Summary of recommendations.....	22

Terminology

Atypical administering authorities

This report has been drafted largely using terminology relevant to the majority of administering authorities who are local authorities. However, it is recognised that there are some administering authorities which do not fit this model. In taking forward any of the proposals outlined in this report it will be necessary to ensure that principles can be applied universally to LGPS funds and that any guidance recognises the unique position of some funds.

Use of terms

Throughout this document the following terms have a specific meaning unless the context makes clear that another meaning is intended:

Administering authority refers to a body listed in part 1 of Schedule 3 to the LGPS Regulations 2013 that is required to maintain an LGPS pension fund. In particular the term is used here when such a body is carrying out LGPS specific functions.

For example “Each administering authority must publish an annual report.”

Committee. A committee formed under s101 of the Local Government Act 1972 to which the administering authority delegates LGPS responsibilities and decision making powers. Alternatively, can refer to an advisory committee or panel which makes recommendations on LGPS matters to an individual to whom the administering authority has delegated LGPS decision making responsibility.

For example “The pensions committee should have a role in developing the business plan.”

Host authority refers to a council or other body that is also an administering authority but is used to refer to that body when it is carrying out wider non-LGPS specific functions.

For example “Delivery of the LGPS function must be constant with the constitution of the host authority.”

The fund carries a more general meaning and is used to refer to the various activities and functions that are necessary in order to administer the LGPS.

For example “Taking this course of action will improve the fund's administration”.

Alternatively, the term is used in the context of the scheme members and employers who contribute to the LGPS arrangements of a specific administering authority.

For example “The number of fund employers has increased in recent years.”

Workstream 1: Standards and outcomes

Proposals and background

A. General

1. It is envisaged that all the proposals made in this document will be enacted via the introduction of new statutory governance guidance which will supersede current and previous guidance, although it will contain elements of existing legislation and guidance where appropriate. This guidance would be issued on behalf of MHCLG, although MHCLG may seek assistance on drafting the guidance.
2. In order to improve the accountability for fund governance, it is proposed that each administering authority must have a single named officer who is responsible for the delivery of the pension function. (“the LGPS senior officer”). This may be the S151 officer, assuming they have the capacity, LGPS knowledge and internal assurance framework to assume that role. Alternatively, the LGPS senior officer role may be undertaken by another officer who has the remit of delivering the LGPS function in its entirety and who is likewise suitably qualified and experienced and has the capacity to assume this role. This should be a person close enough to the running of the fund that they have sight of all aspects of the fund’s business. The role of the responsible person should be assigned through the host authority’s scheme of delegation and constitution. If the person who undertakes this key role within the host authority changes it may be necessary for the role of the responsible person to be reviewed.
3. In order to improve the transparency and auditability of governance arrangements, each fund must produce an enhanced annual governance compliance statement, in accordance with the statutory governance guidance, which sets out details of how each fund has addressed key areas of fund governance. The preparation and sign off of this statement will be the responsibility of the LGPS senior officer and it must be co-signed by the host authority’s s151 officer, where that person is not also the LGPS senior officer. The expectation will also be that committees and local pension boards would be appropriately involved in the process.

A.1 MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. (“the Guidance”).

A.2 Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. (“the LGPS senior officer”).

A.3 Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be signed by the LGPS senior officer and, where different, co-signed by the S151 officer.



B. Conflicts of interest

1. Administering authorities must evidence that conflicts, and in particular, potential and perceived conflicts, as well as actual conflicts are being identified, monitored and managed. Some administering authorities currently only follow the conflicts of interest requirements of the host authority which are typically focused on the elected member register of interest and code of conduct. The Guidance should require all administering authorities to publish a specific LGPS conflicts of interest policy and should stipulate the areas that the policy should address. In addition to registering interests, this will include information on how it identifies, monitors and manages conflicts, including areas of potential conflict that are specific to the LGPS as listed:

- Any commercial relationships between the administering authority or host authority and other employers in the fund/or other parties which may impact decisions made in the best interests of the fund. These may include shared service arrangements which impact the fund operations directly but will also include outsourcing relationship and companies related to or wholly owned by the Council, which do not relate to pension fund operations.
- Contribution setting for the AA and other employers.
- Cross charging for services or shared resourcing between the AA and the fund
- Dual role of the AA as an owner and client of a pool
- Local investment decisions
- Any other roles within the Council being carried out by committee members or officers which may result in a conflict either in the time available to dedicate to the fund or in decision making or oversight. For example, some roles on other finance committees, audit or health committees or finance cabinet should be disclosed.

Each administering authority's policy should address:

- How potential conflicts of interest are identified and managed;
- How officers, employer and scheme member representatives, elected members, members of the local pension board and advisers and contractors understand their responsibilities in respect of ensuring that conflicts of interest are properly managed;
- Systems, controls and processes, including maintaining clear records, for managing and mitigating potential conflicts of interest effectively such that they never become actual conflicts;
- How the effectiveness of its conflict of interest policy is reviewed and updated as required;
- How a culture which supports transparency and the management and mitigation of conflicts of interest is embedded.
- How the specific conflicts that arise from its dual role as both an employer participating in the Fund and the administering authority responsible for delivering the LGPS for that fund are managed.
- In putting together such a policy it is recognised that membership of the LGPS is not, in and of itself, a conflict of interest.

Each fund should be required to make public its conflicts of interest policy.

2. During the Phase I survey a number of respondents said that it would be very helpful to define the extent of fiduciary duties in respect of the individuals, committees and boards involved in LGPS governance. The SAB working group came to the conclusion that that while clarification on the fiduciary question is desirable, the complex legal considerations mean that this is beyond the scope of this project. The Group is aware that the SAB has separately undertaken to collate various references to fiduciary duties and public law principles and provide a guide which illustrates how these might be applied to the LGPS. It would be helpful for The Guidance to make reference to the SAB's findings in this area.

B.1 Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the Guidance.

B.2 The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB.

C. Representation

1. The initial phase of the Good Governance review highlighted that many pension committees now have non-administering authority employer and scheme member representatives although local practice varies as to whether these members have a vote. Primary legislation in the form of the Local Government Act 1972 allows local authorities wide discretion over committee appointments and delegations and this issue ultimately remains one of local democracy.

The Guidance should require that all administering authorities prepare, maintain and publish their policy on representation and to require that they provide:

- the rationale for their approach to representation for non-administering authority employers and local authority and non-local authority scheme members on any relevant committees; and
- the rationale as to whether those representatives have voting rights or not.

Best practice would suggest that scheme member representation in some form is a desirable goal for administering authorities. In addition to representation on committees, administering authorities should state other ways in which they engage their wider employer and Scheme membership

The Guidance should also acknowledge the important principle that administering authorities may wish to retain a majority vote on decision making bodies in order to reflect their statutory responsibilities for maintaining the fund.

C.1 Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party.



D. Skills and training

1. The Good Governance Review noted the need for enhanced levels of training for key LGPS individuals. While there exists a statutory duty on members of local pension boards to maintain an appropriate level of knowledge and understanding to carry out their role effectively, no such statutory duty applies to those sitting on s101 committees.

The Guidance should mandate a similar knowledge and understanding requirement for those carrying out a delegated decision-making role on s101 committees as well as officers involved in the fund. At committee, knowledge should be considered at a collective level and it should be recognised that new members will require a grace period over which to attain the requisite knowledge.

Training should be delivered as part of a supportive environment and committee and board members will not be required to undertake tests, although it is recognised that best practice would include assessments or other means to identify gaps in knowledge.

The Guidance should clarify that the expectation is that the TPR requirements that apply to Local Pension Boards should equally apply to Committee and senior officers within the context of an appropriate LGPS specific framework, for example the CIPFA knowledge and skills Code of Practice and Framework (currently being updated). As a minimum those sitting on pension committees or the equivalent should comply with the requirements of MiFID II opt-up to act as a professional client but the expectation is that a higher level and broader range of knowledge will be required.

Training records must be maintained.

2. There should be an LGPS training requirement for s151 officers (or those aspiring to the role) as part of their CPD. An appropriate level of LGPS knowledge must be attained by S151 officers of an administering authority. A level of LGPS knowledge should also be attained by S151 officers of other public bodies participating in the LGPS, although it is not expected that that they should have the depth and breadth of knowledge required of the S151 officer of an administering authority. This should be specified and administered by an appropriate professional body.

D.1 Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively.

D.2 Introduce a requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding.

D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.

D.4 CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their training qualification syllabus.

E. Service delivery for the LGPS function

The Good Governance Review proposed that LGPS funds should be able to evidence that their administration and other resource (quantity and competency) is sufficient to meet regulatory requirements and that their budget is appropriate to deliver this. In this context administration refers to all of the tasks and processes required to deliver the Scheme and is not limited to the calculation and payment of benefits. This definition encompasses a funds accountancy function, investment support, employer liaison, systems, communications etc.

1. Clarity around roles, responsibilities and decision making are central to good delivery of the LGPS function. The Guidance should require funds to document roles and responsibilities and develop, maintain and publish a “roles and responsibilities matrix” which sets out who within the organisation is responsible for final sign off, implementation, oversight and recommending the key decisions that the fund is required to make.

The “roles and responsibilities matrix” should reflect the host authority’s scheme of delegation and constitution and be supported by a clearly documented management structure.

2. The Guidance should require that each administering authority must develop, maintain and publish an administration strategy which sets out its approach to the matters mentioned in regulation 59 (2) of the LGPS Regulations 2013 and the Guidance. We recommend that the Board ask that this proposal to be implemented by MHCLG within the LGPS Regulations at their earliest opportunity.
3. A series of some 10 to 15 key indicators or measures of standards of LGPS service delivery to members and employers should be agreed. These indicators should be drawn wherever possible from current reporting structures. All administering authorities must be required to report against these as part of their governance compliance statement.

It is acknowledged that there are inherent difficulties in drawing conclusions when comparisons are not always on a true like for like basis but it is preferable to introduce measures now and seek to improve the measurement approach over time.

4. Each Administering Authority has a specific legal responsibility to administer the LGPS within their geographical region and to maintain a specific reserve for that purpose. It is important therefore that the fund’s budget is set and managed separately from the expenditure of the host authority.

Budgets for pension fund functions should be sufficient to meet all statutory requirements, the expectations of regulatory bodies and provide a good service to Scheme members and employers. The budget setting process should be one initiated and managed by the fund’s officers and the pension committee and assisted by the local pension board.

Required expenditure should be based on the fund’s business plan and deliverables for the forthcoming year. The practice should not simply be to uprate last year’s budget by an inflationary measure or specify an “available” budget and work back to what level of service that budget can deliver.

The body or individual with delegated responsibility for delivering the LGPS service should have a role in setting that budget. Typically, this will involve the pension committee being satisfied that the proposed budget is appropriate to deliver the fund’s business plan but it is recognised that other governance models exist within the LGPS. Whichever approach is used, it should be clearly set out in the roles and responsibilities matrix and be consistent with the host authority’s scheme of delegation and constitution.





E. Service delivery for the LGPS function (continued)

Where a proposed budget is approved, the senior LGPS officer will confirm in the governance compliance statement that the administering authority has approved the budget required to deliver the pensions function to the required standard. If the budget is not approved, the senior LGPS officer will declare that in the governance compliance statement, including the impact of that on service delivery as expressed in a reduced business plan.

These statements in the governance compliance statement will be co-signed by the S151 officer where this is not the same person as the senior LGPS officer.

5. Each Administering Authority has a duty to ensure that its pensions function is staffed such as to enable it to deliver an effective pensions service to the all fund employers and members. It is therefore important that the recruitment and retention practices applied to the pensions function facilitate this. For example, the use of market supplements may be necessary to recruit/retain both investment and pensions administration staff. Further, given that the pension fund budget is set and managed separately from the expenditure of the host authority, the impact of general council staffing policies such as recruitment freezes should not be applied to the pension fund by default.

E.1 Each administering authority must document key roles and responsibilities relating to its LGPS fund and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority's scheme of delegation and constitution and be consistent with role descriptions and business processes.

E.2 Each administering authority must publish an administration strategy.

E.3 Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.

E.4 Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.

E.5 Each Administering Authority must give proper consideration to the utilisation of pay and recruitment policies, including as appropriate market supplements, relevant to the needs of their pension function. Administering Authorities should not simply apply general council staffing policies such as recruitment freezes to the pensions function.

Workstream 2: Compliance and improvement

F. Compliance and improvement

One of the key features of the original Good Governance Review was the view that in order to ensure required standards are adhered to consistently there needs to be regular independent review of administering authorities governance arrangements.

