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PUBLIC

To: Members of Pensions and Investments Committee

Tuesday, 27 October 2020

Dear Councillor,

Please attend a meeting of the **Pensions and Investments Committee** to be held at **<u>10.30 am</u>** on **<u>Wednesday, 4 November 2020.</u>** This meeting will be held virtually. As a member of the public you can view the virtual meeting via the County Council's website. The website will provide details of how to access the meeting, the agenda for which is set out below.

Yours faithfully,

Simon Hobbs
Director of Legal and Democratic Services

A G E N D A

PART I - NON-EXEMPT ITEMS

1. To receive apologies for absence

2. To receive declarations of interest (if any)

3. To confirm the minutes of the meeting held on 9 September 2020 (Pages 1 - 8)

4 (a) MHCLG Consultation on Reform of Exit Payments in Local Government

(Pages 9 - 34)

4 (b) Investment Strategy Statement, Responsible Investment Framework and Climate Strategy Consultation (Pages 35 - 74)

4 (c) Conflicts of Interest Policy (Pages 75 - 90)

4 (d) Governance Policy and Compliance Statement (Pages 91 - 104)

4 (e) Half-Year Pension Administration Performance Report (Pages 105 - 118)

4 (f) Derbyshire Pension Fund Annual Report (Pages 119 - 120)

4 (g) Derbyshire Pension Fund Risk Register (Pages 121 - 134)

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. To confirm the exempt minutes of the meeting held on 9 September 2020 (Pages 135 - 138)

PUBLIC

MINUTES of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE** held on 9 September 2020

PRESENT

Councillor J Perkins (in the Chair)

Derbyshire County Council

Councillors R Ashton, N Atkin, J Boult, C Dale (substitute Member), P Makin, S Marshall-Clarke and B Ridgway

Derby City Council

Councillors L Care and M Carr

Derbyshire County Unison

Mr M Wilson

Also in attendance – M Fairman, D Kinley, N Smith and S Webster.

Apologies for absence were received on behalf of Councillor R Mihaly.

36/20 **CHAIRMAN'S ANNOUNCEMENTS** The Chairman welcomed Mrs Mary Fairman to her first meeting of the committee. Mrs Fairman had recently been appointed as Assistant Director of Legal Services and would take up the role of the committee's adjudicator for applications at AADP.

37/20 **MINUTES** **RESOLVED** that the minutes of the meeting held on 21 July 2020 be confirmed as a correct record.

38/20 **INVESTMENT REPORT** Mr Anthony Fletcher, the external adviser from MJHudson Allenbridge Investment Advisers Limited, attended the meeting and presented his report to the Committee. The report incorporated Mr Fletcher's view on the global economic position, factual information on global market returns, the performance of the Derbyshire Pension Fund, and his latest recommendations on investment strategy and asset allocation. Mr Fletcher also provided details on the potential impact the coronavirus outbreak could have on the markets and a general overview of the current market situation.

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

The Fund's latest asset allocation as at 31 July 2020 and the recommendations of the Director of Finance & ICT and Mr Fletcher, in relation to the Fund's strategic asset allocation benchmark, were set out in the report. The recommendations of the Director of Finance & ICT, adjusted to reflect the impact of future investment commitments were presented. These commitments (existing plus any new commitments recommended in the report) related to Private Equity, Multi-Asset Credit, Property and Infrastructure and totalled around £310m (£320m at 30 April 2020).

Mr Fletcher referred to the current economic and markets outlook position with particular reference to the impact of the Covid-19 pandemic, the US Presidential Election and the 'No-Deal' Brexit.

Members asked how the pandemic had affected the property investments for example town centre shops and offices. The Investments Manager reported as part of the diversified portfolio, the Fund was currently underweight in offices and retail but overweight in industrial, which had actually seen a growth over the past few months.

The Chairman thanked Mr Fletcher for his attendance and informative presentation.

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 the report of the Director of Finance and ICT be noted; and

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

39/20 **STEWARDSHIP REPORT** Members were provided with an overview of the stewardship activity carried out by Derbyshire Pension Fund's external investment managers in the quarter ended 30 June 2020. Members were informed that this report previously came to committee as a voting report. However, since the Fund had moved more into pooled vehicles, this report was more concerned with insuring that we were satisfied with the stewardship arrangements of our managers and that they had robust policies in place.

The report had attached the following two reports to ensure that the Committee was aware of the engagement activity being carried out by LGIM and by LGPS Central Limited (the Fund's pooling company):

- Q2 2020 Legal & General Investment Management (LGIM) ESG Impact Report (Appendix 1)
- Q1 2020-21 LGPS Central Limited Quarterly Stewardship Report (Appendix 2).

LGIM managed around £1bn of assets on behalf of the Fund through passive products covering: UK Equities; Japanese Equities; and Emerging Market Equities. It was expected that LGPS Central Limited would manage a growing proportion of the Fund's assets going forward as part of the LGPS pooling project. These two reports provided an overview of the investment managers' current key stewardship themes and voting and engagement activity over the last quarter.

RESOLVED that Members welcomed this report and would encourage further reports detailing the stewardship activity of LGIM and LGPS Central Limited.

40/20 **RESPONSIBLE INVESTMENT FRAMEWORK AND CLIMATE STRATEGY** Approval was sought for Derbyshire Pension Fund's proposed Responsible Investment Framework and Climate Strategy. Members were asked to consider this report alongside the Strategic Asset Allocation Benchmark (SAAB) and Investment Strategy Statement which was also presented to the committee.

In accordance with the LGPS (Management and Investment of Funds) Regulations 2016, the Fund's Investment Strategy Statement (ISS) must set out the administering authority's policy on how environmental, social and corporate governance (ESG) considerations were taken into account in the selection, non-selection, retention and realisation of investments. The Investment Strategy Statement must also cover the authority's policy on the exercise of rights (including voting rights) attached to its investments.

A report outlining the Fund's approach to incorporating the implications of climate change into the Fund's investment process was presented to Committee in August 2017. A Climate Risk Report was presented to Committee in March 2020, together with a copy of the Fund's first Taskforce for Climate-related Disclosures (TCFD) report.

In recognition of the potential material effect of climate change, and the response to climate change, on the assets and liabilities of the Fund, a separate Climate Strategy had been developed for the Fund. The Fund's revised ISS, which was being considered separately by this Committee, contained links to the proposed RI Framework and Climate Strategy.

Members of this Committee and of Derbyshire Pension Board had taken part in training sessions covering the ISS, and the proposed RI Framework and Climate Strategy as part of the process of formulating these strategies.

The RI Framework was consistent with LGPS Central Limited's Responsible Investment & Engagement Framework, which had been developed in collaboration with the eight LGPS funds (Partner Funds) within the LGPS Central Pool. A copy of the Fund's proposed Responsible Investment Framework was set out at Appendix 1 to the report.

The Fund's Climate Risk Report, high level climate change risk analysis from the Fund's actuary, Hymans Robertson, guidance on implementing the TCFD recommendations for assets owners from the TCFD, together with additional internal research into climate risk metrics and the output of the recent member training sessions, had been utilised to develop the proposed Climate Strategy which was attached as Appendix 2 to the report.

The Climate Strategy set out the Fund's approach to addressing the risks and opportunities related to climate change. It included the introduction of targets to reduce the carbon emissions of the Fund's investment portfolio and to increase investment in low carbon and sustainable investments. The targets would be reviewed at least every five years. A material increase in the targets in the five year period to 2030, and in each subsequent five year period, was expected, in line with the stated ambition of achieving a portfolio of assets with net zero carbon emissions by 2050. Progress against the targets would be reported every two years.

Members welcomed this report and found the previous training sessions covering these strategies invaluable. As part of the consultation process, it was suggested that a 'Frequently asked Questions' document be drawn up to assist stakeholders and members with understanding the strategies.

The Fund would consult with its stakeholders, including scheme employers, the local pension board and members of the pension fund, on the proposed RI Framework and Climate Strategy. The consultation would close on 14 October 2020. It was proposed that the results of the consultation would be reported to Committee in December 2020, however, Members felt that it would be more beneficial for the full Committee to consider any proposed revisions to the documents following consultation, rather than delegating that function to the Director of Finance & ICT and the Chairman of the Committee.

On behalf of the Committee, the Chairman thanked Dawn Kinley, Head of Pension Fund and Neil Smith, Investments Manager for their most informative presentation and the tremendous amount of hard work that had been undertaken in developing these strategies.

RESOLVED to (1) approve the proposed Responsible Investment Framework and Climate Strategy for the purposes of consultation; and

(2) consider the proposed final document at the Committee meeting in December 2020.

41/20 **STRATEGIC ASSET ALLOCATION BENCHMARK AND INVESTMENT STRATEGY STATEMENT** Details of the Investment Strategy Statement (ISS) and the proposed changes to the Strategic Asset Allocation Benchmark (SAAB) were included in the Director of Finance & ICT's presentation for the previous item.

The LGPS regulations required an administering authority to formulate an ISS in accordance with guidance issued by the MHCLG Secretary of State. The ISS set out the long-term investment strategy for the Fund and described the framework used to make these decisions. The Fund's Investment Strategy Statement had last been revised in October 2018.

Under the 2016 Regulations, the ISS must be reviewed, and if necessary revised, following a material change in the factors which were judged to have a bearing on the stated investment policy, and at least every three years. Given the proposed changes to the Fund's SAAB which were detailed in the report, a revised ISS has been prepared, a copy of which was set out at Appendix 1 to the report.

In addition to the changes in the SAAB, the ISS has been updated for the following:

- extending the Fund's hedging policy to include both Income Assets and Protection Assets (previously just Protection Assets) to reduce the Fund's overseas currency exposure. The Fund continued to regard the currency exposure associated with investing in overseas equities as part of the return on overseas equities; and
- reference to the Fund's standalone Responsible Investment Framework and Climate Strategy, both of which were supplementary to the Investment Strategy Statement.

The Fund's independent investment adviser, Anthony Fletcher, had reviewed the revised Investment Strategy Statement and the proposed changes to the SAAB and approved of the proposals. A copy of the advisor's review was set out at Appendix 2 to the report.

It was intended to consult with scheme employers, the local pension board and other stakeholders on the revised Investment Strategy Statement. The results of the consultation would be reported to Committee in December 2020. Again, Members were of the opinion that this Strategy should be packaged together with the Responsible Investment Framework and the Climate Strategy and it was agreed that this would also come to the Committee meeting in December 2020 for consideration of any proposed revisions following consultation.

RESOLVED to (1) approve the revised Investment Strategy Statement set out in the report, including the proposed changes to the Strategic Asset Allocation Benchmark, for the purposes of the consultation; and

(2) consider the proposed final document at the Committee meeting in December 2020.

42/20 **DERBYSHIRE PENSION FUND EXIT CREDITS POLICY** The Committee was advised of the outcome of the Pension Fund's consultation exercise in respect of the proposed Exit Credits Policy and approval was sought for the updated Policy attached as Appendix 1 to the report.

An email had been sent to the Fund's current scheme employers, to the recently ceased employers and to members of Derbyshire Pension Board to highlight the consultation. The consultation was also featured on the news page of the Fund's website. Two responses to the consultation had been received, both from scheme employers and details of these were provided.

The Director of Finance and ICT, in conjunction with the Chairman of the Committee, had determined that no changes were necessary to the Policy that was approved on 21 July 2020 as a result of feedback to the consultation.

The Policy had, however, been revised to clarify that any costs associated with the determination of an exit credit may be deducted from any exit credit payment at the Fund's discretion. This point had been raised by a member of the Committee when the proposed Policy was considered at the last meeting. The proposed revision to the Policy was highlighted.

RESOLVED to approve the proposed Exit Credits Policy attached at Appendix 1 to the report.

43/20 **MHCLG AMENDMENTS TO THE STATUTORY UNDERPIN CONSULTATION** The Committee were advised of the publication of the Ministry of Housing, Communities and Local Government's (MHCLG) consultation on draft regulations introducing proposed changes to the LGPS statutory underpin protection. The changes were intended to remove unlawful discrimination found by the Courts in relation to public service pension scheme transitional protection arrangements. The judgement of unlawful discrimination was commonly referred to as the McCloud Judgement. Approval was also sought for the Director of Finance & ICT, in consultation with the Chairman of the Committee, to consider the Fund's response to the consultation and to authorise its submission to MHCLG. The draft regulations set out in the MHCLG consultation proposed to:

- remove the condition that required a member to have been within ten years of their 2008 Scheme normal pension age on 1 April 2012 to be eligible for underpin protection.

- extend the underpin protection to apply where a member leaves with either a deferred or an immediate entitlement to a pension (previously the underpin did not apply to leavers with a deferred benefit entitlement)

The impact the proposed changes would have on members of the LGPS and the impact on employers, was set out in the report.

The implementation of the proposed remedy would have a significant affect on the administration of the scheme. Initial analysis had indicated that around 26,000 members of the Fund were likely to fall into the scope of the proposed changes to the underpin. Members expressed real concern relating to the impact on resources and the cost implications. It was reported that collaborative work with pooling partners was being undertaken to look at solutions, such as shared software. Adverts had recently been placed for additional staffing resources.

The MHCLG consultation would close on 8 October 2020. A response to the consultation had been received from Hymans, the Fund's actuary and was being considered. The Local Government Association (LGA) would also be submitting a response to the consultation which would be shared in advance of the closing date.

A McCloud Project Board had been established to govern the implementation of the remedy. The Project Board was currently working through the MHCLG consultation document and would formulate a response to the consultation in due course, taking into consideration the responses from Hymans and the LGA. The response would be circulated to members of the Committee prior to its submission to MHCLG.

RESOLVED to (1) note the publication of MHCLG's consultation on draft regulations introducing proposed changes to the LGPS statutory underpin protection; and

(2) delegate the consideration of the Fund's response to the consultation, and the approval of its submission to MHCLG, to the Director of Finance & ICT in conjunction with the Chairman of the Committee.

44/20 **EXCLUSION OF THE PUBLIC** **RESOLVED** that the public be excluded from the meeting during the Committee's consideration of the remaining items on the agenda to avoid the disclosure of the kind of information detailed in the following summary of proceedings:-

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

1. To receive declarations of interest (if any)

2. To confirm the exempt minutes of the meeting held on 21 July 2020 (contains exempt information)

3. To consider the exempt report of the Director of Finance and ICT on Stage 2 Appeal under the LGPS Application for Adjudication Disagreement Procedure – NG (contains information relating to any individual)

Agenda Item No. 4 (a)

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

4 November 2020

Report of the Director of Finance & ICT

MHCLG CONSULTATION ON REFORM OF EXIT PAYMENTS IN LOCAL GOVERNMENT

1 Purpose of the Report

To advise the Pensions and Investments Committee (Committee) of the publication of the Ministry of Housing, Communities and Local Government's (MHCLG) consultation on draft regulations to reform exit payment terms for local government workers, and specifically for those who are eligible to be members of the Local Government Pension Scheme (LGPS). The consultation is attached as Appendix 1.

To seek approval for the Director of Finance & ICT, in consultation with the Chair of the Committee, to consider the Fund's response to the consultation and to authorise its submission to MHCLG.

2 Information and Analysis

Exit Payments

The Government has been working on proposals to reform public sector exit payment terms for a number of years in order to 'ensure that such payments offer a proportionate level of support for exiting workers and value for money to the taxpayer who funds them'[1].

In April 2019, the Government published a consultation seeking views on regulations implementing a £95,000 cap on exit payments in the public sector. The consultation closed in July 2019 and the government published its response to the consultation together with draft regulations in July 2020. The Restriction of Public Sector Exit Payments Regulations 2020 (Exit Payment Regulations) were subsequently approved by Parliament and will come into force on 4 November 2020.

[1] HM Treasury Consultation on reforms to public sector exit payments - February 2016

The cap of £95,000 will apply to the aggregate sum of payments made in consequence of termination of employment. It is not currently proposed that an inflationary uplift will be applied to the cap.

The main elements of an exit payment will be:

- statutory and discretionary redundancy payments
- strain/shortfall payments to a pension fund to reduce or remove actuarial reductions on the payment of early retirement benefits

Other elements of an exit payment will be: compensation awarded under the ACAS arbitration scheme or a settlement or conciliation agreement; severance or ex-gratia payments; shares and share options; any payment on voluntary exit; payment in lieu of notice; payment to extinguish any liability to pay money under a fixed term contract; and other payments made as a consequence of termination of employment.

Payments in respect of the following will be exempt from restriction:

- death in service
- incapacity as a result of accident, injury or illness
- annual leave due but not taken
- compliance with an order of a court or tribunal
- pay in lieu of notice that does not exceed one quarter of the relevant person's salary
- certain payments related to firefighters and members of the judiciary

Bodies in Scope
The cap will apply across virtually all of the public sector with only limited exemptions including: the Armed Forces; the Secret Intelligence Service; the Security Service; and Government Communications Headquarters. In order to determine whether a body is 'public sector' for the purposes of the cap, HM Treasury will be guided by the Office for National Statistics (for National Accounts purposes) classification of bodies.

Relaxation of the Cap
Draft HM Treasury Directions published in 2019, set out circumstances where the power to relax restrictions must be exercised (**mandatory cases**) and may be exercised (**discretionary cases**). The power to relax the cap is expected to be delegated to certain authorities which includes the full council of a local authority provided they act in accordance with HM Treasury Directions or otherwise with the consent of HM Treasury.

The **mandatory** waiver process is expected to cover:

- settlement payments related to whistleblowing, discrimination; health and safety related detriment and unfair dismissal claims if the authority is satisfied that on the balance of probabilities an award would be made to the employee if the claim proceeded to a tribunal
- obligations to make exit payments arising as a result of TUPE transfers
- certain pension payments by the Nuclear Decommissioning Authority

The **discretionary** waiver process is expected to cover the following circumstances:

- where the application of the cap would cause undue hardship
- where the application of the cap would inhibit workplace reform
- where payment is due under an agreement reached before the implementation of the cap, but the employee's exit was delayed until after the cap came into force (as long as the delay was not attributable to the employee or office holder as applicable)

It is expected that the discretionary relaxation of the cap will only be used in exceptional circumstances and that its application by local authorities will require approval by MHCLG and HM Treasury.

The Guidance and Directions to accompany the Exit Payment Regulations, which will set out the discretionary waiver process, and the position of exits agreed before 4 November 2020 where the date of leaving is after, are expected shortly. Committee will be provided with a verbal update on any information received following the circulation of the committee papers.

The Government expects pension schemes, employment contracts and compensation schemes to be amended in line with the introduction of the cap. However, the cap will come into force ahead of the Ministry of Housing, Communities and Local Government changing the rules of the Local Government Pension Scheme and the rules related to discretionary redundancy payments in local government. This will affect the ability of local government employers to complete reorganisations or redundancy exercises.

Exit Payments for Local Government Workers
Government departments responsible for the main public sector workforces have been asked to negotiate and agree exit payments reforms directly with each sector.

On 7 September 2020, MHCLG published a consultation on restricting exit payments (including both redundancy compensation pay and early access to pensions) in local government in England and Wales. The consultation relates to proposed changes to the Local Government Pension Scheme Regulations

2013 (LGPS 2013 Regulations) and the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006 (Discretionary Compensation Regulations).

Discretionary Compensation Regulations
These regulations provide a framework for the payment of discretionary compensation to persons whose local government employment is terminated by reason of redundancy or in the interests of the service and provide that the total maximum lump-sum pay out is 104 weeks (24 months) pay, although most local authorities currently provide for less than this.

LGPS 2013 Regulations
These regulations provide that employees aged 55 or more who are members of the Local Government Pension Scheme (LGPS) are entitled to immediate access to unreduced pension benefits where:

- the member is dismissed from an employment on redundancy or business efficiency ground
- the employment is terminated by mutual consent on business efficiency grounds

Employers pay a strain (shortfall) cost, where applicable, to make up for any shortfall in pension funding to cover the removal of any early payment reduction. Currently, this entitlement to immediate access to unreduced pension benefits is in addition to any redundancy payment.

MHCLG Proposals – Further Exit Payment Reform
The proposals set out in the consultation cover all employers named in the Schedule of the Exit Payment Regulations who also participate in the LGPS. This includes local authorities, acadamies and police and fire authorities (for non-teaching and civilian staff).

Clarification is awaited on whether further public sector bodies which participate in the LGPS may be included within the scope of these proposed reforms.

The consultation goes wider than addressing the government’s original stated concern about the number of exit payments made to public sector workers that exceed or come close to £100,000. Under the proposals, the value of exit packages for all English and Welsh members of the LGPS who are made redundant could be significantly reduced.

Total exit payments will be capped at £95,000 in line with the Exit Payment Regulations. However, even below the £95,000 level, local government employees will be affected by the proposed changes.

It is proposed that the following will apply to redundancy payments in local government:

- a maximum tariff for calculating exit payments of three weeks' pay per year of service
- a ceiling of 15 months (66 weeks) on the maximum number of months' or weeks' salary that can be paid as a redundancy compensation payment
- a maximum salary of £80,000 on which a redundancy compensation payment can be based

For members of the LGPS who are at least 55 years old when made redundant, they will no longer be able to receive both a completely unreduced immediate pension together with their full redundancy payment.

A member will still receive any Statutory Redundancy Payment (SRP) as a cash payment, however, any strain cost will be reduced by the value of any SRP, which would result in the member receiving an actuarially reduced pension. Members will be able to make up any reduction in the strain cost from their own resources.

Where the employer pays any amount of strain cost in respect of an employee's exit, an employer may not pay any discretionary redundancy payment (i.e. a payment over and above SRP). (Separate rules will apply in the rare cases where the value of the discretionary payment would have had a higher value than the strain cost.)

It is also proposed, that a standard methodology for calculating strain costs, provided by the Government Actuary's Department, will come into force at the same time as the new exit payment reforms.

Timescales
As noted above, the Exit Payment Regulations come into force on 4 November 2020. The additional further exit payment reforms proposed by MHCLG, which include the accommodation of the Exit Payment Regulations, are currently subject to consultation and are not expected to come into force before the end of this year.

This means that there will be a period of legal uncertainty when scheme employers are under an obligation under the Exit Payment Regulations to potentially limit strain cost payments and administering authorities are required under existing LGPS regulations to pay unreduced pensions to qualifying scheme members.

MHCLG is expected to issue a statement with respect to the difficulty this causes for local government employers and LGPS administering authorities very shortly. The LGPS Scheme Advisory Board is also obtaining legal advice on the risk of challenge to LGPS authorities during this period.

Communication with Employers
A bulletin, including a briefing note from Hymans Robertson, the Fund's actuary, has been sent to all of the Fund's employers highlighting the issue of exit payments which may have a significant impact on current and future workforce planning arrangements. Updates will be provided to employers as appropriate.

A working group of officers from the Pension Fund and from the council's HR and Legal departments are meeting regularly to discuss the implications of the evolving exit payments legislation.

3 Consultation

The MHCLG consultation will close on 9th November 2020. Officers are currently working through the MHCLG consultation document and will formulate a response to the consultation in due course.

Approval is sought for the Director of Finance & ICT, in consultation with the Chair of the Committee, to consider the Fund's response to the consultation and to authorise its submission to MHCLG.

4 Other Considerations

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

5 Background Papers

All background papers are held by the Head of Pension Fund.

6 Officer's Recommendation

That the Committee:

I. Notes the publication of MHCLG's consultation on draft regulations to reform exit payment terms for local government workers.

II. Delegates the consideration of the Fund’s response to the consultation, and the approval of its submission to MHCLG, to the Director of Finance & ICT in conjunction with the Chair of the Committee.

Peter Handford

Director of Finance & ICT

Ministry of Housing,
Communities &
Local Government

Reforming local government exit pay

A consultation on the reform of exit payments in local government

September 2020
Ministry of Housing, Communities and Local Government

This document/publication is also available on our website at www.gov.uk/mhclg

If you have any enquiries regarding this document/publication, complete the form at http://forms.communities.gov.uk/ or write to us at:

Ministry of Housing, Communities and Local Government
Fry Building
2 Marsham Street
London
SW1P 4DF
Telephone: 030 3444 0000

September 2020

Contents

1. Scope of the consultation

A consultation paper issued by the Ministry of Housing, Department for Communities and Local Government, on behalf of the Secretary of State.

Topic of this consultation:	As part of a wider programme of cross-public sector action on exit payment terms, this consultation paper sets out the government's proposals for reforming local government exit payment.
Scope of this consultation:	The Ministry of Housing, Communities and Local Government is consulting on proposals to reform exit payment terms for local government workers, and specifically those who are eligible to be members of the local government pension scheme
Geographical scope:	The reforms would apply to those areas which are the responsibility of the UK government. It would be for the Scottish government, Welsh government and Northern Ireland Executive to determine if and how they wanted to take forward similar arrangements in relation to devolved bodies and workforces.
Impact Assessment:	The government believes, to a large extent, any impact on protected groups as a result of these reforms would simply be a natural consequence of the composition of the local government workforce and does not believe that there would necessarily be disproportionate impacts on particular groups aside from this. However, following this consultation, an impact assessment will be produced to examine whether this is the case; the government will carefully consider its policy in the light of that assessment.

Basic Information

Topic of this consultation:	This consultation is open to everyone. We particularly seek the views of local government, Trade Unions and other workforce representatives.
Body responsible for consultation:	The Local Government Strategy and Improvement team in the Ministry of Housing, Communities and Local Government is responsible for conducting the consultation.
Duration:	The consultation will last for 9 weeks from 7 September 2020. All responses should be received by no later than 9 November 2020.
Enquiries and responses:	During the consultation, if you have any enquiries, please contact: LGExitPay@communities.gov.uk **How to respond** Responses can be submitted online at:

	https://forms.office.com/Pages/ResponsePage.aspx?id=EGg0v32c3kOociSi7zmVqDX2xIA9hPhJv2EHTx_8-_ZUQTdZUkIxOFBJTjU2RjFEQzY4WlIHSUoyNy4u or sent by email to: LGExitPay@communities.gov.uk with the subject heading ‘Consultation on Exit Payment Cap’. Due to current restrictions on office access, responses sent by post may have a delay in reaching our team. By post, please address your response to: Exit Pay Consultation Local Government Workforce and Pay Team, Ministry for Housing, Communities and Local Government 2nd Floor, Fry Building 2 Marsham Street London SW1P 4DF When responding please say if you are a business, individual or representative body. In the case of representative bodies, please provide information on the number and nature of people you represent.

2. Introduction

2.1 Redundancy provision and exit payments play an important role in enabling employers to reform and reorganise. They support employees during the transition to other employment or retirement following the loss of employment. However public sector arrangements vary significantly, including in the benefits provided for people with similar pay and length of service. Also, such provisions can often be out of line with practice in the wider economy.

2.2 The government announced in the Spending Review and Autumn Statement 2015 that it will continue to modernise the terms and conditions of public sector workers, by taking forward targeted reforms in areas where the public sector has more generous rights than most of the private sector. As part of this, the government committed to consulting on further cross public sector action on exit payment terms, to reduce the costs to the taxpayer of redundancy payments and ensure greater consistency between workforces. The government is therefore consulting on options to make public sector exit compensation terms fairer, more modern and more consistent.

2.3 **Taking forward exit payment reform proposals**
The Spending Review 2015 announced the government's intention to consult on cross-public sector action on exit payment terms, to reduce the costs of redundancy pay-outs and ensure greater consistency between workforces. This consultation, launched in February 2016, set out that the government would consider three key principles to underpin reform: fairness; modernity and flexibility; and greater consistency. It set out a package of proposed maximum levels for the calculation of different elements of exit packages to apply across the public sector, subject to negotiation at workforce level.

2.4 In September 2016, the government published a response to this initial consultation. Around 350 responses were received, from trade unions; public sector employers and employer organisations; and public sector workers and others responding in an individual capacity. The initial consultation document and the government's response can be accessed via this link: www.gov.uk/government/consultations/further-consultation-on-limiting-public-sector-exit-payments

2.5 **The current system for local government redundancy compensation payments**
Local government lump-sum redundancy arrangements vary considerably between employers. However, they must operate within a framework set by regulations. Those regulations are the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006 ("the 2006 Regulations")[1]. These regulations provide that the total maximum lump-sum pay-out is 104 weeks' (24 months') pay, although most local authorities currently provide for less than this.