1. The new MHCLG guidance should set out a process for an Independent Governance Review, to include the features set out below.
 - a. It will be mandatory for each Fund to commission an Independent Governance Review (“IGR”) which will audit the fund’s Governance Compliance Statement and review compliance with the requirement of the new statutory guidance.
 - b. There should be a standardised framework and process for IGRs which covers all areas set out in new MHCLG guidance.
 - c. It is critical that the IGR should be conducted by appropriate persons who:
 - properly understand the LGPS;
 - are sufficiently at arm’s length from the administering authority’s pensions function, that is, they do not have an existing contractual relationship with the administering authority which conflicts with their ability to carry out a properly independent and objective assessment of governance standards and compliance with new statutory requirements; and
 - are in some way “accredited” to ensure consistent standards of review.
 - d. To ensure consistent standards from those conducting IGRs, a procurement framework should be put in place which sets out the standard requirements, standard reporting and standard fee for an LGPS IGR. Ideally this should be in place for 2020/21.
 - e. Suppliers who can demonstrate they are suitably qualified and knowledgeable may be appointed to the framework, from which any LGPS Funds may appoint an external supplier.
 - f. Alternatively, administering authorities may choose to have their IGR review carried out by their own internal audit or another appropriate party to the same standards as the framework.
 - g. Each administering authority should have an IGR completed biennially, by a date which will be notified by the SAB.
 - h. The SAB may direct, as a result of concerns about the governance of a fund (or for another reason), that an administering authority must have an IGR completed outside of the two-year cycle.
 - i. The IGR will report findings to the body and/or individual with delegated responsibility for delivery of the LGPS as set out in the roles and responsibilities matrix and to the local pension board.
 - j. The administering authority must develop an improvement plan to address any issues raised in the IGR.
 - k. The report from the IGR and improvement plan must be published and also be submitted to SAB and relevant SAB sub-committees.
 - l. SAB will put in place a panel of independent experts to scrutinise the IGR reports, looking for outliers and areas of concern. The panel of experts will be drawn from LGPS stakeholders to include the s151 community and other parties as appropriate.
 - m. The SAB panel may enter into discussions with funds where the panel find the IGR report or agreed improvement plan or progress against a previous improvement plan are considered to be unsatisfactory. Additionally, they may refer the unsatisfactory IGR to TPR or further escalate to MHCLG.
 - n. Failure to submit an IGR report by the required date will result in automatic referral.
 - o. A dry run is recommended in parallel with the timeline for drafting the required Guidance.
 - p. Nothing in this process overrides an individual’s responsibility to report breaches of the law under the Pensions Act 2004 or any other professional or legal whistleblowing obligations.





F. Compliance and improvement (continued)

2. LGA run a peer challenge process for some areas of local government. It is a process commissioned by a council and involves a small team of local government officers and councillors spending time at the council as peers to provide challenge and share learning. It is suggested that a similar peer challenge process is established for the LGPS.

F.1 Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified.

IGR reports to be assessed by a SAB panel of experts.

F.2 LGA to consider establishing a peer review process for LGPS Funds.

Summary of the compliance and improvement process

Annually, each administering authority to produce a governance compliance statement signed by the senior LGPS officer and S151 which demonstrates compliance with LGPS requirements.

Biennially, each administering authority to commission an Independent Governance Review (IGR).

IGR reports to senior LGPS officer, pensions committee and pensions board.

IGR report goes to a SAB panel of experts for assessment. Panel could request further details of improvement plans, make recommendations or report to TPR & MHCLG


Next steps

The Working Group recommends that SAB and MHCLG accept the recommendations in this report and initiate phase III of the project.

Phase III should contain the following elements:

- 1.** MHCLG to draft the required changes to the Guidance.
- 2.** SAB to ask the National Framework to begin work on establishing Independent Governance Review provider framework.
- 3.** SAB to establish the 10-15 KPIs referred to within proposal E.3.
- 4.** It is envisaged that the governance compliance statement will act as a summary, evidencing the Fund's position on all areas of governance and compliance. Where a fund is non-compliant in a certain area the statement should provide information within and accompanying improvement plan about the steps being taken in order to address non-compliance. SAB to consider drawing up a complete list of the topics that should be included within the governance compliance statement.



A full-page photograph of a forest. The foreground is filled with a dense carpet of small, purple, bell-shaped flowers, likely bluebells, growing in green grass. The background consists of numerous tall, slender, dark tree trunks that rise vertically, with a thick canopy of green leaves above them. Sunlight filters through the leaves, creating a dappled light effect on the forest floor.

Appendix A

Summary of recommendations

Area	Proposal
A. General	A.1 MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. ("the Guidance").
	A.2 Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. ("the LGPS senior officer").
	A.3 Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be signed by the LGPS senior officer and, where different, co-signed by the S151 officer.
B. Conflicts of interest	B.1 Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the Guidance.
	B.2 The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB.
C. Representation	C.1 Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party.
D. Knowledge and understanding	D.1 Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively.
	D.2 Introduce a requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding.
	D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.
	D.4 CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their training qualification syllabus.
E. Service delivery for the LGPS function	E.1 Each administering authority must document key roles and responsibilities relating to its LGPS fund and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority's scheme of delegation and constitution and be consistent with role descriptions and business processes.
	E.2 Each administering authority must publish an administration strategy.
	E.3 Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.
	E.4 Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.
	E.5 Each Administering Authority must give proper consideration to the utilisation of pay and recruitment policies, including as appropriate market supplements, relevant to the needs of their pension function. Administering Authorities should not simply apply general council staffing policies such as recruitment freezes to the pensions function.
F. Compliance and improvement	F.1 Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.
	F.2 LGA to consider establishing a peer review process for LGPS Funds.

DERBYSHIRE COUNTY COUNCIL
PENSIONS AND INVESTMENTS COMMITTEE

22 January 2020

Report of the Director of Finance and ICT

Quarterly Pension Administration Performance Report
1 October 2019 to 31 December 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 third quarter of 2019/20 (Q3).

2 Content

- | | |
|---|--|
| 3 | Workload data |
| | 3.1 Membership numbers |
| | 3.2 Achievement against standards |
| | 3.3 Throughput |
| | 3.4 Monthly contribution returns |
| | 3.5 New academies and admission bodies |
| | 3.6 Application for Adjudication of Disputes Procedure cases |
| 4 | Communications |
| 5 | Projects |
| 6 | Collaboration |

3 Workload data

3.1 Membership numbers

Membership	30 Sept 2019	31 Dec 2019
Actives	36,170	37,608
Deferred	27,940	28,029
Pensioners	30,323	30,687
Work in Progress	8,830	8,609
Totals	103,263	104,933

Table 1

The 'Work in Progress' figure includes backlog as well as current work and, as part of the backlog management work referred to in paragraph 5.2 below, will help to support progress towards getting all administration work up to date.

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 Q3 of 2019/20.

The number of case types being measured will be reduced for a temporary period as the Team redevelops its reporting capability on the new system. As part of this redevelopment, the performance targets used will be reviewed as the efficiencies of the new pension administration system begin to be realised.

Case type	Total number of cases	Hit target	Missed target	% achieved Q3
Retirement Benefits paid	597	568	29	96.5%
Death cases	239	208	31	87.0%
Transfer Out paid	32	29	3	90.6%
Transfer Out quotes	139	65	74	46.8%

Estimate requests	263	255	8	97.0%
Refunds paid	281	278	3	98.9%

Table 2

Table 3 shows performance each quarter of 2019/20.

Case Type	Q1	Q2	Q3	Q4
Retirement Benefits paid	97.5%	98.9%	96.5%	
Death cases	93.7%	89.9%	87.0%	
Transfer Out paid	100%	100%	90.6%	
Transfer Out quotes	94%	77.7%	46.8%	
Estimate requests	95.5%	93.8%	97.0%	
Refunds paid	100%	99.7%	98.9%	

Table 3

The process for recording workflows on the new system is subject to ongoing development.

3.3 Throughput

Reporting has now been developed within Altair to capture the number of work items processed. The figures for Q3 were as follows;

Work items open on 1/10/2019	16,949
New work items becoming due during Q3	11,392
Number of work items completed during Q3	12,486
Work items open at 31/12/2019	15,855

Table 4

3.4 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 for the three months to the end of November 2019 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
September	272	261	3	1	7
October	274	269	0	1	4
November	277	261	10	3	3

Table 5

Due to the collation of responses a month after contributions are due, this report provides figures from the last month of Q2 and the first two months of Q3. 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.

3.5 New academies and admission bodies

Six new academies joined the Fund as scheme employers during Q3, as follows:

Employer Ref	Employer Name	Start Date	Academy Trust	Payroll Provider
728	Ivy House School	01/10/2019	The Shaw Education Trust	Prospects
729	Tupton Hall School	01/10/2019	The Redhill Academy Trust	Dataplan
730	St Werburgh's CofE Primary School	01/10/2019	DDAT2	Derbyshire County Council External SAP
731	St Giles' School	01/11/2019	The Spencer Academies Trust	Dataplan
732	The Green Infant School	01/11/2019	Flying High Trust	Nottinghamshire CC
733	Lawn Primary School	01/12/2019	Transform Trust	Own

Table 6

No new admission bodies joined the Fund during Q3.

The number of employers now participating in the Fund is 317.

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 Q3.

4 Communications and Training

4.1 The following communications were sent to Fund employers during Q3;

- 25/10/2019 Employer Newsletter 164
- 04/12/2019 Employer Newsletter Special issue: i-Connect
- 11/12/2019 Employer bulletin: Employer valuation seminar
- 12/12/2019 McCloud case update

The Newsletters can be accessed on the Fund website at

<https://www.derbyshirepensionfund.org.uk/site-elements/documents/pdf/employer-newsletter-163.pdf>.

A successful event was held for employers at Cromford Mills on 25 November 2019 covering the areas of ill-health retirement and dealing with appeals.

4.2 The following sessions were held for Fund members during Q3

Date	Event	Employer	Location
09/10/2019	Understanding your pension presentation	Chesterfield Borough Council	Chesterfield Borough Council, Town Hall, Rose Hill, Chesterfield S40 1LP
10/10/2019	ABS Drop-In Session	Amber Valley Borough Council	Town Hall, Ripley DE5 3BT
16/10/2019	ABS Drop-In Session	Amber Valley Borough Council	Leafy Lane, Heanor
17/10/2019	Understanding your pension presentation	Chesterfield Borough Council	Chesterfield Borough Council, Town Hall, Rose Hill, Chesterfield S40 1LP
24/10/2019	ABS Drop-In Session	University of Derby	Kedleston Rd, Derby DE22 1GB
30/10/2019	ABS Drop-In Session	Derbyshire County Council	County Hall, Matlock
04/11/2019	ABS Drop-In Session	Derbyshire County Council	County Hall, Matlock
05/11/2019	Annual allowance session	Derbyshire County Council	County Hall, Matlock
07/11/2019	ABS Drop-In Session	Hasland Infant School	Hasland Infant School, Eyre St E, Hasland, Chesterfield S41 0PE
11/11/2019	Understanding your pension	Dronfield Henry Fanshawe School	Green Ln, Dronfield S18 2FZ

	presentation		
13/11/2019	ABS Drop-In Session	Derby City Council (Stores Road Depot)	15 Stores Road, Derby, DE21 4BD
19/11/2019	ABS Drop-In Session	Ormiston Ilkeston Enterprise Academy	King George Ave, Ilkeston DE7 5HS
21/11/2019	Annual allowance session	Derby City Council	Corporation Street, Derby, DE1 2FS
25/11/2019	Employer training: HR Issues – Ill Health and Appeals	2 sessions – Morning: Open to all employers Afternoon: Derbyshire County Council HR	Gothic Warehouse, Cromford
28/11/2019	ABS Drop-In Session	Derbyshire Constabulary + Fire & Rescue	Butterley Hall, Ripley, Derbyshire, DE5 3RS
04/12/2019	ABS Drop-In Session	University of Derby (Buxton & Leek Campuses)	1 Devonshire Rd, Buxton SK17 6RY / Leek Rd, Stoke-on-Trent ST4 2DF
05/12/2019	ABS Drop-In Session	Derby City Council	Council Offices, Corporation Street, Derby, DE1 2FS

Table 7

- 4.4 Induction training was held in County Hall on 6th November 2019 for new and substitute members of the Pensions and Investments Committee and new members of the Pension Board.

5 Projects

5.1 I-Connect

The Fund is dependent upon the receipt of prompt and accurate data from its employers to enable accurate record keeping, funding decisions and benefit calculations. The I-Connect solution standardises, automates and validates the data received from employers each month, and uploads it into Altair much more efficiently than by current methods. This enables contribution reconciliation to take place monthly, thereby relieving the pressure at year-end.

The implementation project is underway and a number of employers are working with the Project Team as early adopters of this new functionality.

5.2 Backlog Management Project

A specific project is also underway to reduce and ultimately eliminate the remaining backlog areas of 'Aggregations' and 'Deferreds'. Resource has been allocated, and monitoring and reporting methods are being developed.

In the key area of 'aggregations', reporting has been able to identify that the backlog has reduced by 532 cases during Q3, from 2,861 to 2,329. It is expected that this rate of reduction will be maintained during Q4.

The current backlog of 'deferred benefit' cases is 2,282.

5.3 Data Management

The Data Management Group has been set up in order:

- To oversee progress on data improvement activity via a regular review of the Data Improvement Plan
- To monitor compliance with GDPR
- To consider the effectiveness of and compliance with data security procedures
- To enable a coordinated approach to data management via reports to the Pensions Officers Management Team (POM)

The Group meets quarterly and its effectiveness is measured by the improvement each year in the independently assessed data quality scores.

5.4 Replacement Pensions Admin System

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

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 Q3:

- CLASS (Altair) User Group, Leeds 15th October 2019
- East Midlands Pensions Officers Group (EMPOG), County Hall, 31st October 2019

- LGPS Annual Pension Managers' Conference, Torquay, 19th and 20th November 2019
- LGA Joint Communications Group 'Plain English Training', Northampton, 29th November 2019
- LGPS Central Administration sub-group, Stafford, 29th November 2019

7 Other Considerations

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

8 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 (c)

**DERBYSHIRE COUNTY COUNCIL
PENSIONS AND INVESTMENTS COMMITTEE**

22 January 2020

Report of the Director of Finance and ICT

DERBYSHIRE PENSION FUND COMPLAINTS POLICY

1 Purpose of the Report

To request the Committee's approval for the draft Derbyshire Pension Fund Complaints Policy attached as Appendix 1.

2 Background

Derbyshire Pension Fund (the Pension Fund/Fund) and each of the Fund's employing authorities, operate the Applications for the Adjudication of Disagreements Procedure (AADP) in line with the Local Government Pension Scheme Regulations 2013.

However, the Pension Fund endeavours to resolve complaints received in relation to its administration of the LGPS before they reach the stage of an appeal under the AADP. The Derbyshire Pension Fund Complaints Policy (the Policy) has been developed to provide assurance to members of the Pension Fund that all complaints will be considered properly and in a consistent manner. The Policy will also ensure that complaints are recorded consistently and that the Fund's effectiveness in dealing with complaints is monitored, with member feedback supporting the continued improvement of services.

The Policy, which will be underpinned by guidance for officers, sets out:

- the aims of the Policy
- what constitutes a complaint
- how to make a complaint
- how the Fund will deal with a complaint
- a step by step guide for members

The Altair pension administration system, implemented in early 2019, provides the functionality to record, escalate and monitor the progress of complaints

within Fund members' individual records. This functionality will enable the Pension Fund to implement the procedures set out in the Policy.

The implementation of the Policy is expected to:

- Result in fewer AADP cases – the AADP process can be long, time-consuming and potentially stressful for Fund members. It would be beneficial to all parties if more complaints could be resolved at an earlier stage.
- Learning and improvement – analysing and reporting on trends in the numbers and types of complaints will assist the Fund in continually improving the quality of service to Fund members.
- Improved governance – the monitoring and reporting of complaints represents best practice and will provide assurance to the Committee and to the Pension Board, as well as to external interested parties such as the Pensions Regulator, that members' concerns are properly considered.

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

3. Other Considerations

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

4. Officer's Recommendation

That the Committee approves the attached draft Derbyshire Pension Fund Complaints Policy.

Peter Handford

Director of Finance and ICT

Derbyshire Pension Fund Complaints Policy

Introduction

There may be a time when a member of Derbyshire Pension Fund (the Pension Fund/Fund) is unhappy with the service provided by the Fund, or disagrees with a decision made about their membership or benefits. The Pension Fund will seek to clarify, or put right, any misunderstandings or inaccuracies as quickly and efficiently as possible.

The Derbyshire Pension Fund Complaints Policy has been developed to provide assurance that, if a member of the Fund does wish to make a complaint, it will be dealt with promptly, respectfully and in a consistent manner.

The management of complaints is important to the Pension Fund. In addition to providing Fund members with assurance that their complaints will be properly considered, it ensures that feedback from members supports the continued improvement of services.

In general, complaints will usually relate to one of the following:

- Problems with services provided
- Failure to provide responses or information within agreed timescales
- Behaviour or attitude of a member of staff
- Disagreement with a decision
- Disagreement with how a policy/regulations have been applied
- Standard or quality of the service provided
- Incorrect use or storage of data

Aims of the Complaints Policy

The application of the Complaints Policy aims to:

- Support members with a straightforward, appropriate and effective process for the prompt resolution of complaints
- Take complaints seriously and deal with them in a manner that is appropriate to the nature of the issue
- Guarantee that complaints are dealt with on the basis of evidence and proper investigation

- Ensure that every issue raised in a complaint receives an appropriate explanation
- Operate in a respectful and sensitive way, having due respect for confidentiality
- Ensure that the consideration and monitoring of complaints supports the improvement of services received by members
- Ensure that all complaints are handled fairly and consistently

What is a complaint?

Many queries and minor disagreements can be resolved quickly and without being escalated to the level of a complaint. Members should, in the first instance, contact the Pension Fund, either via the Pension Fund Help Line (01629 538900), the feedback form on the Fund's website [*link to be inserted*] or via letter to: Derbyshire Pension Fund, County Hall, Matlock, Derbyshire DE4 3AH. Pension Fund staff receiving a query from a dissatisfied Fund member will, wherever possible, attempt to resolve the issue within 5 working days.

A complaint arises if the Fund member still feels that the processing of their pension benefits/calculation/query has been dealt with in an unsatisfactorily manner and should be investigated.

Making a complaint

If a member of the Pension Fund wishes to make a complaint, it should be submitted in writing via the on-line complaint form on the Pension Fund's website [*link to be added*] or by letter (clearly marked complaint) to ensure that all the details of the complaint are correctly recorded.

When making a complaint, a Fund member should provide all the information requested on the complaint form, specifying all of the issues requiring a response and providing specific details, such as relevant dates. Members contacting the Fund by letter should ensure that they include the following information: full name, address and contact details; date of birth and national insurance number. Any information provided will always be treated in accordance with the Fund's privacy notice.

Complaints made via a third party, such as a Union Member or Councillor, will only be investigated if consent to share information has been received from the relevant Fund member. Once the Pension Fund has received consent to share information, a complaint will be subject to the normal process and timescales. A summary response will be provided to the Union Member or

Councillor in accordance with the privacy notice and any consent to share information.

Dealing with Complaints

Complainants will be listened to and reassured that their issue is being taken seriously. Complaints will be considered by a suitable member of staff and will be escalated to a more senior member of staff where appropriate.

Complaints submitted via the Fund's website, or by letter, will be resolved as promptly as possible; when a complaint is not resolved within 5 working days of receipt, the complaint will be acknowledged and an anticipated response timescale provided. In circumstances where it is not possible to provide a response within 5 working days, Derbyshire Pension Fund will aim to provide a response within 10 working days.

Depending on the nature of the complaint, the Pension Fund may need to request information from a 3rd party, usually a member's employer or payroll provider. Complaints will be dealt with confidentially and information regarding the complaint will not be shared with the 3rd party unless it is absolutely necessary to do so.

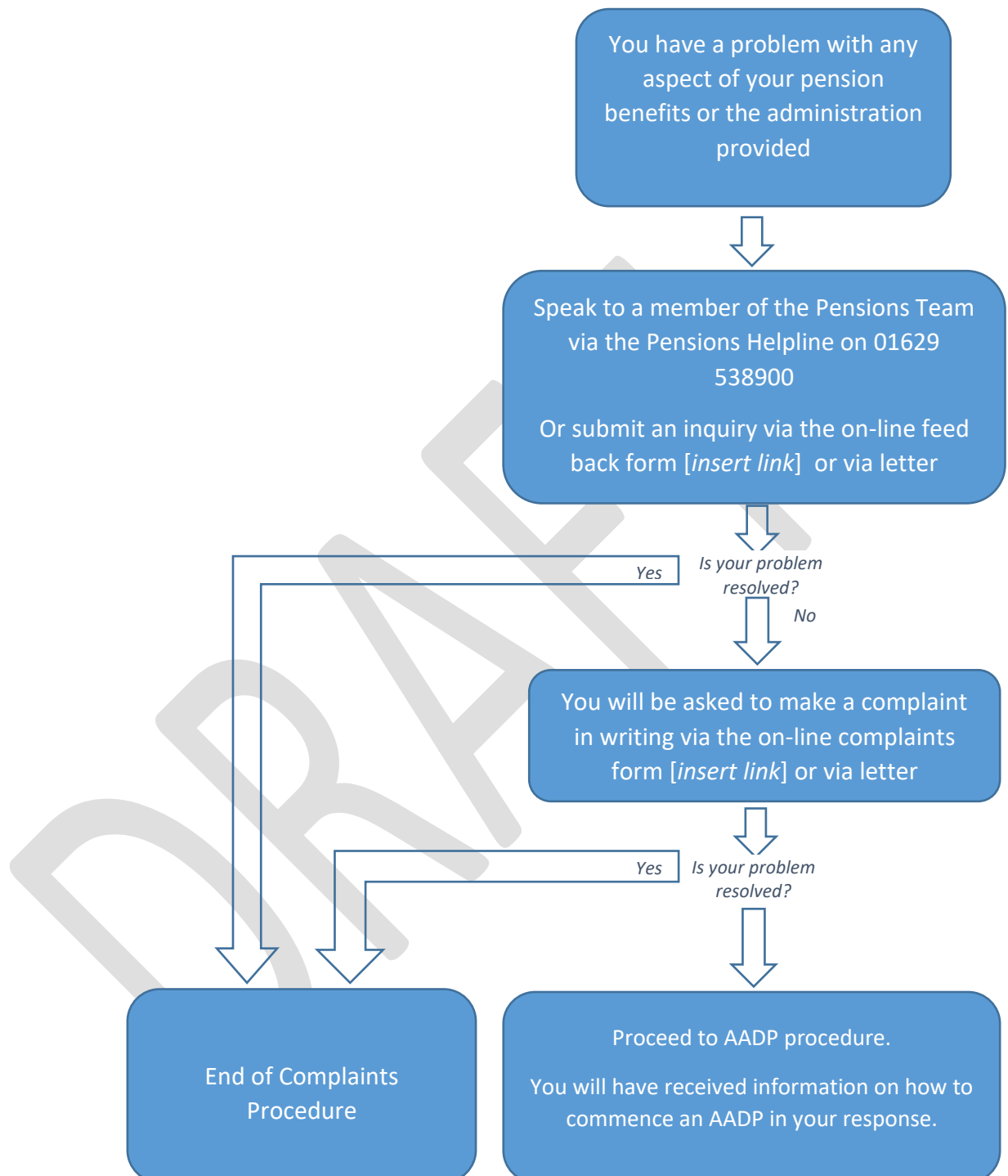
To ensure that all of the relevant facts are available, and to enable a full investigation to be carried out, the target date for responding to a complaint may need to be extended. The complainant will be informed of any extension and provided with a new target date for the full response.

Anonymised summaries of complaints may be made available to the Pensions and Investments Committee and to Derbyshire Pension Board for monitoring purposes.

Applications for the Adjudication of Disagreements Procedure (AADP)

If a member of the Pension Fund is still dissatisfied after the procedure set out in the Complaints Policy has been completed, they have the right to appeal under the **Applications for the Adjudication of Disagreements Procedure (AADP)**. For further information please visit <https://www.derbyshirepensionfund.org.uk/about-the-fund/feedback-complaints-and-appeals/feedback-complaints-and-appeals.aspx>

Concerns and Complaints: a step by step guide for Pension Fund members



Agenda Item No. 4 (d)

**DERBYSHIRE COUNTY COUNCIL
PENSIONS AND INVESTMENTS COMMITTEE**

22 January 2020

Report of the Director of Finance and ICT

DERBYSHIRE PENSION FUND PENSION ADMINISTRATION STRATEGY

1 Purpose of the Report

To request the Committee's approval for the draft Derbyshire Pension Fund Pension Administration Strategy 2020 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 Local Government Pension Scheme (LGPS) members in Derbyshire.

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

The last review of the PAS was undertaken and approved by the Committee in July 2019. The revisions made at that time were mainly concerned with updating the document to reflect developments such as the implementation of the Altair pension administration system.

Subsequently, the arrangements for the management of employer underperformance have been reviewed, taking into consideration the Fund's practical experience of implementing charges for employer underperformance. The 2020 review has been undertaken promptly to ensure that the proposed revisions to the process for charging for underperformance, and to the level of

charges, are documented, implemented and communicated to employers as soon as possible.