[1] Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006 SI/ 2914 http://www.legislation.gov.uk/uksi/2006/2914/made

2.6 **The current system for local government early access to pensions**
Under Regulation 30(7) of the Local Government Pension Scheme Regulations 2013[2] employees aged 55 or more who are members of the Local Government Pension Scheme (LGPS) are currently entitled to immediate access to unreduced pension where:

- The member is dismissed from an employment on redundancy or business efficiency grounds, or
- The employment is terminated by mutual consent on business efficiency grounds.

An employer participating in LGPS which provides early unreduced payment of pension benefits has to make additional payments to the relevant pension fund to make up the resulting shortfall in the pension funding. This is because provision for early exits is not included in their standard employer contributions. This extra payment is also known as the pension strain cost[3].

The purpose of this consultation

2.7 This consultation is **not** seeking views or representations on the government's position regarding exit pay reform. The framework for reform has been produced following extensive consultation led by HM Treasury. Instead, this consultation is seeking information on:

- The effect/s that the proposals for reform outlined below will have on the regulations which currently govern exit payments (including both redundancy compensation pay and early access to pensions) in local government.

- The impact that the proposals for reform outlined in paragraph 3.4 will have on the local government workforce. Consultation responses will inform a full impact assessment, including equalities considerations which will be issued alongside the regulations when these are laid before Parliament.

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[2] The Local Government Pension Scheme Regulations 2013
http://www.legislation.gov.uk/uksi/2013/2356/regulation/30/made

[3] The precise arrangement by which strain cost is paid varies between funds. Some funds ask for payment on a case by case basis, others may have allowed for a certain number of exits in setting the regular contribution level. In those cases, if experience differs from what is assumed then this is taken into account when that employers contributions are next adjusted.

3. Reforms to public sector exit payments

3.1 The government believes that it is an important principle that exit arrangements are determined at workforce level. However, given that exit arrangements in all workforces are ultimately funded by the taxpayer, it is clearly appropriate for the government to ensure that these provide value for money.

3.2 However, the government legislated for a cap of £95,000 for all exit payments in the public sector in the Small Business Enterprise and Employment Act 2015 (later amended by the Enterprise Act 2016). The 2015 Act sets out the duty to implement the cap through secondary legislation and HMT carried out a consultation on a Public Sector Exit Payment Cap in 2019 which proposed introducing a cap of £95,000 on the total value of exit payments across the Public Sector (although with some exceptions under consideration). That consultation was completed and regulations for this were laid on 21 July 2020.
The response to the consultation is available here:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/902087/Public_sector_exit_payments_Consultation_response.pdf

3.3 The government believes that an approach of individual sector workforce negotiations within an overarching framework strikes the right balance in ensuring fairness to the individual and the taxpayer and ensuring that there is greater consistency between schemes while recognising the differences between workforces. This consultation therefore contains proposals to implement the measures specifically for the local government workforce.

3.4The overarching framework was set out in the Government Response published in February 2016[4]. The key elements can be summarised as:

- A maximum of three weeks' pay per year of service;
- A maximum of 15 months on the amount of a redundancy payment;
- A maximum salary of £80,000 on which an exit payment can be based;
- Limiting publicly funded pension top-ups;
- A £95k cap on the total of all forms of compensation, including redundancy payments, pension top-ups, compromise agreements and special severance payments.

[4] https://www.gov.uk/government/consultations/further-consultation-on-limiting-public-sector-exit-payments

4. Proposals for reforms to exit payments in local government

4.1 The government has asked those government departments responsible for the main public sector workforces to negotiate and agree reforms directly with each sector. MHCLG is therefore leading on local government workforce reform[5].

4.2 Total exit payments will be capped at £95,000 in line with HMT's proposed reforms.

4.3 Following preliminary discussions with local government sector representatives, MHCLG's proposals to reform redundancy payments in local government are as follows:

a) A maximum tariff for calculating exit payments of three weeks' pay per year of service. Employers could apply tariff rates below these limits.

b) A ceiling of 15 months (66 weeks) on the maximum number of months' or weeks salary that can be paid as a redundancy compensation payment. Employers will have discretion to apply lower limits, as they do at present under 2006 Regulations.

c) A maximum salary of £80,000 on which a redundancy compensation payment can be based, to be reviewed on an annual basis using an appropriate mechanism, for example: CPI (Consumer Prices Index).

Question 1: Are there any groups of local government employees that would be more adversely affected than others by our proposed action on employer funded early access to pension? If so, please provide data/evidence to back up your views. How would you mitigate the impact on these employees?

Question 2: What is the most appropriate mechanism or index when considering how the maximum salary might be reviewed on an annual basis?

Question 3: Are there any groups of local government employees that would be more adversely affected than others by our proposed ceiling of 15 months or 66 weeks as the maximum number of months' or weeks salary that can be paid as a redundancy payment? If so, please provide data / evidence to back up your views. How would you mitigate the impact on these employees?

[5] These proposals will cover all employers which participate in the LGPS and are named in Schedule x of the draft Exit Payment Regulations, which are due to be made under s153A of the Small Business, Enterprise and Employment Act 2015.

Question 4:
Are there any groups of local government employees that would be more adversely affected that others by our proposal to put in place a maximum salary of £80,000 on which an exit payment can be based?
If so, please provide data / evidence to back up your views.
How would you mitigate the impact on these employees?

4.4 Most importantly we wish to introduce an element of choice into the current arrangements. At present, employees may have no option but to take immediate payment of their pension on being made redundant. That means that they cannot accrue further benefits (in that employment) and it sends a signal that their working life is over. In the modern world of work, people have good reasons for wanting to work longer and someone made redundant in their late 50's may still look forward to a satisfying career for many years to come. However, we recognise that for those who have done demanding work throughout their adult lives, they should have the security of a reliable income with a suitable enhancement.

4.5 We therefore propose that for members of the LGPS who are at least 55 years old when made redundant, the benefits and the associated strain cost due from the employer should be limited as follows:

- The strain cost cannot exceed the overall cap contained in the Exit Payment Regulations (£95k)
- Strain cost will be further reduced by the value of any Statutory Redundancy Payment required to be paid (which the employee will still receive as a cash payment)
- A further reduction would be made to reflect any voluntary payments made to cover grant of additional pension under regulation 31 of the LGPS Regulations 2013
- Any reduction in the strain cost due to the above limitations may be made up by the worker from his own resources
- The member will receive an actuarially adjusted pension benefit in line with the revised strain cost under these provisions.

4.6 Where the employer pays any amount of strain cost in respect of an employee's exit, an employer may not grant an employee any discretionary redundancy payment. However, in the rare cases where the discretionary payment would have had a higher value than the strain cost the member will be entitled to take the pension enhancement delivered by the strain cost due under paragraph 4.5 plus a cash payment equal to the difference between the strain cost and discretionary redundancy payment.

4.7 However, the member can choose to forgo the pension enhancement due under paragraph 4.5 and instead receive an actuarially reduced pension (using standard early retirement factors) and take the discretionary redundancy payment to which they would be entitled under their employer's redundancy scheme, subject to it being consistent with the proposals at paragraph 4.3 above.

4.8 We are also proposing to grant employees a further option which would be to defer their pension benefits (as accrued, with no enhancement and not coming into immediate payment) and to receive the discretionary redundancy payment under their employer's redundancy scheme, subject to it being consistent with the proposals at paragraph 4.3 above.

4.9 As the effect of these provisions and the cap established by the Exit Pay Regulations will be the same for all pension funds in England, we believe that it would be appropriate to have a consistent approach taken to the calculation of strain costs between funds. Hence the Secretary of State has asked the Government Actuary's Department to provide actuarial guidance on this for funds to follow. We will consult on this actuarial guidance in due course.

Relaxation of the cap

4.10 There will be some circumstances where it is necessary or desirable to relax the overall cap on benefits set out in the Exit Payment Regulations (£95k). Therefore, the regulations allow for discretionary relaxation of the cap in exceptional circumstances, including where imposing the cap would cause genuine hardship.

4.11 The full council of a local authority has a delegated power to relax the cap in relation to local government bodies for which it has responsibility. The London Assembly has the power to relax in respect of exit payments made by the Greater London Authority.

4.12 The power to relax must be exercised in accordance with the mandatory directions in section 5 of the HMT statutory guidance to the Exit Payment Regulations. In line with that guidance, all requests by LGPS scheme employers to relax the cap must be approved by the appropriate Minister of the sponsoring department. For local councils that will the Secretary of State for Housing, Communities and Local Government.

4.13 There may be circumstances in which our Minister cannot approve a business case for relaxation in accordance with the mandatory directions but believes the cap should be relaxed on a discretionary basis. In these circumstances, MHCLG Ministers will require agreement from HMT Ministers to approve the relaxation.

Question 5:
Do you agree with these proposals? If not, how else can the Government's policy objectives on exit pay be delivered for local government workers?

Question 6:
Do you agree that the further option identified at paragraph 4.8 should be offered?

Question 7:
Are there any groups of local government employees that would be more adversely affected than others by our proposals?
If so, please provide data/ evidence to back up your views.
How would you mitigate the impact on these employees?

5. Impact analysis

5.1 Economic and fiscal impacts
Analysis of economic impact is being carried out for MHCLG by the Government Actuary Department. We will consult on this separately in due course.

5.2 **Social impacts – including distributional and equalities**
The Office for National Statistics (ONS) Labour Force Survey evidence suggests that the public sector has a significantly greater proportion of women and older workers than the workforce population as a whole, as well as slightly greater proportions of those with other protected characteristics, including disability. However, within this there are significant variations between different workforces.

5.3 MHCLG will produce a full impact assessment, including equalities considerations, and the government will carefully consider these impacts in making decisions on the appropriateness or otherwise of proposed reforms in each workforce. We are seeking more information to feed into the equalities assessment via this consultation document.

5.4 The government believes, to a large extent, that any impact on protected groups as a result of these reforms would simply be a natural consequence of the composition of these workforces and does not believe that there would necessarily be disproportionate impacts on particular groups aside from this.

5.5 **Environmental impacts**
This policy is assumed to have no tangible environmental impacts.

5.6 **Costs and benefits – direct and indirect**
The policy would produce a benefit to employers in terms of reductions in redundancy compensation payments which would contribute more widely to the public finances. The potential effects include: the reduction in redundancy compensation to affected employees (which the government believes is justified on grounds of fairness and affordability), and administrative costs to employers of implementing the necessary changes to their redundancy compensation arrangements.

5.7 **Regulatory impact**
This policy primarily affects the public sector and so is not expected to increase regulation on private business in the wider economy. Depending on final decisions on the scope of the Exit Payment Regulations, the policy may also have an impact on bodies employing staff previously from the public sector who are subject to Transfer of Undertakings (Protection of Employment) (TUPE) rules. These impacts cannot be quantified at this stage.

Question 8:
From a local government perspective, are there any impacts not covered at Section 5 (Impact Analysis) which you would highlight in relation to the proposals and/or process above?

5.8 **Employees receiving pay and pension concurrently**
To provide greater transparency in local authorities and give local taxpayers the information they need to hold authorities to account about how they spend their money, each local authority is required to have its own policy on the abatement of pension benefits when people in receipt of a local government pension are re-employed in local government.

5.9 Clearly, the purpose of a pension is to provide an income in retirement. Therefore, local authorities should use their pay policy statements, which they are required by the Localism Act 2011 to prepare and publish annually, to explain their policies toward the reward of chief officers who were previously employed by the authority and who, on ceasing to be employed, were in receipt of a severance payment from that authority. Public bodies should seek to:

- Safeguard public expenditure, by restricting the total remuneration made from public funds for those who have not genuinely retired from a public service career;
- Avoid accusations of favouritism or even corruption if public servants, senior managers and Board Members were allowed to receive both pay and pension from public funds whilst remaining in public service, particularly if they remain in the same job, and;
- Ensure value for money is achieved and that public funding targeted through expenditure and tax relief at long-term retirement provision is focussed on retirement or preparation for retirement, rather than being used during part of an employee's working life.

Question 9:
Are these transparency arrangements suitably robust? If not, how could the current arrangements be improved?

5.10 This should include any local policy towards ex-employees later engaged as chief officers under a contract for services. Public authorities - which include local authorities - will be aware of their obligations, namely that if they plan to offer a temporary job to someone who works through their own intermediary (this is often their own company) they will need to decide whether the off-payroll working rules (known as IR35) apply. These off-payroll working rules are in place to make sure that where an individual would have been an employee if they were providing their services directly, they pay broadly the same tax and National Insurance contributions (NICs) as an employee.

5.11 Similarly, authorities should include their policies toward the reward of chief officers who are also in receipt of a pension under the Local Government Pension Scheme. These policies should take account of their agreed approach on abatement of pensions.

Question 10
Would any transitional arrangements be useful in helping to smooth the introduction of these arrangements?

Question 11
Is there any other information specific to the proposals set out in this consultation which is not covered above which may be relevant to these reforms?

6. Next Steps

6.1 Individual government departments are now working to negotiate, agree reforms and then implement them with specific public sector workforces. For reference, HMT's consultation on reforming exit payments in the public sector as a whole can be found at: https://www.gov.uk/government/consultations/consultation-on-a-public-sector-exit-payment-cap/consultation-on-a-public-sector-exit-payment-cap. MHCLG is therefore leading on local government exit pay reform.

6.2 Where applicable, implementation will be through changes to secondary regulations. The government will reserve the ability to set a reform framework in future primary legislation depending on progress in implementing the reforms.

6.3 The government would ensure any reforms do not breach the provisions of the Public Service Pensions Act 2013. Employees would remain entitled to pensions they have accrued during their employment and there would be no change to the age at which 'normal' retirement is available under existing scheme terms.

6.4 The government will carefully consider impacts around equalities and the economic and fiscal landscape as well as the practical implications of implementing any reforms.

In undertaking this consultation, we ask for general information and views on these proposed reforms and the draft regulations.

Question 12 *Would you recommend anything else to be addressed as part of this consultation?*

7. Consultation Questions

1. Are there any groups of local government employees that would be more adversely affected than others by our proposed action on employer funded early access to pension?
    - If so, please provide data/evidence to back up your views?
    - How would you mitigate the impact on these employees?