3. Other Considerations

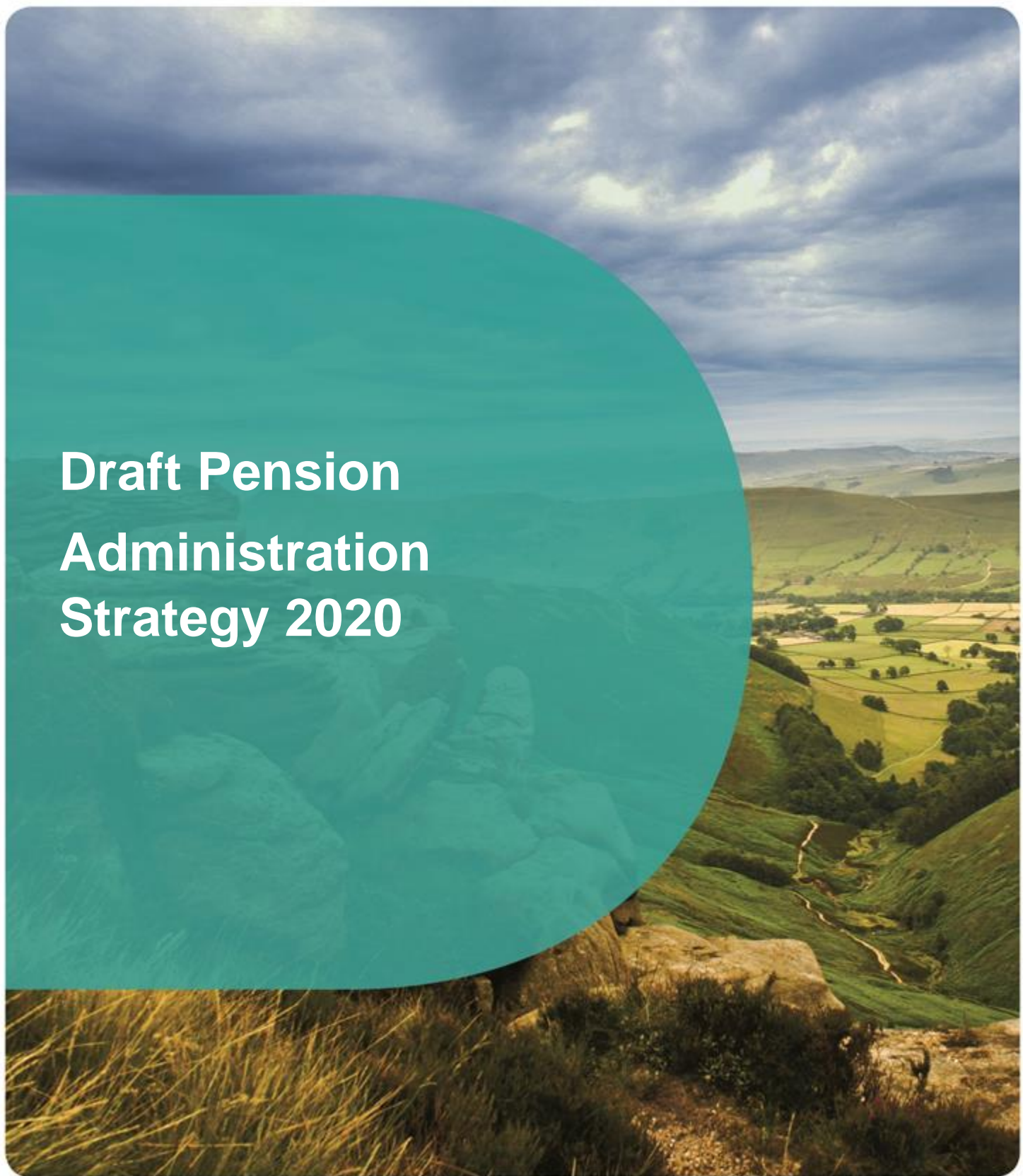
In preparing this report the relevance of the following factors have been considered: financial, legal and human rights, equality and diversity, health, environmental, transport, property and prevention of crime and disorder.

4. Officer's Recommendation

That Committee approves the draft Derbyshire Pension Fund Pension Administration Strategy 2020 attached as Appendix 1.

Peter Handford

Director of Finance and ICT



Draft Pension Administration Strategy 2020

Contents

Introduction	4
Aims of the Strategy	4
Record Keeping	5
Roles and responsibilities	6
The Employer's Roles and Responsibilities	7
The Administering Authority's Roles and Responsibilities	7
New Pension Administration System	7
Performance Monitoring	8
Approach to managing performance	8
Policy on charging for employer underperformance	8
Feedback from Employers	11
Appendix 1: The Employer's Role	12
Performance Standards	13
Scheme Governance and Administration	13
1. Employer contacts	13
2. Preparing an Employer Discretions Policy	14
3. Pension Contributions	14
4. Year-End Return	15
5. Communications	15
6. Appeals	15
7. Outsourcing/TUPE arrangements	16
8. Strain/Shortfall Payments to the Pension Fund	16
9. Miscellaneous	16
Individual Member Administration	17
1. New Starters	17
2. Additional Pension Contributions (APCs)	17
3. Additional Voluntary Contributions (AVCs)	18
4. Changes to Personal Details	18
5. Changes to Employment Details	18
6. Notification of Unpaid Absences	18
7. Opt-Outs	19
8. Notification of Leaver	19
9. Appeals	20

Appendix 2: The Administering Authority's Role	21
Scheme Governance and Administration	21
1. Fund Policies and Strategies	21
2. Fund Communications – Employers	21
3. Fund Communications – Scheme Members	22
4. Contributions.....	23
5. Scheme Employer Admissions and Cessations.....	23
Individual Member Administration	23
1. General Enquiries	23
2. New Scheme Joiners and 50/50 Elections.....	24
3. Aggregation, Transfers and Estimates.....	24
4. Additional Contributions	24
5. Deferred Benefits / Refunds.....	25
6. Retirements / Deaths	25
7. Appeals.....	25

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 Pension 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.

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.

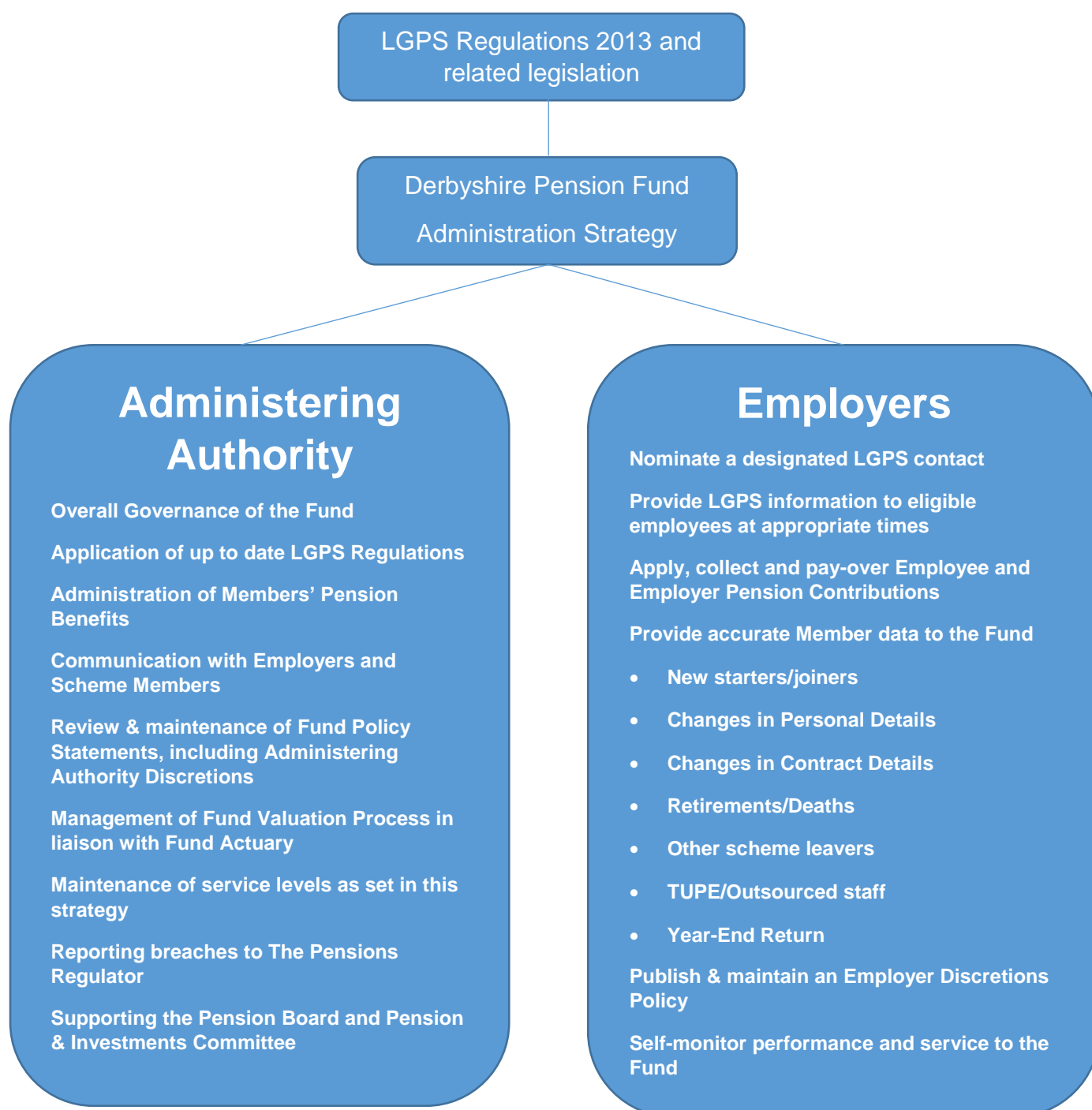
The Fund has a legal duty to provide its members with accurate and timely information about their benefits, which it cannot do without the core data from employers.

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



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 works to support employers to be able to deal with the increased complexity of the data that they are required to provide. This includes 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 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 monitors any additional costs incurred in the administration of the scheme as a direct result of underperformance and reserves the right, at its own discretion, to recover these costs further to taking the following steps:

- 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
 - notice that the additional costs incurred by the Fund as a direct result of the employer's underperformance will now be reclaimed.
- An invoice will then be issued to the scheme employer clearly setting out the calculations of any additional cost to the Fund, taking account of time and resources in resolving the specific area(s) of underperformance, in accordance with the charging scales 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.
- Underperformance charges will be applied at the discretion of the Head of Pension Fund, and will be calculated based on a combination of the following standard tariff of charges plus time spent at the daily rate outlined below.

Late payment of Employer and / or Scheme Member contributions.	£150 per occurrence plus interest as defined in the LGPS Regulations.
Late provision of year-end contributions returns in prescribed format.	£1,000 per occurrence plus £100 for each week, plus part week, of continued non-provision.
Late provision of starter information, per case.	£50 initial charge plus £50 per month or part month of continued non-provision.
Late provision of leaver information, per case.	£50 initial charge plus £50 per month or part month of continued non-provision.
Charges for persistent incorrect and incomplete information provided by the Employer to the Fund (where the case has to be returned for incorrect information on more than 2 occasions).	£50 per case
Fine from the Pensions Regulator.	Amount requested by the Pensions Regulator.
Fine from the Pensions Ombudsman.	Amount requested by the Pensions Ombudsman.
Delay causing unauthorised payments.	Cost of tax from the HMRC and or reimbursement of charges imposed by HMRC on the Derbyshire Pension Fund.
Fines from any other statutory body incurred as a result of the employer's actions.	As levied.

Charges for 'time spent' on underperformance issues will be made on a half day basis. For less than a quarter of a day, no charge will be made. For more than half a day, the full day charge will be made.

Charge Levels	1	2	3
Daily charge	£90	£125	£180
Half day charge	£45	£65	£90

Level I – Work at Pension Officer Level

Level II – Work at Senior Pension Officer Level

Level III– Work at Pension Manager Level

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

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

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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.

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
Main Contact	
Nominate a named primary contact to liaise with the Fund.	Within 1 month of employer joining fund or change to nominated representative.
All Authorised Contacts	
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. (AS forms available from the Fund)	Within 1 month of becoming a scheme employer or within 1 month of a change in nominated representative(s).
Appeals Adjudicator	
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 1 month of becoming a scheme employer or within 1 month of a change in adjudicator.
Independent Registered Medical Practitioner	
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 1 month of becoming a scheme employer or within 1 month 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 (including providing a copy of the policy document to the Fund).	To be kept under review and a revised statement published within 1 month of any changes and no later than 6 months after being informed by the Fund of any relevant change in regulations.

3. Pension Contributions

Function / Role	Performance Target
The Employer's Rate	
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.
The Employee's Rate	
Calculate and review the correct employee contribution rate band for all members at commencement and on 1 st April each year. Also to be reviewed at intervals during the year at the employer's discretion.	Immediately on commencement, on 1st April each year and as per the employer's discretionary policy on adjusting the employee's contribution rate at intervals during the year.
Assumed Pensionable Pay	
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.
Payment to the Fund	
Remit Employee, Employer and any Additional contributions <u>and</u> submit the Contributions Report Form (CR1) to the Fund.	By the 19th of the month after collection from pay.
Payment of AVCs	
Remit Additional Voluntary Contributions (AVCs) to the AVC provider(s).	By the 19th of the month following the collection from pay.

4. Year-End Return

Function / Role	Performance Target
Completing the Year-End Return	
Provide a fully reconciled and completed Year-End Return to the Fund in the format stipulated in the instructions issued each February.	By 19th April 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.
Queries from the Year-End Return	
To resolve all queries returned from the Year-End Return.	To respond fully to all queries from the Fund within 3 weeks 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
LGPS content in Contracts	
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 2 weeks of receipt of information about adjustment to Fund approved wording.
Fund Communications to Scheme Members	
Distribute any information provided by the Fund to scheme members/potential scheme members.	Within 2 weeks of its receipt.
Refer new/prospective scheme members to the Fund's website.	Within 2 weeks of commencement of employment or change in contractual conditions.

6. Appeals

Function / Role	Performance Target
AADP Stage 1 Appeals	
The Employer's Adjudicator to notify the Fund of the receipt of a Stage 1 appeal via AADP.	Within 1 week 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 1 week 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 2 months 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.	Immediate payment upon receipt of invoice from the Fund.
Remit recharge payments in respect of pension members – e.g Discretionary Compensation/Enhancement	Immediate 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	Immediate 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	Immediate payment upon receipt of invoice from the Fund.
Prompt payment of invoices issued by the Fund for specific services provided.	Immediate payment upon receipt of invoice from the Fund.
Respond to enquiries from the Fund.	Within 2 weeks from receipt of the enquiry.
Make payment of additional costs to the Fund associated with non-compliance with performance standards of the scheme employer.	Immediate payment upon receipt of invoice from the Fund.
Respond to enquiries from the Fund relating to Breaches of the Law.	Within 1 week of the request.