2. What is the most appropriate mechanism or index when considering how the maximum salary might be reviewed on an annual basis?

3. Are there any groups of local government employees that would be more adversely affected than others by our proposed ceiling of 15 months or 66 weeks as the maximum number of months' or weeks salary that can be paid as a redundancy payment?
    - If so, please provide data/evidence to back up your views?
    - How would you mitigate the impact on these employees?

4. Are there any groups of local government employees that would be more adversely affected than others by our proposal to put in place a maximum salary of £80,000 on which an exit payment can be based?
    - If so, please provide data/evidence to back up your views?
    - How would you mitigate the impact on these employees?

5. Do you agree with these proposals? If not, how else can the Government's policy objectives on exit pay be delivered for local government workers?

6. Do you agree that the further option identified at paragraph 4.8 should be offered?

7. Are there any groups of local government employees that would be more adversely affected than others by our proposals?

8. From a local government perspective, are there any impacts not covered at Section 5 (Impact Analysis), which you would highlight in relation to the proposals and/or process above?
9. Are these transparency arrangements suitably robust? If not, how could the current arrangements be improved?

10. Would any transitional arrangements be useful in helping to smooth the introduction of these arrangements?

11. Is there any other information specific to the proposals set out in this consultation, which is not covered above which may be relevant to these reforms?

12. Would you recommend anything else to be addressed as part of this consultation?

Annex A - Personal data

The data protection legislation is changing and a new Data Protection Act will be published in May 2018. It will give you greater powers to protect your own privacy, and place greater responsibility on those processing your data for any purpose. The following is to explain your rights and give you the information you will be entitled to under the new Act. Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

The identity of the data controller and contact details of our Data Protection Officer

The Ministry of Housing, Communities and Local Government (MHCLG) is the data controller. The Data Protection Officer can be contacted at dataprotection@communities.gsi.gov.uk

Why we are collecting the data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

Legal basis for processing the data

Part 2 of the draft Data Protection Bill (subject to change before it becomes an Act) states that as a government department, MHCLG may process personal data is necessary for the effective performance of a task carried out in the public interest i.e. a consultation.

With whom we will be sharing the data

We will not be sharing personal data outside of the MHCLG.

For how long we will keep the personal data, or criteria used to determine the retention period.

Your personal data will be deleted in accordance with our records retention and deletion policy which can be found on our website. https://www.gov.uk/government/publications/departmental-records-retention-and-disposals-policy

Your rights, e.g. access, rectification, erasure

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:
a. to see what data we have about you
b. to ask us to stop using your data, but keep it on record

c. to have all or some of your data deleted or corrected
d. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

MHCLG will not send your personal data overseas.

However, you may wish to be aware that Survey Monkey stores all data on its servers in the USA. Survey Monkey are certified under the EU-US Privacy Shield Programme which we consider to be adequate to protect the type of personal data we need from you to respond to this consultation. More information can be found on their website at https://help.surveymonkey.com/articles/en_US/kb/I-am-in-Europe-How-do-SurveyMonkey-s-privacy-practices-comply-with-laws-in-the-EU

This data will not be used for any automated decision making.

Annex B - About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA) and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Ministry.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the complaints procedure.

Agenda Item No. 4 (b)

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

4 November 2020

Report of the Director of Finance & ICT

INVESTMENT STRATEGY STATEMENT, RESPONSIBLE INVESTMENT FRAMEWORK & CLIMATE STRATEGY CONSULTATION

1 Purpose of the Report

To advise the Pensions and Investments Committee (the Committee) of the outcome of consultation in respect of Derbyshire Pension Fund's revised Investment Strategy Statement (the ISS), and inaugural Responsible Investment Framework (RI Framework) and Climate Strategy.

To seek approval for the ISS attached as Appendix 1, the RI Framework attached as Appendix 2 and the Climate Strategy attached as Appendix 3.

2 Information and Analysis

The Consultation

The ISS, RI Framework and Climate Strategy were approved by Committee for consultation on 9 September 2020. The consultation process opened on 23 September 2020 and ran until 21 October 2020.

Derbyshire Pension Fund's (the Fund) stakeholders were asked for their comments on all of the above documents. The consultation narrative included:

- a brief description of the Fund and the Local Government Pension Scheme
- a high-level summary of each of the documents
- a link to the Committee's papers
- a signpost to the additional information included in the Frequently Asked Questions (FAQs)
- details of how to respond to the consultation

The proposed ISS, RI Framework and Climate Strategy, together with the FAQs, were attached to the consultation page.
In order to make stakeholders aware of the consultation, the Fund:

- sent letters to over 82,000 individual members of the Fund (many members have multiple memberships)
- signposted the consultation in a Bulletin emailed to over 300 Fund employers
- included a link to the consultation on the landing page of the Fund's website
- emailed members of Committee and members of the Pension Board to inform them that the consultation was live

The letter to members of the Fund included details of the forthcoming member self-service solution (including the required notice that Annual Benefit Statements will be available online next year); the consultation; and details of the McCloud remedy.

The deadline for providing comments on the consultation was extended, in early October, from 14 to 21 of October when it became apparent that the post was taking longer than usual to arrive due to the current pandemic. An email was sent to the Fund's employers notifying them of the extension and the news item on the Fund's website was updated accordingly.

Officers of the Fund also held a virtual meeting with representatives of Divest Derbyshire and Derbyshire Pensioners' Action Group to discuss the proposed Climate Strategy at their request. A survey carried out by representatives of these two groups was circulated to members of the Committee in July 2020. It was reported that a majority of respondents: had little knowledge about how their pensions are being invested; were concerned about investments being made in fossil fuel industries; wanted more say in how the Fund's money is invested; and wanted greater communication and consultation to take place between the Fund's managers and its members.

Derbyshire Pension Fund Consultation Comments
The Fund received 49 responses to the consultation from the following respondents:

Scheme Member	15
Scheme Member & Local Taxpayer/Local Resident	5
Scheme Member & Local Councillor	1
Local Taxpayer/Local Resident	8
Local Councillor	2
Scheme Employer	1
Local Group	2
Undisclosed	15
Total	**49**

The vast majority of responses related to the proposed Climate Strategy, with a small number of comments on the proposed ISS and RI Framework. The comments on the proposed ISS were largely related to climate risk, although the proposed increased allocation to infrastructure was welcomed by one respondent.

Five respondents welcomed the ability to provide comments via the consultation, however, eleven respondents either questioned whether the consultation was meaningful or said it too difficult to take part in. Three respondents suggested that a Citizens' Assembly would provide a more appropriate way of consulting with stakeholders.

Seven respondents suggested that the Fund should make investment decisions on an ethical basis rather than relying on a responsible investment approach to investment which aims to incorporate environmental, social and governance factors into investment decisions.

There were six respondents who said they don't believe that a strategy of engagement is effective and between them gave the following reasons:

- engagement is 'slow and complicated'
- there is no evidence of 'any multinational company changing its core business model in response to investor pressure'
- it is not the responsibility of the Pension Fund to 'shepherd oil majors into improving their ESG practices'
- the only influence the Pension Fund has is 'withdrawing your money'
- engagement has proved 'ineffective'

Forty respondents want the Fund to divest from fossil fuels investments on the basis that:

- there is financial risk due to the global transition to a more sustainable economic and environment model (including the risk of stranded assets)
- global oil demand 'is widely thought to have already peaked'
- fossil fuels are not a sustainable energy source
- 'renewables are now cheaper than fossil fuels in every major region in the world'
- 'carbon is causing the Climate Crisis'

Amber Valley Borough Council's response to the consultation reported that the Council had voted to support the following motion at its meeting on 30 September 2020:

'Having declared a Climate Emergency in July 2019, Amber Valley Borough Council calls for the Derbyshire Pension Fund to disinvest its remaining funds in fossil fuels and to invest in renewables.'

This follows similar motions from Chesterfield Borough Council, passed by full Council in July 2020, and from Derby City Council, passed by full Council in March 2018.

Thirty-two respondents think that the proposed targets for reducing the carbon footprint of the listed equity portfolio, investing in low carbon and sustainable investments and achieving a carbon neutral portfolio by 2050 are not ambitious enough.

Twenty-three respondents want to see a greater increase in the allocation to renewable investments, with seventeen respondents asking the Fund to invest at least 80% of the portfolio in low carbon and sustainable investments by the end of 2025.

Fourteen respondents want the Fund to achieve a portfolio of assets with net zero carbon emissions by 2030 on the basis that:

- the target of achieving net zero by 2050 ‘is not considered to be compatible with the Paris Agreement which requires a significant cut in emissions over the next ten years’
- a neighbouring administering authority of an LGPS fund has recently voted to achieve net zero by 2030
- many local authorities are now pledged to be carbon neutral by 2030

Fund Response to the Consultation Comments
The comments on the consultation process itself will be considered before the Fund next consults with its stakeholders. Some respondents welcomed the set of Frequently Attached Questions attached to the consultation. However, all suggestions for improving written communications to stakeholders will be considered.

Responsible investment is more compatible with the Fund’s trustee-like responsibility to scheme members, scheme employers and local taxpayers than ethical investment which is based on beliefs about what is morally right and wrong.

Engagement is a slow process with few ‘quick wins’. However, the Pension Fund is a long-term investor and takes a long-term approach to its stewardship activities. The evidence that collaborative engagement between like-minded investors is influencing company behaviours is starting to come through, particularly with a number of the companies, including some of the major oil companies, who are adapting their business models to take into account climate change. Influence is lost when an investor divests and there is a risk that ownership moves into the hands of less transparent and less accountable investors.

The Fund’s investment managers will continue to assess the transition strategies of all investee companies as part of the assessment of the sustainability of companies’ earnings.

Renewable opportunities are being assessed by the Fund on a continual basis and the increased allocation to low carbon and sustainable equities included in the revised ISS represents a major transition for the Pension Fund. At the same time, it is essential that the Fund takes into account the risks associated with renewable investments (technological, operational, political, regulatory) and that the Fund continues to invest in a well-diversified portfolio of assets.

Net zero aligned for a pension fund, is currently considered to mean implementing an investment strategy that is consistent with achieving the goal of global net zero emissions by 2050. This definition is from the Institutional Investors Group on Climate Change (IIGCC) which is the European membership body for investor collaboration on climate change, with 230 members (mainly pension funds and asset managers), across 16 countries, with over €30 trillion of assets under management.

Pension funds invest in a range of different countries and asset classes and rely on the actions of countries and companies to progressively transition to net zero. Further details on the meaning of net zero and the current targets for some of the major economies and major corporates, together with the asset class specific issues and challenges of achieving net zero, are set out in Appendix 4. A net zero target before 2050 is not currently achievable for the Fund alongside the Fund’s risk and return objectives which aim to ensure that sufficient assets are available to meet benefit payments whilst keeping employer contribution rates as stable as possible.

It is recognised that climate change recognition by companies is constantly evolving and new approaches and practices are constantly emerging, therefore, it is proposed that targets for carbon footprint and low carbon and sustainable investment in the Climate Strategy will be reviewed in three years’ time (rather than the five years proposed in the consultation), and will thereafter be reviewed on at least a three yearly basis’ in recognition of evolving practice and concerns raised by stakeholders.

The proposed timetable also takes into consideration the rapidly evolving methodologies for assessing the impact of future climate-related scenarios, the ongoing evolution of countries’ climate policies, the development of companies’ climate-related disclosures, and the expected increase in the availability of suitable investment products.

3 Considerations

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

4 Background Papers

Files held by the Head of Pension Fund.

5 Officer's Recommendations

That the Committee:

5.1 Notes the outcome of the consultation in respect of Derbyshire Pension Fund's revised Investment Strategy Statement, and inaugural Responsible Investment Framework and Climate Strategy.

5.2 Confirms that no changes to the revised Investment Strategy Statement are required based on the outcome of the consultation and approves the revised Investment Strategy Statement attached as Appendix 1.

5.3 Confirms that no changes to the Responsible Investment Framework are required based on the outcome of the consultation and approves the Responsible Investment Framework attached as Appendix 2.

5.2 Agrees that the Fund will review the carbon footprint of the listed equity portfolio together with the low carbon and sustainable investment targets on a triennial cycle from the date of approval of the Climate Strategy.

5.3 Approves the Climate Strategy attached as Appendix 3.

PETER HANDFORD

Director of Finance & ICT

Derbyshire Pension Fund

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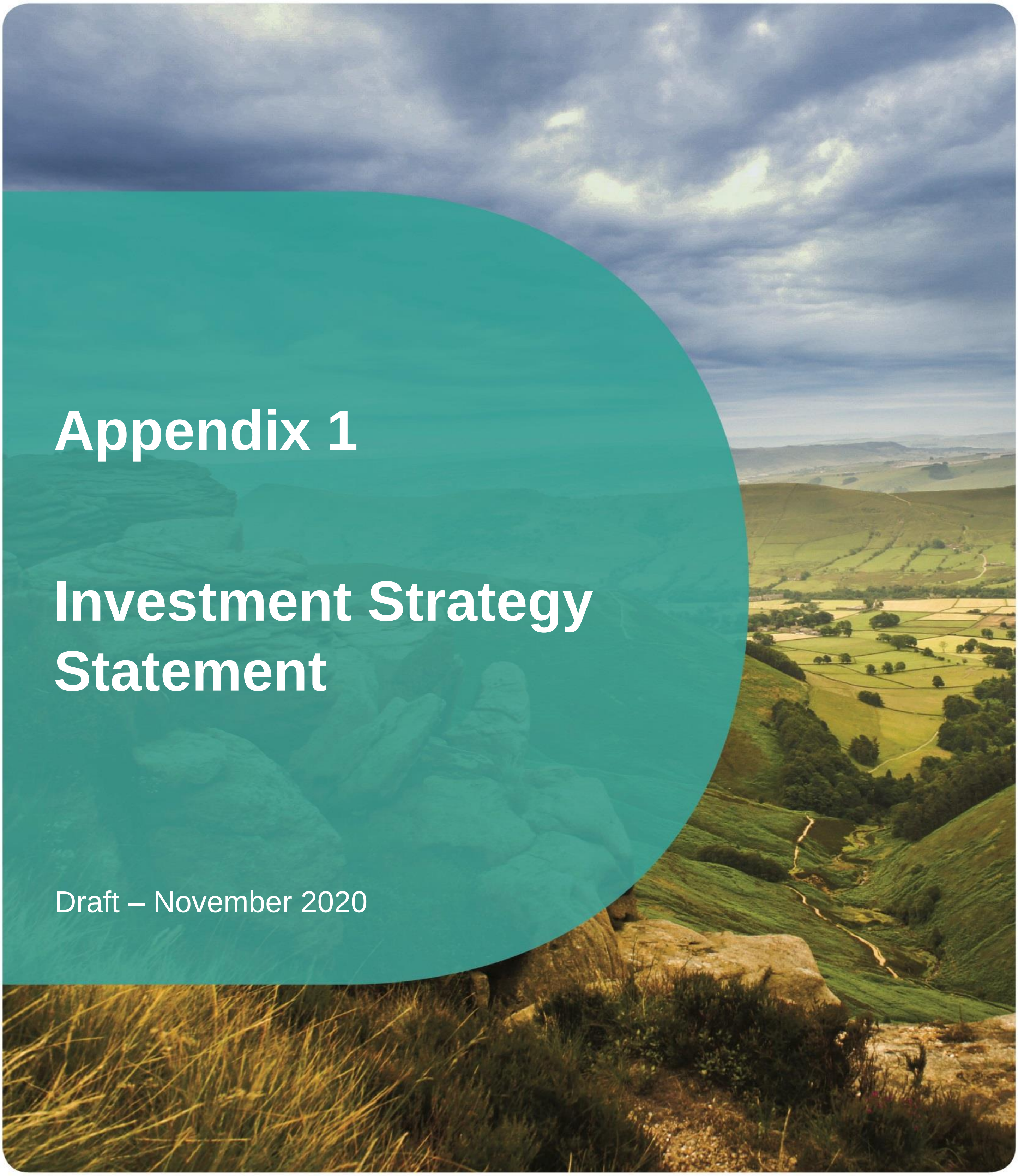

Appendix 1

Investment Strategy Statement

Draft – November 2020

County Hall, Matlock, Derbyshire, DE4 3AH
Administered by Derbyshire County Council

lgps

Derbyshire Pension Fund

lgps

Introduction

This is the Investment Strategy Statement (the ISS) of Derbyshire Pension Fund (the Fund), which is administered by Derbyshire County Council. The ISS is drawn up in compliance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Regulations) and has been prepared following consultation with such persons as Derbyshire County Council considered appropriate.

The ISS will be reviewed following any material change in the factors which are judged to have a bearing on the stated investment policy and at least every three years as required by the Regulations.

The primary objective of the Fund is to ensure that over the long term the Fund will be able to meet all benefit payments as and when they fall due. These payments will be met by contributions resulting from the funding strategy or asset returns and income resulting from the investment strategy. The funding and investment strategies are, therefore, inextricably linked; the Funding Strategy Statement can be found on the Fund's website at: [link]

Fund Governance

Derbyshire County Council is an administering authority for the Local Government Pension Scheme in accordance with Local Government Pension Scheme Regulations 2013. The Pensions and Investments Committee (the Committee) is responsible for discharging Derbyshire County Council's statutory function as the administering authority for the Fund.

The Committee is responsible for determining the Fund's investment policy, monitoring performance and overall stewardship of the Fund. Members of the Committee act in a similar manner to trustees and take advice from Anthony Fletcher, the Fund's Independent Adviser and from the Director of Finance & ICT and the Fund's in-house investment managers.

A proportion of the Fund's investments are managed on an active basis by the Fund's in-house Investment Team, and by LGPS Central Limited, a company established to manage investments on behalf of eight LGPS pension funds across the Midlands. Where the appropriate skills are not available internally, or through LGPS Central Limited, external managers are used.

In 2015, Derbyshire Pension Board was established to assist the administering authority to ensure the effective and efficient governance and administration of the Local Government Pension Scheme.

Full details of the Fund's governance arrangements, including the governance arrangements for the LGPS Central Pool, are contained in the Governance Policy and Compliance Statement which is published on the Fund's website: [link]

Investment Objectives

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

The investment strategy takes into account the following beliefs:

- A long term approach to investment will deliver better returns
- The long term nature of LGPS liabilities allows for a long term investment horizon
- Asset allocation is the most important factor in driving long term investment returns
- Liabilities influence the asset structure; funds exist to meet their obligations
- Risk premiums exist for certain investments; taking advantage of these can help to improve investment returns
- Markets can be inefficient, and mispriced for long periods of time; therefore there is a place for active and passive investment management
- Diversification across investments with low correlation improves the risk/return profile
- Secure and growing income streams underpin the ability to meet future liabilities
- Responsible investment can enhance long term investment performance
- Investment management costs should be minimized where possible but net investment returns after costs are the most important factor

Strategic Asset Allocation Benchmark

The Committee aims to balance risk and reward by apportioning the Fund's assets over a range of asset classes to achieve the Fund's goals, to manage risk and to match the investment horizons. The objective is to generate a return that is at least equal to the investment return assumed by the actuary in the actuarial valuation. The assumed investment return is used by the actuary to 'discount' the Fund's liabilities to a present day value. The actuarial valuation at 31 March 2019 was prepared on the basis of an investment return of **3.6%** over the next 20 years.

For the longer term, the assumed investment return beyond 20 years is expressed as a margin above long term 'risk free' interest rates. The margin represents the excess return that should be available to the Fund from investing in riskier assets (e.g. equities) and is known as the asset outperformance assumption (AOA).

At the 31 March 2019 valuation, the AOA was 1.8% over a long term UK bond yield of 1.5% giving a longer term investment assumption of **3.3%**. The 31 March 2016 valuation was prepared on the basis of a single discount rate of 4% (1.8% AOA & long term UK bond yield of 2.2%). The lower discount rates used for the March 2019 valuation reflects lower expected investment returns going forward.

The Strategic Asset Allocation Benchmark (the Benchmark) for the Fund has been formulated in consultation with Anthony Fletcher, following the completion of the 2019 triannual valuation conducted by Hymans Robertson, the Fund's actuary. The Benchmark takes into account the required level of return and an appropriate balance between generating long term investment returns and exposure to investment risk. The Benchmark includes a wide variety of asset classes, in order to diversify sources of risk and return, and equity allocations spread by geographic regions. It takes into account the future expected returns from the different asset classes, the historic levels of volatility of each asset class and the level of correlation between the asset classes.

The Fund's asset classes are allocated into three categories:

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

The asset allocation of the Fund is reviewed on a quarterly basis, and tactical positions around the Benchmark are agreed by the Committee following advice from the Fund's in-house investment managers and the Fund's Independent Adviser.

The Fund's Final Benchmark, together with an Intermediate Benchmark designed to allow the Fund to manage the transition risk towards the Final Benchmark, is set out in the following table:

Asset Category	Intermediate Asset Allocation	Intermediate Permitted Range	Final Asset Allocation	Final Permitted Range	Performance Benchmark
Growth Assets	**56.0%**	**+/- 8%**	**55.0%**	**+/- 8%**	
Total Quoted Equities	*52.0%*	*+/- 8%*	*51.0%*	*+/- 8%*	
-UK Equities	14.0%	+/- 6%	12.0%	+/- 4%	FTSE All Share
-North America	6.0%	+/- 6%	-	-	FTSE World N America
-Europe	4.0%	+/- 4%	-	-	FTSE AW Developed Europe Ex-UK Net
-Japan	5.0%	+/- 2%	5.0%	+/- 2%	FTSE World Japan
-Pacific ex-Japan	2.0%	+/- 2%	-	-	FTSE All World Asia-Pacific ex Japan
-Emerging Markets	5.0%	+/- 2%	5.0%	+/- 2%	FTSE Emerging Markets
-Global Sustainable	16.0%	+/- 16%	29.0%	+/- 8%	FTSE All World
Private Equity	4.0%	+/- 2%	4.0%	+/- 2%	FTSE All Share + 1%
Income Assets	**24.0%**	**+/- 6%**	**25.0%**	**+/- 6%**	
Property	9.0%	+/- 3%	9.0%	+/- 3%	IPD UK Quarterly Property Index
Infrastructure	9.0%	+/- 3%	10.0%	+/- 3%	LIBOR 3m + 2%
Multi-Asset Credit	6.0%	+/- 2%	6.0%	+/- 2%	40% Libor 3m + 3% / 30% ICE BofA Global High Yield Index, GBP / 30% S&P & LSTA Leveraged Loan Index, GBP
Protection Assets	**20.0%**	**+/- 5%**	**20.0%**	**+/- 5%**	
Fixed Income	6.0%	+/- 2%	6.0%	+/- 2%	FTSE UK Gov Fixed All Stocks
Index Linked Bonds	6.0%	+/- 2%	6.0%	+/- 2%	FTSE UK I-L All Stocks
Global Non-Government Bonds	6.0%	+/- 2%	6.0%	+/- 2%	50% ICE GBP Non-Gilt Index (ex EM) / 50% ICE Global Corporate Index (ex GBP and EM), hedged to GBP Base
Cash	2.0%	0 - 8%	2.0%	0 - 8%	Sterling 7 Day LIBID
Total	**100.0%**		**100.0%**		

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The Intermediate Benchmark is expected to come into effect on 1 January 2021, with the Final Benchmark expected to come into effect on 1 January 2022 at the latest.

Asset Classes

All financial instruments are open to consideration by the Committee. The Fund currently invests in quoted and unquoted securities of UK and overseas markets, including equities, government and non-government bonds, multi-asset credit, property, infrastructure and cash, either directly or via pooled vehicles. Derivatives are used to hedge the currency exposure of the overseas government bond holdings. The use of derivatives may be extended further in the future for the purpose of efficient portfolio management or to hedge other specific risks. The introduction of any new financial instrument/asset class or any extended use of derivatives will only be considered by the Committee following the receipt of appropriate training and advice from suitably qualified persons.

Growth Assets

Equities

Equities are classed as growth assets with the potential to provide returns in excess of inflation from growth in both capital values and income. Reinvested income accounts for a large proportion of long term equity returns. As equity returns are linked to company revenues and profits, investing in equities increases exposure to volatility. Investors expect to be compensated for that volatility by higher returns.

Over the last 50 years, in the UK, equities have provided a real return (after inflation) of 5.3% pa, compared with a real return of 3.4% pa from long dated government bonds and 1.0% pa from cash. Over the last 20 years, the respective real returns were 1.8% pa, 3.1% pa and -0.3% pa. In the US, the real returns over the last 50 years were 6.1% pa from equities, 4.1% pa from 20 year government bonds and 0.7% pa from cash. US respective real returns over 20 years were 3.8% pa, 4.8% pa and -0.5% pa.[1] Despite the increasing correlation between the majority of developed equity markets, investing in selected different geographic regions still provides portfolio diversification and investing in emerging markets generally provides access to higher economic growth rates and exposure to different economic drivers of return.

[1] *Source: Barclays Equity Gilt Study 2020*

Private Equity

Private equity investment refers to investment in unquoted, privately owned companies. Investors expect to receive an illiquidity premium for investing in this asset class and target returns above those expected from publicly quoted equities. Returns from private equity primarily come from capital growth, rather than income when investments are exited (realised) following a period of business growth/transformation. Private equity offers access to a broader universe of companies than the publicly quoted space.

Income Assets

Property

Property investments have traditionally been split between three different sectors: office; retail and industrial. Increasingly within the asset management industry, exposure to niche sectors such as student accommodation and exposure to debt secured against property assets is also included within the property asset class. Returns from this asset class come from rental income and the change in market values. Rental income has accounted for a large proportion of total returns over the long term. Given the relative stability of rental income, which gives property bond like characteristics, the returns from property are generally expected to fall between the returns from equities and those from bonds.

Property investment can be carried out directly via the purchase of physical properties or indirectly via the purchase of pooled vehicles or property company shares. The majority of the Fund’s property exposure is gained via direct investment; pooled vehicles are used to gain exposure to niche sectors and overseas assets. The Fund’s exposure to property debt is currently contained within the allocation to corporate bonds.

Infrastructure

Infrastructure offers access to long term predictable cash flows, which are often linked to inflation. A low correlation to the business cycle and the other major asset classes provides diversification benefits and long investment horizons. The majority of the Fund’s infrastructure investments are in developed European core assets (long term assets with regulated returns) and social PFI concessions (typically schools, hospitals and military accommodation).

Multi-Asset Credit

Multi-asset credit typically relates to sub-investment grade corporate bonds and includes private debt, high yield debt and asset-backed securities. Multi-Asset Credit offers a predictable income stream and a yield pick-up relative to sovereign bonds and investment grade corporate bonds reflecting the increased risk of default.

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Protection Assets

Sovereign & Corporate Bonds

Bonds offer predictable streams of income and predictable returns if held to maturity. They are held as stabilising assets to reduce volatility and to provide diversification. As pension funds mature they can be used to provide liquidity and to match liabilities as they fall due.

The Fund holds conventional fixed income, index-linked and investment grade corporate bonds. Index linked bonds are regarded as a particularly good match for pension fund liabilities. The majority of the Fund's government bond holdings are issued by the government of the United Kingdom; the currency exposure of any overseas sovereign bonds holdings is hedged to sterling.

Cash

Cash management for the Fund comprises cash held in the Fund's cash accounts (i.e. bank and money market funds) and cash held in the custodian's bank account in respect of segregated mandates.

The Fund holds cash to fulfil its daily liquidity requirements, and depending on market conditions, also as a protection asset. The Fund's cash balances are managed by Derbyshire County Council's Treasury Management Team in line with the Fund's annual Treasury Management Strategy.

Each of the Fund's segregated mandates has a cash account with the Fund's custodian. Cash in these accounts is held primarily for the investment managers' day to day liquidity requirements and fluctuates depending on trading activity and dividend income. Each segregated mandate includes a maximum cash limit.

Risk

The overall risk for the Fund is that its assets will be insufficient to meet its liabilities. The Funding Strategy Statement, which is drawn up following the triennial actuarial valuation of the Fund, sets out how any deficit in assets compared with liabilities is to be addressed.