Individual Member Administration

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

1. New Starters

Function / Role	Performance Target
Contract Wording	
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.
Applying contributions	
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.
Notifying the Fund	
Notify the Fund of new scheme joiners via secure data transfer, new joiner spreadsheet or the individual S1 Starter form .	Within 1 month 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
Notification to member of APC option	
Ensure members are notified of the option to pay Additional Pension Contributions following absences not covered by APP.	Within 2 weeks of the return to work.

Application of Additional Contributions

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.
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3. Additional Voluntary Contributions (AVCs)

Function / Role	Performance Target
Arrange for the deduction of AVCs from scheme member's pay following election <i>Note: AVCs must be paid over to the AVC Provider by 19th 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 C1. Change of Personal Details Form . <ul style="list-style-type: none"> Change of Name Change of Address Correction of Date of Birth/NI number Change of Marital / Civil Partnership Status 	Within 1 month 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 C2 Change of Employment Details Form where required, including movement in and out of the 50/50 scheme, changes in hours etc.	Within 1 month 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 C3 Unpaid Absence Form .	Within 2 months of the event or receipt of information.

7. Opt-Outs

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

8. Notification of Leaver

Function / Role	Performance Target
Leaver Notification	
Notify the Fund of all scheme leavers via the individual L1 Leaver Notification Form , <i>(including optants-out where the member remains in employment).</i>	Within 1 month 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 st April 2014.	As part of the completion of the L1 .
Retirements	
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"> For members in receipt of regular pay where the employer can accurately project pay to the date of retirement, up to 1 month prior. For members in receipt of variable pay, within 1 week of finalising the member's last contractual pay.
Terminal Illness/Deaths	
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 3 working days of the employer being informed of the death of the employee.
Advisory Note <i>Where an employee is suffering from a Terminal Illness and limited life expectancy, employers should contact the Fund for guidance without delay.</i>	<i>As soon as practicable following receipt of information about the terminal illness.</i>

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 Decision – Within 2 months of receipt of the appeal.

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Appendix 2: The Administering Authority's Role

Scheme Governance and Administration

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.

1. Fund Policies and Strategies

Function/Task	Performance target
Publish and keep under review the Pensions Administration Strategy .	To review annually 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 Governance Policy and Compliance Statement .	By 30 September, 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 Funding Strategy Statement .	To be reviewed at each triennial 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 31 March following valuation date or as required.
Publish the Fund's Annual Statement of Accounts .	By 30 September 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 Annual Report .	By 30 September following the year-end or following the issue of the auditor's opinion.
Publish, and keep under review, the Fund's Communication Policy Statement .	By 30 September, 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 discretion within the scheme and keep under review.	Annual Review and publish within 1 month 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	No later than 28 February before the year-end.

(including where applicable, the annual spreadsheet).	
Publish and keep up to date all forms required for completion by scheme employers.	Within 1 month of any revision.
Notify scheme employers of changes to key scheme rules.	Within 1 month of the change(s) coming into effect.
Host meetings for all scheme employers.	At least 1 per year .
Provide training for new scheme employers.	All new employers invited to a training session within 3 months 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 quarterly .
Notify a scheme employer of issues relating to its non-compliance with performance standards.	Within 1 month 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 1 month 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 1 month of any revision.
Issue Annual Benefit Statements to active and deferred members as at 31 March each year.	By 31 August following the year-end.
Arrange information sessions for scheme members.	At least 1 programme of sessions per year
Issue Pension Saving Statements each year to scheme members who have exceeded their Annual Allowance.	By 6th October , 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 2 months 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 1 month before the issue of the final Rates and Adjustments Certificate
Notify new scheme employers of their contribution requirements.	Within 2 months 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 2 months 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.	Annually , 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 2 months of a cessation subject to the new scheme employer providing all relevant information upon request.

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 2 months of receipt of all necessary information
Commencement of Transfer-In requests.	Within 1 month of receipt of request from scheme member.
Completion of Transfer-In applications.	Information provided within 2 months of receipt of all required information.
Transfer-Out quotations issued.	Within 3 months 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 1 month of guarantee date.
CETV Estimates for divorce purposes.	Within 1 month 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 2 months of receiving all required information from the employer. 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 2 weeks 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 2 months of the leaving date subject to the receipt of all necessary information.
Process Refund payments.	Within 2 months from receipt of all necessary information.

6. Retirements / Deaths

Function/Task	Performance target
Provision of retirement options letters detailing member options.	Within 2 weeks from receipt of all necessary information.
Process of retirement benefits, including deferred benefits, for payment following receipt of a request to access benefits.	Within 1 month 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 1 week of initial notification.
Process of death grant for payment.	Within 2 weeks of receipt of all necessary documentation.
Processing of beneficiaries pensions for payment.	Within 2 weeks 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 2 months 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 1 week of the publication of the minutes of the Committee.

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Agenda Item No. 4 (e)

**DERBYSHIRE COUNTY COUNCIL
PENSIONS AND INVESTMENTS COMMITTEE**

22 January 2020

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. Every three years, the Fund undertakes an actuarial valuation which is a planning exercise for the Fund to determine the expected cost of providing the benefits built up by members at the valuation date in today's terms (the liabilities) compared to the funds held by the Pension Fund (the assets), and to determine employer contribution rates.

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

The Fund was 87% funded at 31 March 2016. An annual assessment of the Fund's funding position was introduced in 2017 and a further assessment was carried out at December 2018. There has been an improvement in the funding level of the Fund to 97% at March 2019, with a reduction in the deficit from £564m to £163m.

For the March 2019 valuation, the Fund's actuary has adopted a risk based approach, considering assumed investment returns over the next 20 years and the likelihood of those returns being achieved, to determine the appropriate investment return assumption for reporting the whole Fund results. This risk based approach, rather than relating the discount rate to bond yields on a particular day, is in line with the approach taken by the actuary to set employer contribution rates. On a like-for-like basis of calculation, the funding level at March 2019 would be approximately 92%.

The funding level provides a high-level snapshot of the funding position at a particular date and could be very different the following day on a sharp move in investment markets.

Whilst the Fund has a significant proportion of its assets in growth assets, the Strategic Asset Allocation Benchmark which came into effect from 1 January 2019 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.

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

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 advisory management agreements with respect to Japanese and Asia Pacific equities.

LGPSC is a relatively new 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 scrutinised 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 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', or restitution could be achieved in a different way, for example by paying compensation.

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

The SAB has had discussions with the Government Actuary's Department (GAD) around the mechanics of how a remedy might work in the LGPS including the range of potential issues (both retrospective and ongoing) which could arise from the application of some form of underpin to a wider membership. Decisions relating to members in scope, the extent of final salary service protection, the requirement for retrospection and the inclusion of ancillary benefits (transfers, survivors etc.) are expected to be determined centrally. A remedy is not expected to be implemented before the end of financial year 2020/21.

Quantifying the impact of the judgement at this stage is very difficult because it will depend on the extent of any extension of the underpin, 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 dampened 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 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. In line with advice issued by the SAB, the Fund's 2019 actuarial calculations have been based on the current benefit structure, with no allowance made for the possible outcome of the cost cap mechanism or McCloud. However, an extra level of prudence has been introduced into the setting of employer contribution rates to allow for the potential impact of the McCloud case. This has been clearly communicated to the Fund's employers in the valuation letters.

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

The administration risk relates to the enormous challenge that would be faced by administering authorities and employers in backdating scheme changes over such a significant period; this risk has been recognised by the SAB. Whilst the Fund already requires employers to submit information about changes in part-time hours and service breaks, the McCloud remedy may

generate additional queries about changes since 1 April 2014; employers have, therefore, been asked to retain all relevant employee records.

The Fund will continue to keep up to date with news related to this issue from the Scheme Advisory Board, the Local Government Association, the Government Actuary's Department and the Fund's actuary.

New & Removed Items

No new items have been added to the Risk Register and 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, 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 Updated12-Feb-20

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 peformance deterioration
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 UK's withdrawal from the EU 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	37	Pensions Administration	Delayed Annual Benefit Statements and/or Pension Savings Statements
12	38	Pensions Administration	Failure to recruit and retain suitable pension administration staff/Over reliance on key staff
13	11	Governance & Strategy	Systems failure/Lack of disaster recovery plan/Cyber attack
14	16	Funding & Investments	Mismatch between liability profile and asset allocation policy
15	17	Funding & Investments	An inappropriate investment strategy is adopted / Investment strategy not consistent with Funding Strategy Statement / Investment strategy does not sufficiently take into account the risks of climate change/ Failure to implement adopted strategy and PIC recommendations
16	21	Funding & Investments	The LGPS Central investment offering is insufficient to allow the Fund to implement its agreed investment strategy
17	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
18	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
19	24	Funding & Investments	LGPS Central fails to deliver the planned level of long term cost savings and performance levels deteriorate
20	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
3	3	9
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	12
HoP/PM	2	4	8	4	12
DoF/HoP	3	2	6	3	9
DoF/HoP/IM	3	2	6	3	9
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
PM	3	1	3	6	6
HoP/PM	2	2	4	5	6
Hop/PM/IM	4	2	8	0	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 Updated12-Feb-20

Risk Number	Description		Current score			Risk Mitigation Controls & Procedures				Target Score				Previous 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 / Maintain central log of governance policy statements for the whole Fund.	DoF/HoP	4	1	4	0	4	
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 including induction training for new members of PIC & PB / 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	9	
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	6	
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 once the new pension administration system is fully established.	DoF/HoP/PM	3	2	6	0	6	
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	
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. Conflicts of Interest Policy to be taken to PIC for approval, includes procedures to cover members of the Pension Board.	DoF/HoP	3	1	3	0	3	
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, reviewed on a regular basis and reported to PIC and PB quarterly..		DoF/HoP/PM/IM	3	2	6	0	6	
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	6	
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	6	
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	6	
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	8	
12	Failure to comply with The Pensions Regulator (TPR) governance requirements	TPR breaches result in fines, other sanctions and reputational damage.	3	2	6	In-house resource responsible for ensuring compliance.	Continue to develop and maintain resilience in the in-house team.	PM	3	1	3	3	6	

Risk Number	Description		Current score			Risk Mitigation Controls & Procedures			Target Score				Previous 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	
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 Implementation Plan completed. GDPR requirements included in the Data Improvement Plan. Document Retention Schedule review completed. Data Breach Procedure developed.The Fund's GDPR Working Group has been widened out to become a Data Management Working Group.	Quarterly monitoring of GDPR Implementation Plan. Further develop the Fund's Data Breaches Procedure incorporating lessons learnt from any data breaches and to include guidance on the practicalities of dealing with a breach beyond the initial reporting requirements. This will be included in a wider Data Management Procedures document which will include guidance to Fund officers on how the data protection rules should be applied to inform decisions and day to day working practices with respect to processing personal data in order to avoid data breaches. GDPR matters will be reviewed as part of the ongoing consideration of the Fund's Data Improvement Plan.	HoP/PM/IM	3	2	6	3	9
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	9

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	12
Page 79	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	8
17	An inappropriate investment strategy is adopted / Investment strategy not consistent with Funding Strategy Statement / Investment strategy does not sufficiently take into account the risks of climate change/ 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 sets out the Fund's approach to Environmental, Social & Governance matters/ISS reviewed and agreed by PIC / Quarterly review of asset allocation strategy by PIC / PIC receives advice from Fund Officers and external advisor. Climate change risk discussed with the Fund's actuay as part of the 2019 triennial valuation process.	The Fund has procured a Climate Risk Report to consider the risks of climate change with respect to the Fund's investment strategy.	DoF/HoP/IM	4	2	8	0	8
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.	3	3	9	Employer database holds employer details, including bond review dates. The information on the database is subject to ongoing review. Commenced contacting existing employer where bond or guarantor arrangement has lapsed, to renew arrangements. Four members of the team attended an employer covenant training session run by Eversheds in July 2018 and the Fund has liaised closely with other LGPS on this matter. An Employer Risk Management Framework is being developed and Health Check Questionnaires were issued to all Tier 3 employers (those employers that do not benefit from local or national tax payer backing or do not have a full guarantee or other pass-through arrangement) in May 2019.	Processes are being developed to ensure that new contractors are aware of potential LGPS costs at an early stage. The Employer Risk Management Framework will continue to be developed. Analysis will continue to be carried out on the information received via the completed Health Check Questionnaires and outstanding information will be sought from relevant employers.	HoP/PM	3	2	6	3	9
19	Unaffordable rise in employers' contributions	Employer contribution rates unacceptable.	3	2	6	Consideration of employer covenant strength / scope for flexibility in actuarial proposals.		DoF/HoP/PM	3	2	6	0	6
20	Employer contributions not received and accounted for on time	Adverse audit opinion / Delays to year end accounts.	3	1	3	Ensure that employers are clearly and promptly informed about their contribution rates. 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	3
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.	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	8

Risk Number	Description		Current score			Risk Mitigation Controls & Procedures			Target Score				Previous 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	
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.	4	2	8	Staffing assessment post launch of LGPS Central completed by DoF & ICT and Head of Pension Fund & Investments Manager positions filled. Additional Business Services Assistant recruited. Market supplements for the Head of Pension Fund and the Investments Manager were extended and increased from December 2019. Interviews for an Assistant Fund Manager taking place in January 2020.		DoF/HoP	4	2	8	0	8
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.	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.	Obtain robust forecasts of transition cost as part of business case for transitioning into an LGPSC sub-fund. Continue to 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.	HoP/IM	4	1	4	4	8
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.	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. The DOF & ICT will represent DCC on the Shareholders' Forum with delegated authority to make decisions on any matter which required a decision by the shareholders of LGPC Central Ltd.	Update control procedures now that LGPS Central has been launched and reporting structures have been established. Continue to take a meaningful role in PAF. Support the Chair and Vice-Chair of the PIC to enable them to participate fully in the Joint Committee.	DoF/HoP/IM	4	2	8	0	8
25	LGPS Central related underperformance of investment returns	LGPS Central related underperformance of investment returns - failure to meet investment return targets against specified benchmarks.	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. Investigate alternative options if any underperformance is not addressed.	DoF/HoP/IM	4	2	8	4	12
26	The UK's withdrawal from the EU results in high levels of market volatility or regulatory changes	Failure to identify and mitigate key risks caused by outcome of the UK's decision to withdrawal from the EU .	3	3	9	Continual monitoring of asset allocation and performance by investment staff and quarterly monitoring by PIC. Keep up to date with Brexit developments and the implications for the Fund's investment strategy. 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	9
Page 80	Maintain liquidity in order to meet projected cash flows	Financial loss from inappropriate sale of assets to generate cash flow.	3	2	6	The Fund carries out internal cash flow forecasting.	Following completion of the 2019 triennial valuation, a cash flow forecasting report will be procured from the Fund's actuary.	HoP/IM	3	2	6	0	6
	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.	4	1	4	Opt-up process complete; no issues identified.	Monitor ability to maintain opt-up status.	HoP/IM	4	1	4	0	4
	Inadequate delivery and reporting of performance by Internal & External Investment Managers	Expected investment returns not achieved.	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
	Investments made in complex inappropriate products and or unauthorised deals	Loss of return/assets.	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
	Custody arrangements are insufficient to safeguard the Funds investment assets	Loss of return/assets.	4	1	4	Regular internal reconciliations to check custodian records / Regular review of performance / Periodic procurement exercises.		HoP/IM	4	1	4	0	4
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. 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 SAB provided an update on 15th Nov 19: SAB understands that the LGPS will be treated separately from the rest of the public sector with respect to McCloud. The remedy will likely involve the extension of some form of underpin to members in scope who are not currently offered protection. SAB think it is likely that, in order to ensure reverse discrimination does not occur, all leavers since 2014 will need to be checked against the new underpin. SAB expect decisions relating to members in scope, the extent of final salary service protection, the requirement for retrospection and the inclusion of ancillary benefits (transfers, survivors etc) to be determined centrally. SAB don't expect a remedy to be implemented before the end of the financial year 2020/21. Therefore, issues around FRS102 and audit will once again need to be addressed. SAB understand that cost cap calculations will be re-run once the McCloud remedy has been agreed.	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. A paper was procured from the Fund's actuary to inform a discussion on the how the Fund should allow for McCloud in funding decisions. In line with advice issued by SAB, the 2019 valuation calculations have been based on the current benefit structure. No allowance has been made for the possible outcome of the cost cap mechanism or the McCloud case, although an extra level of prudence has been introduced in the setting of employer contribution rates to allow for the potential impact of the McCloud case. This has been clearly communicated to employers in the valuation letters. The draft 2020 Funding Strategy Statement includes an allowance for a 1% uplift in a ceasing employer's total cessation liability for cessation valuations that are carried out before any changes to the LGPS benefit structure are confirmed.	Contribution rates may need to be revisited once the McCloud/cost cap uncertainty is resolved.	HOP/PM	3	3	9	3	12

Risk Number	Description		Current score			Risk Mitigation Controls & Procedures			Target Score				Previous 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		
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, make arrangements with Legal Services for a dedicated Pension Fund Legal Support Officer. Investigate LGPS legislation databases.	PM	3	1	3	3	6	
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	The dedicated Project Team has largely completed the testing of calculations, and the development of process solutions and training has been undertaken for operators. The level of reporting from the new system has also been increased.	Options for further enhancing the new system's reporting functionality are under consideration. Responsibility for the new system will shortly transfer from the Project Team to the Technical Team as 'business as usual'.	PM	3	1	3	6	9	
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	8	
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 Data Management Working Group has been formed with responsibility for the ongoing consideration and implementation of the Data Improvement Plan.	Continue to cleanse data further following migration to the replacement administration system; implement longer term measures in the Data Improvement Plan. Develop Terms of Reference for the Data Management Working Group.	PM	3	2	6	0	6	
37	Delayed Annual Benefit Statements and/or Pension Savings Statements (also know as Annual Allowance)	TPR fines or other sanctions/reputational damaged caused by delays in issuing Annual Benefit Statements/Pensions Savings Statement. Possible delays caused by late employer returns, systems bulk processing issues and lack of resource.	3	3	9	Improved processes, clear messages to support employers to provide prompt accurate information, more efficient processing of ABSs on replacement system, exercise to trace addresses for missing deferred beneficiaries.	Continue work with employers to ensure better data quality, complete address checking exercise and reduce additional backlogs caused by migration.	PM	3	1	3	6	6	
Page 81	Failure to recruit and retain suitable pension administration staff / Over-reliance on key staff	Inadequate benefits package / remote location / lack of succession planning leads to deterioration in service and possible fines/sanctions/reputational damage.	3	3	9	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. Review the Pension Fund Team structure.	HoP/PM	2	2	4	5	6	
	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. The Fund is reviewing an additional service from the provider of the new pension administration system which provides flexible learning on demand.	Skills gap audit / formal training programme / new Staff Development group/My Plan reviews.	PM	3	2	6	0	6	
40	Impact of McCloud judgement on administration	The remedy and subsequent effect on LGPS benefits are unlikely to be known for some time and the implementation of a remedy is not expected before the end of 2020/21 . SAB recognises the enormous challenge that could be faced by administering authorities and employers in potentially backdating scheme changes over a significant period. A full history of part time hour changes and service break information from 1st Apr 14 will be needed in order to recreate final salary service.	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. Although the Fund requires employers to submit information about changes in part-time hours and service breaks, the McCloud remedy may generate additional queries about changes since 1 Apr 14; employers have, therefore, been asked to retain all relevant employee records.	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	12	

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PUBLIC

Agenda Item No. 4 (f)

DERBYSHIRE COUNTY COUNCIL

PENSIONS and INVESTMENTS COMMITTEE

22 January 2020

Report of the Director of Finance & ICT

INDEPENDENT INVESTMENT ADVISER OBJECTIVES

1 Purpose of the Report

To agree the strategic objectives for Derbyshire Pension Fund's (the Pension Fund) Independent Investment Adviser.

2 Information and Analysis

On 10 June 2019, the Competition and Markets Authority published the Investment Consultancy and Fiduciary Management Market Investigation Order (the Order). The Order sets out mandatory guidelines for Pension Scheme Trustees in respect of the procurement and monitoring of Fiduciary Management Services.

The Order potentially had consequences for the LGPS Pools, but on 29 July 2019 the Department for Work and Pensions published a consultation entitled Trustee Oversight of Investment Consultants and Fiduciary Managers which seeks to clarify that the Order does not apply to the LGPS with the exception of Remedy 7: Requirement to set strategic objectives for providers of investment consultancy.

As a result of the Order, the Pension Fund is now required to set strategic objectives for its Independent Investment Adviser, Mr Fletcher of MJ Hudson Allenbridge, which in turn should be linked to the objectives of the Pension Fund. The proposed strategic objectives for the Pension Fund's Independent Investment Adviser are set out in Appendix 1.

The proposed strategic objectives have been agreed with Mr Fletcher and are in line with the agreed Consultancy Agreement between the Pension Fund and the Independent Investment Adviser.

3 Other Considerations

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

4 Officer's Recommendation

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

PETER HANDFORD

Director of Finance & ICT

Appendix 1: Proposed Independent Investment Adviser Strategic Objectives

Derbyshire Pension Fund Requirement	Independent Investment Adviser Objective	Desired outcomes / Measurement
Ensure members benefits are met as they fall due.	Advise on a suitable investment strategy, and amendments to the strategy, to deliver the required investment returns from the Fund's investments to support progress towards a long term steady state of funding.	Returns from the investment strategy over time are in line with or exceed the assumptions within the Fund's Funding Strategy Statement subject to market conditions and strategy implementation.
Support a long term funding approach that is consistent with a stable and affordable contribution approach from the employers.	Advise on the delivery of an investment approach that reflects the Fund's cash flow position, and likely evolution, and minimises the risk of forced divestment.	The Fund has sufficient cash flow to allow members benefits to be paid when due. <i>For the measurement of both of these objectives it should be recognised that the Independent Investment Adviser acts in an advisory capacity.</i>
Ensure the Fund's approach is aligned with the objectives of pooling and associated guidance.	Support the Fund with achieving timely and cost-effective implementation of the Fund's investment decisions where appropriate, taking into account the evolution of the LGPS Central pool.	Ensure a focus on key risk / return priorities. Any areas of misalignment with the Fund's objectives and/or poor performance highlighted, challenged and solutions identified.

<p>Meet the reporting requirements set out in the Independent Investment Adviser Job Description.</p>	<p>Prepare quarterly reports for submission to the Pensions & Investments Committee, including liaison with the In-House Investment Management Team to discuss key findings, and presentation to the Pensions & Investments Committee.</p> <p>Assist with measuring the success of the Fund against the overall investment objectives.</p> <p>Provide other ad-hoc support and advice, as required, by either the Pensions & Investments Committee or the In-House Investment Management Team.</p>	<p>All reports and advice delivered in line with reporting requirements and within required timescales.</p> <p>Full attendance at Pensions & Investments Committee meetings unless for unforeseen unavoidable circumstances.</p> <p>Any areas of poor performance highlighted, challenged and solutions identified.</p> <p>Any ad-hoc support and advice provided in line with agreed service specifications and on a timely basis. Pensions & Investments Committee satisfied with the value for money represented by the services.</p>
<p>Help the Fund to ensure that its approach reflects relevant regulatory and legislative requirements, and internal policies.</p>	<p>Ensure that the Fund complies with relevant investments pensions regulations, legislation and supporting guidance, and reflects the policies approved by the Pensions & Investments Committee.</p> <p>Provide guidance on any matters in respect of which the Fund is required by law to seek advice in relation to the preparation or revision of the Fund's Investment Strategy Statement.</p> <p>Support the Fund in training, through general communications and presentations to the Pensions & Investments Committee where required.</p>	<p>No instances of non-compliance with relevant investments regulations or internal policies.</p> <p>Pensions & Investments Committee satisfied with the quality and content of any training requested.</p>

Agenda Item No. 4 (g)

**DERBYSHIRE COUNTY COUNCIL
PENSIONS AND INVESTMENTS COMMITTEE**

22 January 2020

Report of the Director of Finance & ICT

ADMISSION, CESSATION & BULK TRANSFER POLICY

1 Purpose of the Report

To seek approval for the draft Admission, Cessation and Bulk Transfer Policy (the Policy) for Derbyshire Pension Fund (the Fund) attached as Appendix 1.

2 Information and Analysis

The Policy sets out the Fund's approach to the risks involved in the admission of new employers to the Pension Fund and how it deals with possible bulk transfers and employers ceasing their participation in the Fund.

A scheme employer is responsible for any surplus or deficit arising during the period of participation in the Fund so that if, or when it ceases, it is 100% funded. However, if the scheme employer was to fail or cease to exist, and any deficit could not be met by the employer or claimed from any bond, indemnity or guarantor (where appropriate), the liability would fall to the other employers in the Fund (either the awarding authority on the failure of a service provider, any guarantor employer or all other employers, depending on the circumstances and the type of employer). The purpose of this Policy is to ensure that only appropriate bodies are admitted to the Fund and that the financial risk to the Fund and to other employers in the Fund is identified, minimised and managed accordingly.

The Policy interacts with the Pension Fund's Funding Strategy Statement (FSS). The FSS sets out the aims and purpose of the Pension Fund and the responsibilities of the key parties. It also identifies how employers' pension liabilities are measured by the Fund and how such liabilities are to be met by employers in future years.

The draft Policy has been prepared in liaison with the Fund's actuary, Hymans Robertson LLP.

Admissions to the Fund

The primary purpose of the Policy is to ensure that admittance to the Fund as a participating employer is limited to applicable bodies who are compliant with the Local Government Pension Scheme Regulations 2013 (the LGPS Regulations) which set out the types of employers who can participate in the scheme and the different requirements that apply to each employer.

Exiting the Fund

Another key purpose of the Policy is to set out the Fund's approach to, and management of, an employer's exit as a participating employer. As noted above, a fundamental risk to the Fund and its participating employers is the cessation of a participating employer with an uncovered deficit to the Fund.