Underlying the overall risk, the Fund is exposed to demographic risks, regulatory risks, governance risks and financial risks (including investment risk). The measures taken by the Fund to control these risks are included in the Funding Strategy Statement and are reviewed periodically by the Committee via the Fund's risk register. The primary investment risk is that the Fund fails to deliver the returns anticipated in the actuarial valuation over the long term. The Committee anticipates expected market returns on a prudent basis to reduce the risk of underperforming expectations.

It is important to note that the Fund is exposed to external, market driven, fluctuations in asset prices which affect the liabilities (liabilities are partially estimated with reference to government bond yields) as well as the valuation of the Fund's assets. Holding a proportion of the assets in government bonds helps to mitigate the effect of falling bond yields on the liabilities to a certain extent. Further measures taken to control/mitigate investment risks are set out in more detail below:

Concentration

The Committee manages the risk of exposure to a single asset class by holding different categories of investments (e.g. equities, bonds, property, alternatives and cash) and by holding a diversified equity portfolio, spread by both geography and market sectors. Each asset class is managed within an agreed permitted range to ensure that the Fund does not deviate too far away from the Benchmark, which has been designed to meet the required level of return with an appropriate level of exposure to risk, taking into consideration the level of correlation between the asset classes.

Volatility

The Benchmark contains a high proportion of equities with a commensurate high degree of volatility. The strong covenant of the major employing bodies enables the Committee to take a long term perspective and to access the forecast inflation plus returns from equities.

Performance

Investment managers are expected to outperform the individual asset class benchmarks detailed in the overall Strategic Asset Allocation Benchmark. The Fund's performance is measured by an independent provider and reported to the Committee on a quarterly basis. The Committee takes a long term approach to the evaluation of investment performance, but will take steps to address persistent underperformance.

Liquidity

Close attention is paid to the Fund's projected cash flows; the Fund is currently cash flow positive, in that annually there is an excess of cash paid into the Fund from contributions and investment income after pension benefits are paid out. The Fund expects to be cash flow positive for the short to medium term. Despite the growing proportion of illiquid investments in the Fund, a large proportion of the assets are held in liquid assets and can be realised quickly, in normal circumstances, in order for the Fund to pay its immediate liabilities.

Currency
The Fund's liabilities are denominated in sterling which means that investing in overseas assets exposes the Fund to a degree of currency risk. The Committee regards the currency exposure associated with investing in overseas equities as part of the return on the overseas equities; the currency exposure in repect of the Fund's Income Assets and Protection Assets is hedged back to sterling.

Stock Lending
The Fund does not currently participate in any standalone stock-lending arrangements. As part of the LGPS Central pool, the funds managed by LGPS Central Limited do participate in stock-lending arrangements, and LGPS Central Limited has put controls are in place to protect the security of the Fund's assets.

Custody
The risk of losing economic rights to the Fund's assets is managed by the use of a global custodian for custody of the assets, regular scrutiny of the Fund's providers, and the maintenance of independent investment accounting records.

LGPS Central Pool

Derbyshire Pension Fund is part of the LGPS Central Pool (the Pool) with the LGPS funds of Cheshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire. The Pool has been established in accordance with Government requirements for the pooling of LGPS investment assets. Collective investment management offers the potential for substantial savings in investment management fees, increased opportunities for investor engagement and access to a shared pool of knowledge and expertise.

The eight administering authorities of the pension funds within the LGPS Central Pool are equal shareholders in LGPS Central Limited. LGPS Central Limited (the Company) has been established to manage investments on behalf of the Pool, and received authorization from the Financial Conduct Authority in January 2018. The Company launched its first sub-funds within an Authorised Contractual Scheme collective investment vehicle in April 2018, and has launched several additional sub-funds since that date.

The transition of the Fund's assets into products offered by the Company is likely to take several years. In February 2019, the Fund transitioned its Non-Government Bond portfolio into the LGPS Central Global Active Investment Grade Corporate Bond Multi Manager Fund. LGPS Central Limited also provides the Fund with general advisory services in respect of the Fund's Japanese and Asia-Pacific Ex-Japan Equity portfolios. Responsibility

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for determining the Strategic Asset Allocation Benchmark and the tactical quarterly asset allocation positions remains with the Fund.

Robust governance arrangements have been established both within the Company and within the wider Pool to ensure that the Company operates effectively and meets the objectives of the pension funds within the LGPS Central Pool.

A Joint Committee, set up in accordance with provisions of the Local Government Act 1972, provides oversight of the delivery of the objectives of the Pool, the delivery of client service, the delivery against the LGPS Central Pool business case and deals with common investor issues.

A Shareholders' Forum, comprising one shareholder representative from each of the participating administering authorities, oversees the operation and performance of LGPS Central Limited and represents the ownership rights and interests of the shareholding councils within the LGPS Central Pool.

To support the Joint Committee and the Shareholders' Forum, a Practitioners' Advisory Forum has been created, consisting of Officers from each of the shareholding councils within the Pool. This forum provides day-to-day oversight of the Operator, scrutinizing the delivery of products, investment performance and investment costs, monitoring customer service and the delivery of wider investor services, such as voting and responsible investment.

Responsible Investment

The Fund's approach to responsible investment, together with the management of climate-related risks and oppourtunities, are set out in the Fund's Responsible Investment Framework and Climate Strategy. Copies of the Fund's Responsible Investment Framework and Climate Strategy can be found on the Fund's website at [link]

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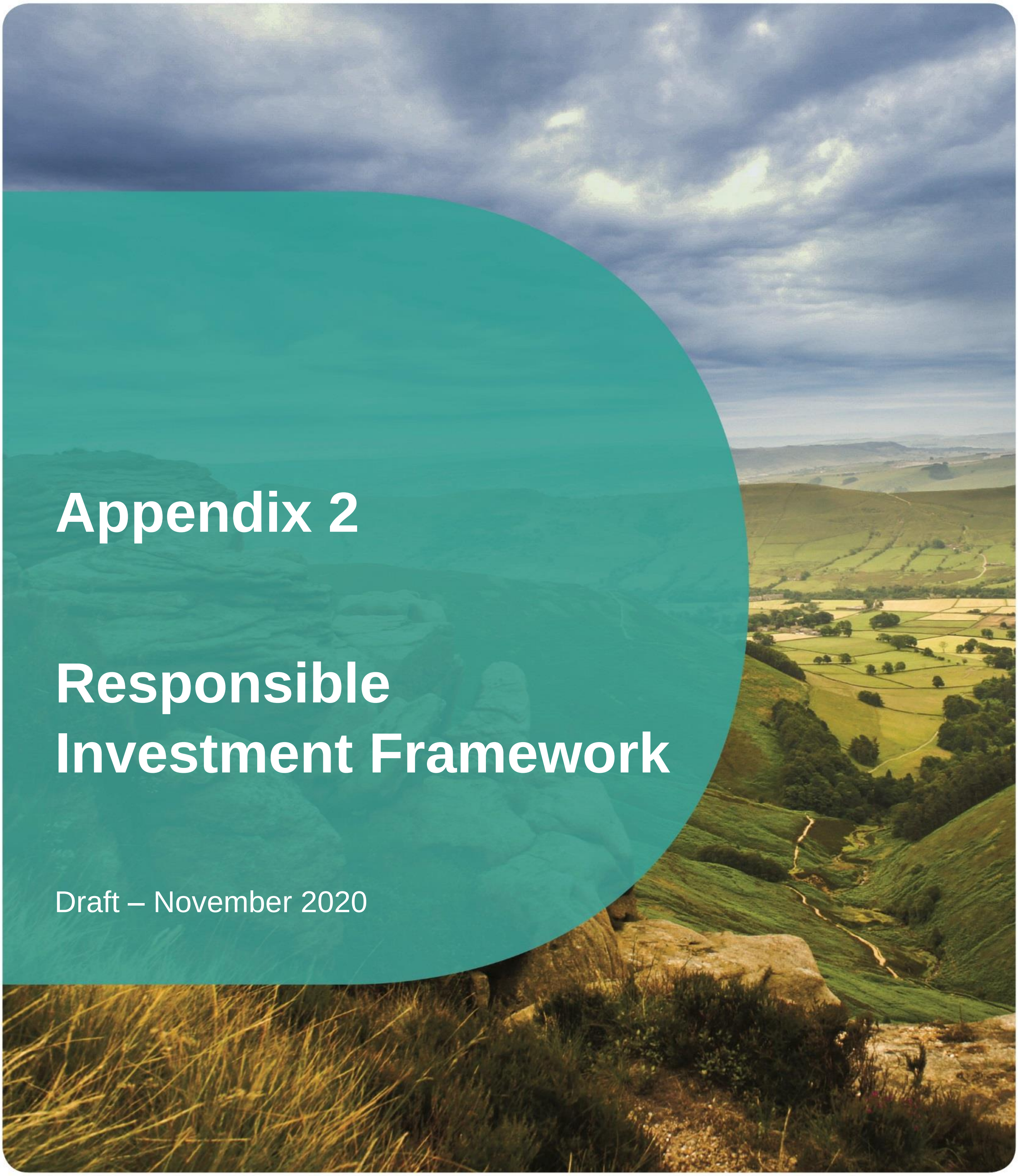


Appendix 2

Responsible Investment Framework

Draft – November 2020

County Hall, Matlock, Derbyshire, DE4 3AH
Administered by Derbyshire County Council

1. Introduction

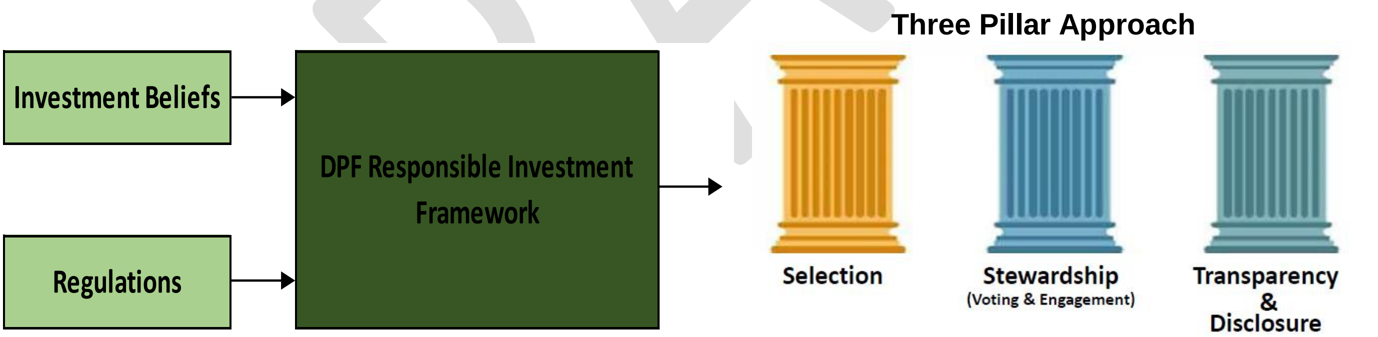
This Responsible Investment Framework (RI Framework) sets out Derbyshire Pension Fund's (the Fund) approach to responsible investment (RI) which includes the integration of environmental, social and governance (ESG) considerations into the investment process and Fund stewardship and governance activities.

The Pensions and Investments Committee (the Committee) is responsible for reviewing and approving the Fund's policies and strategies, including the RI Framework. The RI Framework works in tandem with the Fund's Climate Strategy, Investment Strategy Statement and Funding Strategy Statement aligning with the Fund's investment beliefs and fiduciary duty.

The Committee will review the Responsible Investment Framework at least every three years, or at such time as the Commiteee determines it is appropriate to review the Fund's approach to RI.

Responsibility for the implementation of the Framework resides with the Head of Pension Fund and the Investments Manager.

The Fund takes a three pillar approach to the implementation of Responsible Investment as set out below:



2. Responsible Investment

Responsible investment is an approach to investment that aims to incorporate ESG factors into investment decisions, to better manage risk and generate sustainable, long term returns.[1] It has relevance both during the selection of an investment and after an investment decision has been made, through on-going stewardship activity which covers considered voting and engagement with investee companies.

Responsible investment is a core part of the Fund's fiduciary duty. It is distinct from

[1] PRI Principles for Responsible Investment

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'ethical investment', which is an approach to selecting investments on the basis of ethical beliefs (beliefs about what is morally right and wrong).

Effective management of financially material ESG risks should support the requirement to protect investment returns over the long term. The Fund's investment team seeks to understand relevant ESG factors alongside conventional financial considerations within the investment process, and the Fund's external investment managers are expected to do the same. Non-financial factors may be considered to the extent that they are not detrimental to the investment return.

ESG factors include:

Environmental	Social	Governance
Climate Change (including physical risk and transition risk)	Working Conditions (including slavery & child labour)	Executive Pay
Resource Depletion	Health & Safety	Bribery & Corruption
Waste & Pollution	Employee Relations	Board Diversity
Deforestation	Community Relations	Tax Strategy
		Political Lobbying
		Disclosure & Transparency

The Fund's Strategic Asset Allocation Benchmark includes an allocation to Global Sustainable Equities. Sustainable investment managers are regarded as managers who invest in companies with a long term approach to sustainability where the effective management of environmental, social and governance risks and opportunities is an integral part of the strategy to create a sustainable business. Companies with strong ESG business practices have the potential to create additional value for shareholders.

Within the Global Sustainable Equities allocation, the Fund will consider impact investment managers who invest in companies which aim to contribute to a more sustainable world, by seeking to effect positive social and enivironmental change, while generating investment returns.

The Committee recognizes its responsibility to act in the best interest of the Fund's employers and scheme members, whilst seeking to protect local tax payers and employers from unsustainable pension costs.

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3. Investment Beliefs

The Fund's investment beliefs as set out in the Fund's Investment Strategy Statement are as follows:

- A long term approach to investment will deliver better returns
- The long term nature of LGPS liabilities allows for a long term investment horizon
- Asset allocation is the most important factor in driving long term investment returns
- Liabilities influence the asset structure; funds exist to meet their obligations
- Risk premiums exist for certain investments; taking advantage of these can help to improve investment returns
- Markets can be inefficient, and mispriced for long periods of time; therefore there is a place for active and passive investment management
- Diversification across investments with low correlation improves the risk/return profile
- Secure and growing income streams underpin the ability to meet future liabilities
- Responsible investment can enhance long term investment performance
- Investment management costs should be minimized where possible but net investment returns after costs are the most important factor

4. Regulations & Statutory Guidance

The Responsible Investment Framework works in tandem with the Fund's Investment Strategy Statement. The Framework and Investment Strategy Statement have been developed in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, statutory guidance, and best practice.