Bulk transfers into and out of the Fund

The Policy also outlines the Fund's approach to dealing with the bulk transfer of scheme members' pension rights into and out of the Fund in specific circumstances where multiple scheme members are leaving or joining the Fund under specific circumstances.

The LGPS Regulations contain provisions for bulk transfers including the minimum number of cases which require a bulk transfer approach and discretion to the Fund's actuary to determine the method of calculation for the bulk transfer payment.

3 Financial Considerations

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

4 Other Considerations

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

5 Officer's Recommendation

That the Committee approves the attached draft Derbyshire Pension Fund Admission, Cessation and Bulk Transfer Policy.

PETER HANDFORD

Director of Finance & ICT



Derbyshire
Pension
Fund

APPENDIX 1

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DRAFT

Admission, cessation and bulk transfer policy

January 2020

Prepared in collaboration with Hymans Robertson LLP

Approved by Pensions and Investments Committee
[xx xxxx] 2020

Contents

Admission/cessation policy context.....	3
Introduction.....	3
Guidance and regulatory framework	4
Interaction with Funding Strategy Statement (FSS)	5
Background	5
Statement of principles	7
Policies	7
Bulk transfer policy context	8
Introduction.....	8
Bulk transfer circumstances	8
Guidance and regulatory framework	9
Statement of Principles.....	10
Notes to bulk transfer policy	10
Policy.....	11
Appendix 1 – Admission/cessations policy.....	12
1.1 Entry conditions and requirements of the Fund.....	13
1.2 Financial aspects of entry.....	14
1.3 Employer monitoring.....	15
1.4 Cessation terms and requirements.....	16
Appendix 2 – Bulk transfer policy.....	17

Admission/cessation policy context

Introduction

It is essential for the Administering Authority to establish its fundamental approach to the risks involved in the admission of new employers to the fund.

The purpose of this policy is to ensure that only appropriate bodies are admitted to the Fund and that the financial risk to the Fund and to other employers in the Fund is identified, minimised and managed accordingly.

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Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013, (“LGPS Regulations”) sets out the various types of employer that can participate in the scheme and the different requirements that apply to each. These can be summarised as:

Bodies listed in Part 1 to Schedule 2 – the county council, district and borough councils, further education colleges, academies, police and fire services. These bodies must provide access to the LGPS to their employees (assuming they are not eligible to be members of other pension schemes)

Bodies listed in Part 2 to Schedule 2 – often referred to as designating employers, as they have the right to decide who of their employees are eligible to join the scheme. Includes town and parish councils, as well as entities connected to bodies in Part 1 above. If a relevant designation is made the Administering Authority cannot refuse entry in to the scheme in respect of that employer.

Bodies listed in part 3 to schedule 2 – admission bodies, who can apply to participate in the scheme. Admission bodies can encompass a variety of different types of employer. These are –

- a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise);
- a body, to the funds of which a Scheme employer contributes;
- a body representative of any Scheme employers, or local authorities or officers of local authorities;
- a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of—
 - the transfer of the service or assets by means of a contract or other arrangement (i.e. outsourcing),
 - a direction made under section 15 of the Local Government Act 1999,
 - directions made under section 497A of the Education Act 1996;
- a body which provides a public service in the United Kingdom and is approved in writing by the Secretary of State for the purpose of admission to the Scheme.

When an administering authority is considering permitting a body to become an admission body, the LGPS Regulations include some discretions relating to the creation and management of admission agreements. These discretions are considered within this policy. The discretionary areas are:

- Part 3 of Schedule 2 (para 1) – Whether or not to proceed with admission agreements;
- Part 3 of Schedule 2 (para 9(d)) – Whether to terminate the admission agreement
- Regulation 54(1) – If the Fund will set up separate pension funds in respect of admission agreements.

Interaction with Funding Strategy Statement (FSS)

The FSS sets out high level policies in a number of areas relating to the treatment of scheme employers. The keys areas covered by the FSS are: -

- Purpose of the FSS;
- Aims and purpose of the Pension Fund;
- Responsibilities of the key parties
- Calculation of funding positions and individual employer contribution rates;
- Link to investment policy set out in the Investment Strategy Statement;
- Key risks and controls

The information contained with the FSS applies equally to admission bodies as to other participating employers within the Fund.

Background

A scheme employer is responsible for any surplus or deficit arising during the period of participation in the Fund so that if or when that participation ceases, it is 100% funded. However, ultimately, if the body was to fail or cease to exist and any deficit cannot be met by the body or claimed from any bond, indemnity or guarantor (where appropriate), the liability will fall to other employers in the Fund (either the awarding authority on the failure of a service provider, any guarantor employer or all other employers, depending on the circumstances and the type of body). It is prudent therefore for the Fund to ensure any such risks are minimised and mitigated.

Although the risks may not be able to be eliminated completely, there are a number of options that can be considered to try and mitigate these risks. These are summarised below, with the policy position set out in Appendix 1:

- **Entry conditions** – to what extent, if any, the Administering Authority can determine entry conditions for any new employer and the manner in which those applications will be considered and approved;
- **Requirements for a bond/indemnity or guarantor** – understanding the risk that a new employer might place on the Fund, usually through underfunding on exit from the Fund, and the mitigations that can be put in place (in the form of a bond/indemnity or guarantor) to reduce or remove that risk;
- **Risk sharing** – more often adopted with admission bodies, and while not changing the full cost of the pension benefits, the Administering Authority can decide its approach to the sharing of risk with an established sponsoring employer (e.g. fixed employer contribution rates, pooling the admission body with the scheme employer, etc.);
- **Allocating assets on entry** – on admission each new employer will notionally be allocated assets in the Fund, from which time they will be tracked and employer contributions set with a view to achieving solvency should the employer leave the scheme. Depending on the type of employer concerned the Administering Authority will need to decide how that initial asset

allocation should be handled (e.g. given assets equal to 100% of the liabilities transferred or required to take on a share of any funding deficit at the outset);

- **Matched investment strategy** – the flexibility to offer an employer an investment strategy matched to its participation can reduce the risk of underfunding at exit. This can, however, be a time-consuming exercise, and so the Administering Authority must balance the risk of underfunding on exit with the additional time and cost associated with the matched strategy;
- **Contribution rates and other costs** – the Administering Authority will need to decide how the initial contribution rate is set for any new scheme employers on joining the scheme. Decisions may also be required in relation to other costs, e.g. legal or actuarial costs;
- **Pooling** – There may be circumstances where a new employer has strong links to an existing employer, or where there is homogeneity amongst certain groups of employers. In these circumstances there may be a desire on the part of the employers to share some of the pension risk, which can be achieved via a pooling agreement. In simple terms, this will allow the bodies to effectively be treated as if it were one employer. As a result the same employer contribution rate and other funding arrangements will apply (generally equally) in relation to all members;
- **Ongoing monitoring** – it is important that monitoring of scheme employers is carried out throughout their term of participation and, where considered necessary, appropriate remedial action taken to safeguard all employers within the Fund. This can be achieved via various methods, such as regular funding level reviews, risk assessments and requirements to notify the Administering Authority of any changes in circumstances;
- **Termination/exit requirements** – one of the greatest risks to the Fund (and its participating employers) is that a body ceases to exist with an outstanding deficit that it cannot pay and which will not be met by any bond, indemnity or guarantor. Under the terms of the LGPS Regulations a termination valuation is required to be carried out at the point a scheme employer ceases to participate (e.g. as a result of the last active member leaving or the termination of a contractual arrangement with another scheme employer) in order to ascertain the exit payment due in relation to any deficit or payable on account of a funding surplus;
- **Future cessations** – When a scheme employer ceases to participate in the scheme its assets should be equal to its liabilities on an appropriate basis. In these circumstances, the Administering Authority may seek to increase or reduce the scheme employer's contributions to the Fund in the period leading up to its expected exit (if known) in order to target a position where the employer's assets are equal to its liabilities on an appropriate basis. To a limited degree, this can also reduce any overfunding at exit;
- **Basis of termination valuation** – as with any actuarial valuation, the purpose of a termination valuation is not so much to predict the cost of providing the Fund benefits of the relevant members (which will not be known until the last benefit payment is made), but to assess how much the Fund should hold now to meet the future expected benefit payments. The amount required is heavily influenced by the basis used for the calculation of the liabilities, which in turn will ultimately depend on the particular circumstances of the cessation. The range of bases can include the ongoing funding basis, a gilts basis and a buy-out basis;
- **Payment of cessation debt or exit credit** – When the fund actuary carries out a cessation valuation, they are also required to certify the contributions due to the Fund, or any surplus that might need to be refunded to the exiting employer. The LGPS regulations do not specify whether or not the payment of any deficit should be paid as a lump sum or whether it is paid in instalments, but does specify the manner in which refunds of surplus should be made. There is, however, a provision that clarifies what should happen if it is not possible to recover the

cessation payment, for example due to the exiting employer going into liquidation and no assets being available.

Statement of principles

The Administering Authority's policy is drafted on the basis of the following key principles:

- to ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to ensure employers recognise the impact of their participation in the Local Government Pension Scheme, helping them manage their pension liabilities as they accrue and understanding the effect of those liabilities on the ongoing operation of their business;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer ceasing participation or defaulting on its pension obligations;
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective; and
- to maintain the affordability of the Fund to employers as far as is reasonable over the longer term.

There is also an overriding objective to ensure that the LGPS Regulations and any supplementary guidance (in particular the Best Value Authorities Staff Transfer (Pensions) Direction 2007 and Fair Deal guidance) as they pertain to admission agreements are adhered to.

Policies

The Administering Authority's policies in relation to the admission of new scheme employers and the treatment of scheme employers on cessation are set out in Appendix 1.

Bulk transfer policy context

Introduction

The purpose of this policy is to set out the Administering Authority's approach to dealing with the bulk transfer of scheme member pension rights into and out of the Fund in prescribed circumstances.

Bulk transfer requests will be considered on a case by case basis, ensuring that:

- transfers out of the Fund do not allow a deficit to remain behind unless a scheme employer is committed to repairing this; and
- bulk transfers received must be sufficient to pay for the added benefits being awarded to the members, again with the scheme employer making good any shortfall where necessary.

When considering any circumstances where bulk transfer provisions might apply, however, the Administering Authority will always ensure adherence to any overriding requirements set out in the Local Government Pension Scheme Regulations and/or any supplementary or statutory guidance (e.g. the Best Value Staff Transfers (Pensions) Direction 2007).

Bulk transfer circumstances

Bulk transfers into and out of the Fund can occur for a variety of reasons, namely:

- where an outsourcing arrangement is entered into and active scheme members leave the LGPS to join a broadly comparable scheme;
- where an outsourcing arrangement ceases and active scheme members re-join the LGPS from a broadly comparable scheme;
- where there is a reorganisation of central government operations (transfers in from, or out to, other government sponsored schemes);
- where there is a reorganisation or consolidation of local operations (brought about by, for example, local government shared services, college mergers or multi academy trust consolidations); or
- a national restructuring resulting in the admission of an employer whose employees have LGPS service in another LGPS fund, or vice versa.

Unlike bulk transfers out of the LGPS, there is no specific provision to allow for bulk transfers into the LGPS. As a result, any transfer value received into the LGPS, whether on the voluntary movement of an individual or the compulsory transfer of a number of employees, must be treated the same way as individual transfers.

Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 contain relevant provisions regarding transfers (including bulk transfers) to and from the scheme, and include the following:

- Regulation 98 – applies on transfer out to non-LGPS schemes. It allows for the payment of a bulk transfer value where at least two active members of the LGPS cease scheme membership and join another approved pension arrangement;
- Regulation 99 - gives the LGPS actuary discretion as to the choice of method of calculation used to calculate the bulk transfer value;
- Regulation 100 – allows an individual who holds relevant pension rights under a previous employer to request to be admitted for past service into the LGPS. Members wishing to transfer in accrued rights from a Club scheme, who request to do so within 12 months of joining their new LGPS employment must be granted their request. For members with non-Club accrued rights the LGPS Fund does not have to grant the request. Any request must be received in writing from the individual within 12 months of active employment commencing or longer at the discretion of the employer and the administering authority.
- Regulation 103 - states that any transfer between one LGPS fund and another LGPS fund (in England and Wales) where 10 or more members elect to transfer will trigger bulk transfer negotiations between Fund actuaries.

The Best Value Authorities Staff Transfers (Pensions) Direction 2007, which came into force on 1 October 2007, applies to all “Best Value Authorities” in England. Best Value Authorities include all county, district and borough councils in England, together with police and fire and rescue authorities, National Park Authorities and waste disposal authorities. The Direction:

- requires the contractor to secure pension protection for each transferring employee through the provision of pension rights that are the same as or are broadly comparable to or better than those they had as an employee of the authority, and
- provides that the provision of pension protection is enforceable by the employee.

The Direction also requires similar pension protection in relation to those former employees of an authority, who were transferred under TUPE to a contractor, in respect of any re-tendering of a contract for the provision of services (i.e. second and subsequent rounds of outsourcing).

New Fair Deal, introduced in October 2013, applies to academies and multi academy trusts. It requires that, where they outsource services, they ensure pension protection for non-teaching staff transferred is achieved via continued access to the LGPS. As a result it would not be expected the Fund would have any bulk transfers out of the LGPS in respect of outsourcings from academies or multi academy trusts.

Note:

For all scheme employers that do not fall under the definition of a Best Value Authority or are not an academy (i.e. town and parish councils, arms-length organisations, further and higher education establishments, charities and other admitted bodies) – who are not subject to the requirements of Best Value Direction or New Fair Deal - there is no explicit requirement to provide pension protection on the outsourcing or insourcing of services, although any successful contractor is free to seek admission body status in the Fund, subject to

complying with the Administering Authority's requirements (e.g. having a bond or guarantor in place).

It is our understanding that there is no specific provision giving protection to past pension accrual in either the Direction or new Fair Deal (albeit if the individual remains in their original scheme then their past service rights are automatically protected). In the absence of a bulk transfer agreement, therefore, the Administering Authority would not expect to pay out more than individual cash equivalent transfer amounts, in accordance with appropriate GAD guidance.

Statement of Principles

The Administering Authority's policy is drafted on the basis of the following key principles:

- Where a group of active scheme members joins (or leaves) the Fund, the Administering Authority's objective is to ensure that sufficient assets are received (or paid out) to meet the cost of providing those benefits;
- Ordinarily the Administering Authority's default approach for bulk transfers out (or in) will be to propose (or accept) that the transfer value is calculated using ongoing assumptions based on the share of fund assets (capped at 100% of the value of the liabilities). The Fund will retain the discretion to amend the bulk transfer basis to reflect the specific circumstances of each transfer (e.g. the use of gilts where unsecured liabilities are being left behind, or where transfer terms are subject to commercial factors).
- The Administering Authority will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members.
- A bulk transfer in may result in a shortfall when assessed using the Fund's ongoing funding basis. This may require the receiving employer's Fund contributions to increase between valuations.
- A bulk transfer out which is greater than the value of the past service liabilities of the transferring members assessed on the Fund's ongoing funding basis, may require the transferring employer's Fund contributions to increase between valuations.
- The Administering Authority will not grant added benefits to members bringing in entitlements from another LGPS Fund or other scheme unless the asset transfer is sufficient to meet the added liabilities.
- Service credits granted to active scheme members should fully reflect the value of the benefits being transferred, irrespective of the transfer value paid or received.

Notes to bulk transfer policy

There may be situations where a transfer amount accepted in respect of a transfer in is less than is required to fully fund the transferred in benefits on the Fund's ongoing basis. In such cases the Fund reserves the right to require the receiving employer to fund this deficit (either by lump sum or increase in ongoing employer contributions) ahead of the next formal valuation.

Any shortfall between the bulk transfer payable by the Fund and that which the receiving scheme is prepared to accept must be dealt with outside of the Fund, for example by a top up from the employer to the receiving scheme or through higher ongoing contributions to that scheme.

For transfers out, in exceptional circumstances the Fund's policy may be altered to reflect specific issues of the transferring employer (e.g. the cessation of the transferring scheme employer).

- **Format of transfer payment**

Ordinarily payment will be in cash, with discretion delegated to the s.151 officer to agree alternatives.

A deduction to the bulk transfer will be made for any administration, legal and transaction costs incurred by the Fund as a result of having to disinvest any assets to meet the form of payment that suits the receiving scheme.

- **Impact on transferring employer**

Any transfer of pension rights may have an effect on the valuation position of the employer and consequently their individual contribution rate.

The Fund will agree with the transferring authority how this change is dealt with. Though it is likely this will be through adjustments to its employer contribution rate, the Fund may require a lump sum payment or instalments of lump sums to cover this relative change in deficit, for example where the deficit is a large proportion of the total remaining notional assets and liabilities. Where the transfer is small relative to the employer's share of the Fund, any adjustment may be deferred to the next valuation.

- **Consent**

Where required within the Regulations, for any bulk transfer the Administering Authority will ensure the necessary consent is obtained from each individual eligible to be part of the transfer.

- **Approval process**

Under the principles of good governance, it is important that a clear and robust approval process is in place when determining whether to pay or receive a bulk transfer.

The Fund will normally agree to bulk transfers into or out of the Fund where this policy is adhered to.

- **Non-negotiable**

It should be noted that, as far as possible, the Fund's preferred terms on bulk transfers are non-negotiable. Any differences between the value the Fund is prepared to pay (or receive) and that which the other scheme involved is prepared to accept (or pay) should be dealt with by the employers concerned outside the Fund.

Policy

The Administering Authority's policy in relation to bulk transfers is set out in Appendix 2.

Appendix 1 – Admission/cessations policy

The following table sets out a summary of the various scenarios that may exist for the admission of scheme employers in to the Fund, along with its approach to their on-going monitoring and where appropriate their exit from the Fund.

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1.1 Entry conditions and requirements of the Fund

	Scheduled bodies (Part 1 of schedule 2)	Designating employers (Part 2 of schedule 2)	Admission bodies (Part 3 of schedule 2)
Entry conditions	<p>All new Part 1 employers (Inc. academies) must ensure Fund is aware of their creation.</p> <p>A designating employer should provide the Fund with a signed copy of its resolution, confirming who is eligible for membership of the Fund</p>		<p>Will consider applications from bodies:</p> <ul style="list-style-type: none"> - with links to a scheme employer; or - that provides services or assets on behalf of a scheme employer <p>Agreements can be open or closed, so long as necessary protections are in place</p>
Bond / indemnity / guarantor	Not applicable		<p>Secure and financially durable bond or guarantor in place (generally with a scheme employer and/or government department)</p> <p>Must be reviewed and renewed on an annual basis</p>
Risk sharing	Not applicable		<p>Ordinarily the Fund will not be party to any risk sharing arrangements. Any such arrangements would not be included within the admission agreement and managed by the relevant parties. In order to protect the interests of the Fund, however, it would request sight of any risk sharing arrangements that have been put in place.</p>
Approval	<p>Assets for any new employer will be calculated using the Fund's ongoing funding basis, as set out in the FSS.</p> <p>Academies may be pooled with other academies as part of a Multi Academy Trust (MAT).</p> <p>Where a new employer is created from an existing scheme employer the initial asset allocation will be based on a share of the ceding employer's assets, with consideration taken of the ceding employer's estimated deficit as at the date of transfer.</p>		<p>Dependent on type of admission body</p> <ul style="list-style-type: none"> - For new service providers = 100% of past service liabilities - For all others – to be agreed on a case by case basis <p>In all cases, based on Fund's on-going funding basis and tracked and adjusted during period of admission at each formal valuation</p>

1.2 Financial aspects of entry

	Scheduled bodies (Part 1 of schedule 2)	Designating employers (Part 2 of schedule 2)	Admission bodies (Part 3 of schedule 2)
Asset allocation	<p>Assets for any new employer will be calculated using the Fund's ongoing funding basis, as set out in the FSS.</p> <p>Academies may be pooled with other academies as part of a Multi Academy Trust (MAT).</p> <p>Where a new employer is created from an existing scheme employer the initial asset allocation will be based on a share of the ceding employer's assets, with consideration taken of the ceding employer's estimated deficit as at the date of transfer.</p>		<p>Dependent on type of admission body</p> <ul style="list-style-type: none"> - For new service providers = 100% of past service liabilities - For all others – to be agreed on a case by case basis <p>In all cases, based on Fund's on-going funding basis and tracked and adjusted during period of admission at each formal valuation</p>
Investment strategy	Set for the Fund as a whole		
Contributions	<p>Set in accordance with Funding Strategy Statement</p> <p>Will be required to pay additional amounts (strain) in respect of:</p> <ul style="list-style-type: none"> - non-ill health early retirements; and - employer award of additional pension. <p>Ordinarily payments must to be made to the Fund within the year in which the strain cost was incurred</p>		
Other employer costs	May require payment of actuarial, legal and other justifiable costs incurred as a result of participation in the Fund, together with any additional costs incurred by administering authority resulting from an employer's poor performance		
Pooling	Ordinarily pooling will not be available. The only exception would be academies who can be pooled as part of a MAT or Town and Parish Councils that are currently pooled.		Where it is believed to be advantageous and all parties agree the administering authority may agree to pooling with contracting scheme employer

1.3 Employer monitoring

	Scheduled bodies (Part 1 of schedule 2)	Designating employers (Part 2 of schedule 2)	Admission bodies (Part 3 of schedule 2)
Ongoing monitoring	<p>The Fund reserves the right to review a scheme employer's funding position annually, or more frequently.</p> <p>Where it appears that liabilities have increased by more than expected at the last funding valuation the employer contribution rate may be subject to review during the inter-valuation period.</p>		<p>The Fund will ensure the ongoing assessment of risk related to each admitted body, to ensure the level of bond/indemnity cover remains appropriate.</p> <p>Employer contribution reviewed no less frequently than as part of formal valuations (inter-valuation may be undertaken if required if it appears liabilities have increased by more than allowed for at preceding formal valuation, or where the employer may become an exiting employer)</p>

1.4 Cessation terms and requirements

	Scheduled bodies (Part 1 of schedule 2)	Designating employers (Part 2 of schedule 2)	Admission bodies (Part 3 of schedule 2)
Termination requirements	The Fund will take legal advice on the appropriate triggers that might lead to termination of a scheme employer's participation in the fund (e.g. last active leaving)		
Future cessations	A provisional cessation valuation will be carried out as soon as the Fund becomes aware that a scheme employer may be exiting the scheme for whatever reason.		<p>Carry out a "provisional" valuation as soon as Fund is aware of the likelihood of an employer exiting the Fund</p> <p>For an admission body the Fund reserves the right to undertake ongoing annual assessments where it becomes aware that the organisation may cease to participate in the Fund.</p> <p>Fund reserves the right to undertake exit valuation on a "least risk"/"gilts" basis to reduce on-going risk to remaining scheme employers</p>
Basis of termination valuation	"Clean break" on basis set out in FSS, requiring the scheme employer to make an appropriate exit debt payment immediately, or receive an exit credit.		
Exit debt / exit credit	<p>Exit debt usually collected as a single lump sum, although may be able to extend over an extended period on agreement of Head of Pension Fund and Section 151 Officer.</p> <p>No exit debt required or exit payment due when pooled with contracting scheme employer</p> <p>Exit credits will usually only be paid where the admission body is not participating in a risk sharing agreement.</p>		

Appendix 2 – Bulk transfer policy

The following table sets out a summary of the various scenarios for the transfer in to and out of the Fund, together with the Administering Authority's policies relating to bulk transfers. In the remainder of this section we set out the Administering Authority's policies in relation to a number of subsidiary areas associated with bulk transfers.

Scenario		Bulk transfer mechanism	Policy	Methodology
Machinery of Government from a Club Scheme	In	Club Memorandum	The Club mechanism ensures the pension credit in the Fund provides actuarially equivalent benefits	The pension credit awarded to members transferring in will be calculated in line with the Club transfer-in formulae.
	Out	Regulation 98 of the Local Government Pension Scheme Regulations 2013 or Club Memorandum	Where agreement can be reached, the Fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to the Club transfer out formulae in accordance with GAD guidance.	The Fund's default policy is to offer the receiving scheme transfers out calculated using ongoing assumptions based on the share of fund assets (capped at 100% of the liability value). Discretion exists to amend this to reflect specific circumstances of the situation.
Broadly Comparable scheme Or Machinery of Government where scheme is treated as a non-Club scheme	In	GAD guidance < 2 members – GAD guidance	Non-Club transfer in formulae in accordance with GAD guidance Cash equivalent transfer values in accordance with GAD guidance	The pension credit awarded to members transferring in will be calculated in line with the non-Club transfer-in formulae. The transfer value paid to the receiving scheme will be calculated in line with the CETV transfer-out formulae.
	Out	2 or more members – Regulation 98 of the Local Government Pension Scheme Regulations 2013	Where agreement can be reached, the Fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to cash equivalent transfer values under GAD guidance	The Fund's default policy is to offer the receiving scheme transfers out calculated using ongoing assumptions based on the share of fund assets (capped at 100% of the value of the liabilities). Discretion exists to amend this to reflect specific circumstances of the situation.

Scenario		Bulk transfer mechanism	Policy	Methodology
Inter-fund transfer (transfer between the Fund and another LGPS Fund)	In	< 10 members – GAD guidance	Cash equivalent transfer values in accordance with GAD guidance	On receipt of a transfer value (calculated in line with the CETV transfer-out formulae), the Fund will award the member a pension credit on a day-for-day basis.
		10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013	Where agreement can be reached, the Fund and the transferring Fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to cash equivalent transfer values under GAD guidance	The Fund's default policy is to offer an amount calculated using ongoing assumptions based on the share of fund assets (capped at 100% of the liability value). Discretion exists to amend this to reflect specific circumstances of the situation. Pension credits will be awarded to the transferring members on a day-for-day basis.
	Out	< 10 members – GAD guidance	Cash equivalent transfer values in accordance with GAD guidance	The transfer value paid to the receiving fund will be calculated in line with the CETV transfer-out formulae.
		10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013	Where agreement can be reached, the Fund and the receiving Fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to cash equivalent transfer values under GAD guidance	The Fund's default policy is to offer the receiving scheme transfers out calculated using ongoing assumptions based on the share of fund assets (capped at 100% of the liability value). Discretion exists to amend this to reflect specific circumstances of the situation

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