5. Engagement & Collaboration

The Fund adopts a strategy of engagement with companies to influence behaviour and enhance value, rather than adopting a divestment approach, believing that this is more compatible with the administering authority's fiduciary duties and supports responsible investment.

Engagement allows the Fund to use its influence as an active owner, with other like-minded investors, to improve ESG practices in investee companies, influence that would be lost through a divestment approach. It is recognised that change takes time, as a long term investor the Fund takes a long term approach to its stewardship activities.

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6. Remuneration and Cost Management

Executive remuneration and investment management costs are important, particularly in low-return environments. Fee arrangements with fund managers and the remuneration policies of investee companies should be aligned with the Fund's long-term interests.

7. Climate Change

The Committee recognises that financial markets will be impacted by climate change and by the response of climate change policy makers. Risks and opportunities related to climate change are likely to be experienced across the whole of the Fund's portfolio. The current understanding of the potential risks posed by climate change, together with the development of climate- related measurements and disclosures, are still at an early stage, and there is considerable variability in the quality and comparability of carbon emission estimates. It is recognised that it will take time for companies to adapt to the changing regulatory and market positions.

Reflecting the potential material effect of climate change, and the response to change climate, on the assets and liabilities of the Fund, a separate Climate Strategy has been developed, a copy of which can be found on the Fund's website at [link]

8. LGPS Central Limited

The Fund is part of the LGPS Central Pool (the Pool) with the LGPS funds of Cheshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire (the eight Partner Funds). The Pool has been established in accordance with Government requirements for the pooling of LGPS investment assets. LGPS Central Limited has been established to manage investments on behalf of the Pool, and received authorization from the Financial Conduct Authority in January 2018. The Company launched its first sub-funds within an Authorised Contractual Scheme collective investment vehicle in April 2018, and has launched several additional sub-funds since that date.

LGPS Central Limited has developed a Responsible Investment & Engagement Framework (LGPSC Framework) incorporating the investment beliefs and responsible investment beliefs of the eight Pension Funds within the LGPS Central Pool which will be applied to both internally and externally managed investment mandates. The LGPSC Framework contains the following beliefs:

- Long-termism: A long-term approach to investment will deliver better returns and the long-term nature of LGPS liabilities allows for a long-term investment horizon.
- Responsible Investment: Responsible Investment is supportive of risk adjusted returns over the long-term, across all asset classes. Responsible investment should be integrated into the investment process of the Company and its investment managers.

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- Diversification, risk management and stewardship: Diversification across investments with low correlation improves the risk return profile. A strategy of engagement, rather than exclusion, is more compatible with fiduciary duty and more supportive of responsible investment, because the opportunity to influence companies through stewardship is waived in a divestment approach. Even well-diversified portfolios face systematic risk. Systematic risk can be mitigated over the long-term through widespread stewardship and industry participation.
- Corporate governance and cognitive diversity: Investee companies and asset managers with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. There is clear evidence showing that decision-making and performance are improved when company boards and investment teams are composed of cognitively diverse individuals.
- Fees and remuneration: The management fees of investment managers and the remuneration policies of investee companies are of significance for the Company's clients, particularly in a low-return environment. Fees and remuneration should be aligned with the long-term interests of our clients, and value for money is more important than the simple minimisation of costs.
- Risk and opportunity: Risk premia exist for certain investments; taking advantage of these can help to improve returns. There is risk, but also opportunity in holding companies that have weak governance of financially material ESG issues. Opportunities can be captured so long as they are aligned to the Company's objectives and strategy, and so long as there is a sufficient evidence base upon which to make an investment decision.
- Climate change: Financial markets could be materially impacted by climate change and by the response of climate policy makers. Responsible investors should proactively manage this risk factor through stewardship activities, using partnerships of like-minded investors where feasible.

In collaboration with the eight Partner Funds, LGPS Central Limited has identified four themes that will be given particular attention in its ongoing stewardship efforts. The four themes, which will be reviewed after three years, are: Climate change; Single-use plastics; Fair tax payment and tax transparency; and Technology and disruptive industries. The Partner Funds and LGPS Central Limited believe that identifying material core themes helps direct engagement and sends a clear signal to companies of the areas that the Partner Funds and LGPS Central Limited are likely to be concerned with during engagement meetings.

LGPS Central Limited also supports the Fund through the annual preparation of a Climate Risk Report which supports the Fund in the preparation of the Fund's Climate Related Disclosure Report prepared in alignment with the recommendations of the Taskforce on Climate-related Financial Disclosures.

9. Implementation

The Fund aims to put its Responsible Investment Strategy into practice through actions both before (selection) and after the investment decision (stewardship).

As a largely externally-managed pension fund, the identification and assessment of RI factors is also the responsibility of individual investment managers appointed by the Fund.

The Fund aims to be transparent to its stakeholders through regular, high quality disclosure.

9.1 Selection

ESG factors are integrated into the Fund's investment decision making process where those factors are financially material within the context of the investment mandate. As part of the investment manager due diligence process, the Fund obtains a copy of the potential investment manager's RI or stewardship policies which sets out how RI factors are integrated into the investment manager's investment process.

9.2 Investment Manager Monitoring

Existing investment managers are monitored on a regular basis to review the integration of ESG risks into the portfolio management, and to understand their engagement activities.

9.3 Company Engagement and Engagement through Partnership

The Fund's strategy is to engage with its investee companies either on its own or through partnerships on a range of financially material ESG investment factors to protect and increase shareholder value. These partnerships include:

- The Local Authority Pension Fund Forum (LAPFF): a voluntary association of the majority of Local Authority pension funds based in the UK with combined assets of over £300bn. Membership of LAPFF provides the Fund with independent research and advice on RI risks of companies to inform further stakeholder engagement; advice on the governance practices of companies; and a forum to engage with companies to improve governance practices
- LGPS Central Limited: the Fund's pooled investment operator
- Hermes EOS: Hermes EOS is engaged by LGPS Central Limited to expand the scope of its engagement programme, especially to reach non-UK companies

The Fund will develop an Annual Responsible Investment Stewardship Plan, and hold constructive dialogue with investee companies on RI issues (either on its own or through partnerships), and where practicable, participate in the development of public policy on RI issues.

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9.4 Voting

The Fund places great importance on the exercise of voting rights. The Fund's voting policy covers the Fund's directly held investments in the United Kingdom and North America. The Committee has appointed Institutional Shareholder Services (ISS), a specialist third party voting service provider to make recommendations on casting votes in respect of the Fund's directly held UK listed investments. Voting is carried out in line with recommendations from ISS, whose voting principles cover four key tenets on: accountability; stewardship; independence; and transparency. The Fund also periodically receives voting alerts from the LAPFF on certain resolutions. If the voting alert from the LAPFF conflicts with the voting service recommendation, due consideration is given to all the arguments before the vote is cast.

The Fund has appointed Wellington Management (Wellington) in a discretionary capacity to manage its directly held North American investments, including voting in line with local practice. Wellington have policies and procedures to ensure that they collect and analyse all relevant information for each meeting, applying their proxy voting guidelines accurately and executing votes in a timely manner.

A significant proportion of the Fund's assets are managed through pooled products, where the voting activity is carried out by external investment managers. These principally relate to funds managed Legal & General Investment Management (LGIM).

Voting activity is carried out in accordance with LGIM's voting policy, and is based on a set of corporate governance principles. Previous engagement with an investee company also determines the manner in which voting decisions are made and cast. Voting activity is combined with direct engagement with the investee company to ensure that the investee company fully understands any issues and concerns that LGIM may have and to encourage improvement. LGIM utilises the voting invormation services of ISS and Institutional Voting Information Services (IVIS) to conduct thorough analysis and research on investee companies.

The Fund expects an increasing proportion of its assets to be managed by LGPS Central Limited going forward, as assets are transitioned into its pooled products. LGPS Central Limited's Responsible Investment & Engagement Framework will be applied to both internally and externally managed investment mandates.

Copies of LGIM's and LGPS Central Limited's Stewardship Reports are presented to the Committee on a quarterly basis.

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9.5 UK Stewardship Code

The Fund is a Tier 1 signatory to the Financial Reporting Council's (FRC) UK Stewardship Code 2012. A copy of the Fund's statement of compliance with the code can be found on the Fund's website at: FRC

The UK Stewardship Code has recently been updated (2020 Code); the updated code came into effect on 1 January 2020. The 2020 Code consists of 12 Principles for Asset Managers and Asset Owners, with a focus on the activities and outcomes of stewardship, not just policy statements.

Organisations that want to become signatories to the 2020 Code will be required to produce an annual Stewardship Report explaining how they have applied the 2020 Code in the previous twelve months. To be included in the first list of signatories, organisations must submit a final report to the FRC by 31 March 2021. The Fund intends to fully comply with the 2020 Code.

10. Transparency and Disclosure

The Fund aims to keep its stakeholders aware of RI activities through:

- Making its Responsible Investment Framework, together with the supporting Climate Strategy, public documents
- Reporting to Committee on the stewardship activities (including voting decisions) of the Fund's principle investment managers on a quarterly basis
- Providing a summary of the Fund's RI activities in the annual report
- Reporting annually using the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD)
- Reporting on progress against the RI Stewardship engagement goals every two years

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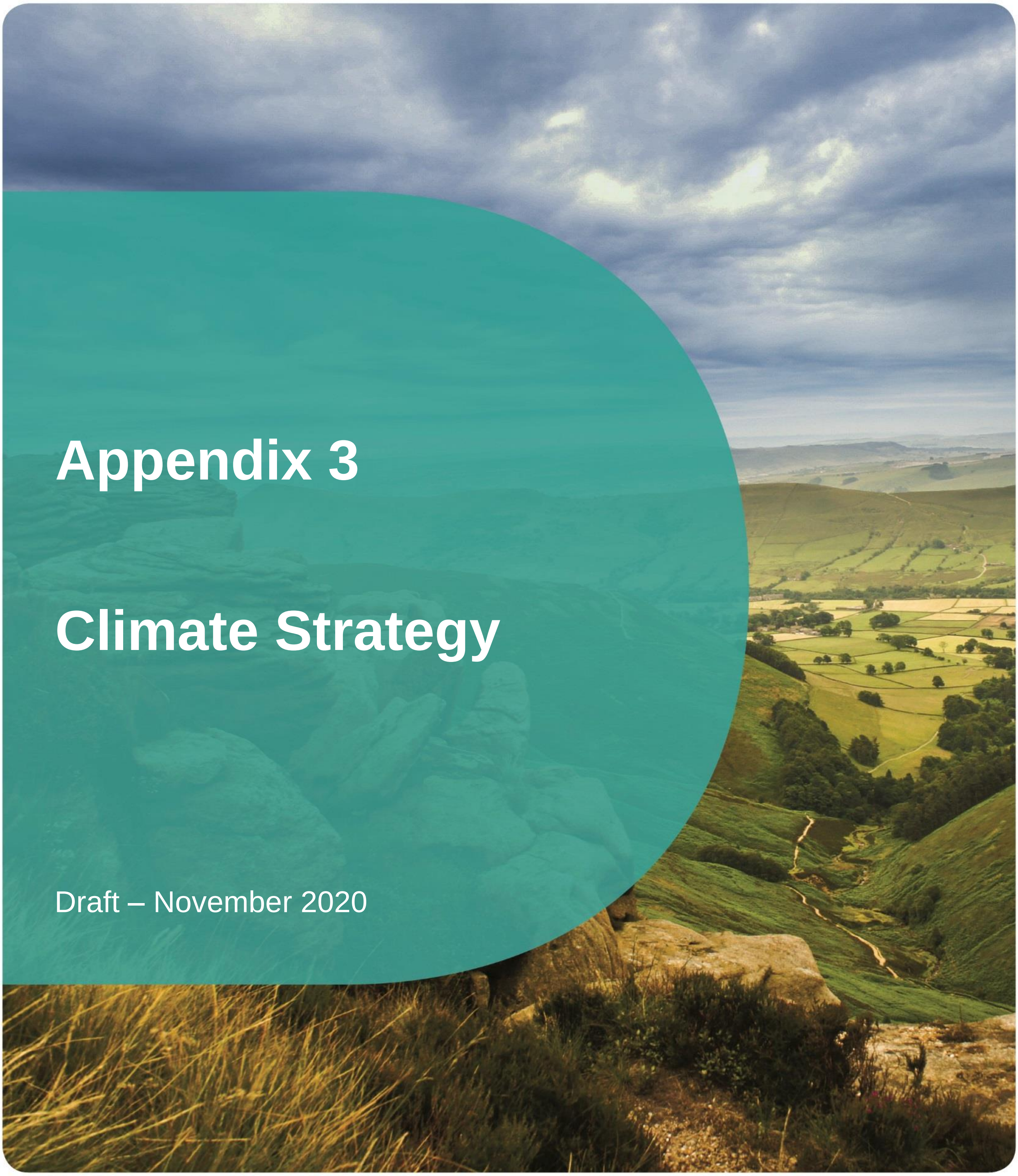

Appendix 3

Climate Strategy

Draft – November 2020

County Hall, Matlock, Derbyshire, DE4 3AH
Administered by Derbyshire County Council

lgps

1. Introduction

This Climate Strategy sets out Derbyshire Pension Fund's (the Fund) approach to addressing the risks and opportunities related to climate change.

The Fund supports the ambitions of the Paris Agreement[1] and aims to achieve a portfolio of assets with net zero carbon emissions by 2050.

The Pensions and Investments Committee (the Committee) is responsible for reviewing and approving the Fund's policies and strategies, including the Climate Strategy. The Climate Strategy works in tandem with the Fund's Responsible Investment Framework, Investment Strategy Statement and Funding Strategy Statement.

The development of a separate Climate Strategy reflects the potential material effect of climate change, and the response to climate change, on the assets and liabilities of the Fund.

The Committee will review the Climate Strategy at least every three years, or at such time as the Committee determines it is appropriate to review the Fund's approach to addressing the risks and opportunities related to climate change.

Responsibility for the identification and management of climate-related risks, together with the implementation of the Fund's Climate Strategy, resides with the Head of Pension Fund and the Investments Manager.

2. Climate Change

Human activities are estimated to have caused approximately 1.0°C of global warming above pre-industrial levels. Most of this warming has occurred in the last 35 years, with the five warmest years on record taking place since 2010. The observed global mean surface temperature has risen from around 1950 onwards. Over 97% of climate scientists (Source: NASA) agree that this trend is the result of greenhouse gas (GHG) emissions which are being trapped in the atmosphere and creating a 'greenhouse effect' – a warming that occurs when the atmosphere blocks heat radiating from Earth towards space. These climate scientists have observed that these climactic changes are primarily the result of human activities including electricity and heat production, agriculture and land use change, industry, and transport.

This is causing more frequent and more extreme weather events and world governments have started to respond. The signatories to the 2015 Paris Agreement committed to keeping the global temperature rise this century to well below 2.0°C compared with pre-industrial levels and to aiming to limit the increase to 1.5°C (Article 2(1)a). The Paris Agreement commits signatories to the establishment of Nationally Determined

[1] Paris Agreement – To hold the increase in the global temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels – ratified by 189 parties.

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Contributions (NDCs), which are intended to be individually equitable and collectively sufficient to achieve Article 2(1)a. It is estimated that under current global policies (and assuming successful implementation), the world is heading towards a warming of 3.2°C.

The low-carbon transition is already underway, with a number of governments and institutions around the world intensifying their climate change policies, and corporates responding in turn.

Investors are exposed globally to the risks and opportunities presented by climate change adaption and mitigation. Investors have an important role to play in the transition to a low carbon economy, influencing company behaviours and encouraging the development of better climate-related disclosures. However, investors cannot effect material change alone. Governments, policy makers, consumers, companies and investors all have a role to play in the transition to a low carbon economy.

If policy and corporate action does not progressively transition towards the net zero goal, it will be extremely challenging for investors to achieve a portfolio of assets that has net zero emissions in 2050.

The Fund recognises that:

- Human activities have caused a change in the earth's climate which presents material risks to human and eco-systems and to global economies
- A global co-ordinated policy response and a change in consumer behaviour will be required to limit the damaging rise in global temperatures
- Climate change is a long term financial material risk for the Fund, across all asset classes, and has the potential to impact the funding level of the Fund through impacts on employer covenant, asset pricing, and longer-term inflation, interest rates and life expectancy

The Fund believes that:

- The risks and opportunities of climate change should be considered as part of asset allocation decisions, manager selection decisions and individual investment decisions
- Diversification across asset classes, regions and sectors is an important risk management tool to reduce climate-related risks
- In order to fully integrate climate-related risk into the Fund's investment processes, the consistency, comparability and quality of climate-related data, including the identification and measurement of companies' Scope 3 emissions will need to improve
- The low-carbon transition is already underway, but the pathway is unclear, and the transition will not occur by focussing only on the suppliers of energy; the demand for energy must also be addressed

- It is possible for a company to shift its business model in order to trive in the transition to a low carbon future; such a shift is more likely with the support and stewardship of responsible investors

3. Climate-related Objectives

The Fund aims to have access to the best possible information available on the risk and opportunities presented by climate change. This includes impacts to the Fund's investment strategy, or funding strategy, as a result of transition risks, physical risks and opportunities.

The Fund aims to ensure that its investment portfolio will be as resilient as possible to climate-related risks over the short, medium and long term. For an effective first line of defence, the Fund aims to integrate climate-related factors into the investment process, including the selection of investment managers.

The Fund intends to decarbonise its portfolio through its selection of investments and investment managers, with the aim of being carbon neutral by 2050.

4. Collaboration and Transparency

The Fund aims to collaborate with like-minded organisations to support the ambitions of climate-related initiatives and aims to be fully transparent with its stakeholders through regular public disclosure, aligned with best practice.

- The Fund supports the Paris Agreement on Climate Change
- The Fund will actively participate in selected initiatives that lend support to the Fund's Climate Strategy, including working with other like-minded investors to engage with high-emitting companies
- The Fund supports the Taskforce on Climate-related Financial Disclosures (TCFD) and adopts its recommendations for the Fund's climate disclosures

5. Strategic Actions

5.1 Measurement & Observation

The Fund recognises that the tools and techniques for assessing climate-related risks in investment portfolios are an imperfect but evolving discipline. The Fund aims to use the best available information to assess climate-related threats to investment performance.

The Fund will make regular measurements and observations on climate-related risks and opportunities relevant to the Fund. This will include:

- Identification of the most material climate-related risks to the Fund
- Economic assessment of the Fund's asset allocation against plausible climate-related scenarios
- A suite of carbon metrics for the Fund's listed equity portfolio to allow the Fund to assess progress in responding to climate-related risks and opportunities, including: carbon intensity; weight in companies with fossil fuel reserves; weight in companies with thermal coal reserves; and weight in companies with clean technology. A more complete analysis of all of the Fund's assets classes will be carried out when reliable carbon-related data becomes available for non-listed equity assets
- Assessment of progression against the Fund's carbon footprint and low carbon & sustainable investment targets

Methodologies for assessing the impact of future climate-related scenarios, including the possibility of measuring against alignment with the Paris Agreement, remain at an early stage of development, and the Fund will support efforts to develop more reliable and comparable methodologies.

The Fund recognises that there is currently significant variability in the relevance, consistency, comparability and quality of companies' climate-related disclosures. The Fund supports adoption, and encourages disclosure, in line with the recommendations of the TCFD.

5.2 Asset Allocation & Targets

Where there is a credible evidence base, the Fund will integrate climate-related factors into asset class reviews, subject to the requirements of the Investment Strategy Statement and Funding Strategy Statement.

The Fund believes that portfolio-wide 'top down' targets are an important means to set direction and appropriate ambition for an investment strategy towards net zero, and to monitor whether that strategy is achieving expected outcomes. However, a focus on just a single top down portfolio emissions reduction target can incentivise a shift of assets within a portfolio from high to already lower carbon assets and sectors, rather than driving additional 'real world' emissions reductions from increasing investments in climate solutions that contribute to the achievement of the net zero goal. As a result, the Fund will aim to:

- reduce the carbon footprint (Scope 1 & 2) of the Fund's listed equity portfolio by at least **30%** relative to the weighted benchmark in 2020 by the end of 2025; and
- invest at least **30%** of the Fund portfolio in low carbon & sustainable investments by the end of 2025.

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The Fund will review the carbon footprint and low carbon & sustainable investment targets three years after the introduction of this strategy, and thereafter on, at least, a three yearly basis. The Fund expects to see a material increase in the targets in the period to 2030, and in each subsequent period, on the journey to a carbon neutral portfolio, taking into account the contemporary development of carbon-related data metrics and availability of suitable products across all asset classes.

5.3 Manager Selection and Monitoring

The Fund will assess material climate-related risk and opportunities, alongside other relevant investment factors, as part of the investment manager selection process.

As a largely externally-managed pension fund, the identification and assessment of climate-related risks is also the responsibility of individual investment managers appointed by the Fund. Existing investment managers are monitored on a regular basis to review the integration of climate-related risks into the portfolio management, and to understand their engagement activities.

5.4 Stewardship

The Fund's annual Responsible Investment Stewardship Plan will include a section on climate-related stewardship plans. This will set clear goals of engagement with investee companies and investment managers to manage risks and opportunities within the Fund's investment portfolio, focusing on those risks and opportunities which will have the greatest impact.

The Fund will collaborate with other like-minded investors where possible and the Fund will participate in selected collaborative initiatives where these support the Fund's climate-related objectives.

The Fund will make full use of its voting rights and will co-file or support climate-related shareholder resolutions where these support the Fund's climate-related objectives.

6. Transparency & Disclosure

The Fund will:

- prepare a TCFD Report every two years
- report on the progression against the Fund's carbon footprint and low carbon & sustainable investment targets every two years
- report on a suite of carbon metrics in the Fund's annual report
- disclose the stewardship reports of the Fund's key investment managers on a quarterly basis
- report on progress against the RI Stewardship Plan engagement goals every two years

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Appendix 4

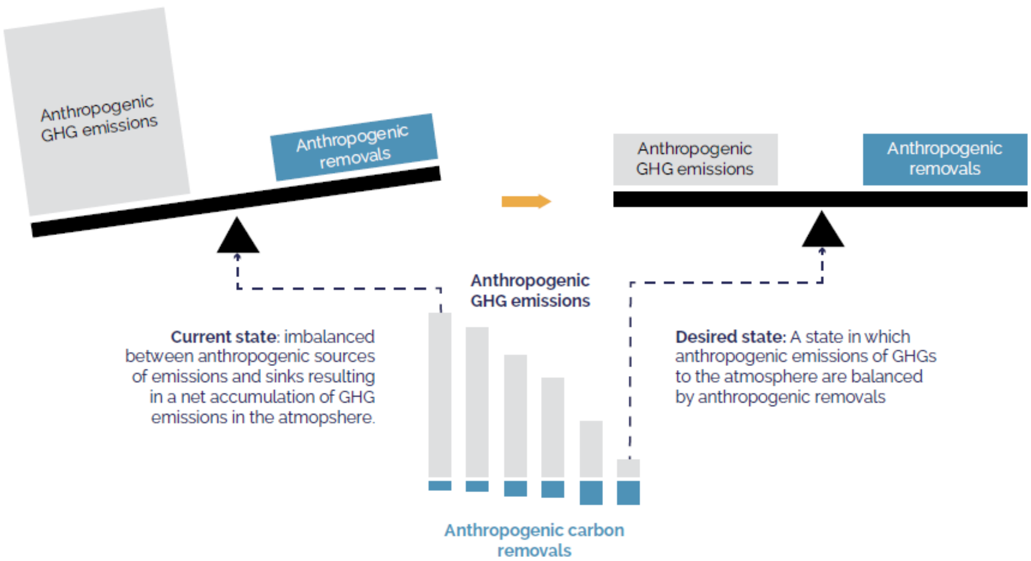
NET ZERO

Derbyshire Pension Fund's proposed Climate Strategy: The Fund supports the ambitions of the Paris Agreement and aims to achieve a portfolio of assets with net zero carbon emissions by 2050.

What does net zero mean?

The Intergovernmental Panel on Climate Change (IPCC) defines net zero as that point when 'anthropogenic emissions of greenhouse gases to the atmosphere are balanced by anthropogenic removals over a specified period'. (Anthropogenic – due to human activity.)

The Intergovernmental Panel on Climate Change (IPCC) is the United Nations body for assessing the science related to climate change.



Source: Science Based Targets Initiative September 2020

The Paris Agreement sets out the need to achieve this balance by the second half of this century.

The Paris Agreement

The Paris Agreement to substantially reduce global greenhouse gas emissions in order to limit the increase in the global temperature to well below 2^0C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5^0C above pre-industrial levels has been ratified by 189 Parties (individual countries and the European Union).

Article 4 of The Paris Agreement states that to achieve this temperature goal, Parties aim to reach global peaking of greenhouse gas emissions (GHGs) as soon as possible, recognising peaking will take longer for developing country

Parties, so as to achieve a balance between anthropogenic emissions by source and removal by sinks of GHGs in the second half of the century.

Parties to the agreement are required to communicate their nationally determined contributions (NDCs) to cutting emissions every five years, with each successive NDC expected to represent ‘a progression beyond the previous one and reflect the highest possible ambition’.

Net Zero Commitments

The number of countries and companies committing to reach net zero emissions has increased rapidly over the last few years.

The Race to Zero campaign led by the High-Level Climate Action Champions (appointed following the United Nations Climate Change Conference – Conference of the Parties 21 - where the Paris Agreement was negotiated) estimates that almost **25%** of global CO_2 emissions and over **50%** of global GDP are covered by net zero commitments.

Net zero commitments include:

	Target Date
Economies	
China	2060
EU	2050
UK	2050
Companies	
Amazon	2040
BP	2050
British Telecom	2045
Shell	2050 or sooner
Tesco	2050
Unilever	2039

Measuring net zero

The goal of achieving net zero has been interpreted in a variety of ways. The Science Based Targets Initiative (SBTi) pioneers the use of climate science to guide corporate climate related ambitions. A recent report[1] developed by CDP (a company which runs a global environment disclosure system) for SBTi noted that corporate net zero targets to date differ across three important dimensions:

1. the range of emission sources and activities included
2. the timeline

[1] Foundations for Science -Based Net-Zero Target Setting in the Corporate Sector

3. how companies are planning to achieve their target

The report further noted that the three most common tactics in corporate net zero strategies are:

1. eliminating sources of emissions within the value chain of the company (i.e. a company's Scope 1, 2 and 3 emissions)
2. removing CO_2 from the atmosphere
3. compensating for value chain emissions by helping to reduce emissions outside of the value chain (e.g. direct investment in emission reduction activities and the purchase of carbon credits)

The following three guiding principles for corporate science-based net zero targets are proposed by the SBTi report:

- Reaching net zero emissions for a company involves achieving a state in which its value chain results in no net accumulation of carbon dioxide in the atmosphere and in no net-impact from other greenhouse gas emissions.
- In accordance with the best available science, the Paris Agreement and Sustainable Development Goals, companies should transition towards net zero in line with mitigation pathways that are consistent with limiting warming to 1.5^{o}C with no or limited overshoot.
- The mitigation strategy followed by the company should inform long-term strategies and investments that mitigate exposure to climate-related transition risks ensuring that the business model of the company will continue to be viable in a net zero economy.

Asset Owners

The **Institutional Investors Group on Climate Change (IIGCC)** is the European membership body for investor collaboration on climate change, with 230 members (mainly pension funds and asset managers), across 16 countries with over €30 trillion of assets under management. The mission of the IIGCC is to 'mobilise capital for the low carbon transition and to ensure resilience to the impacts of a changing climate by collaborating with business, policy makers and fellow investors'.

In May 2019, the IIGCC established the **Paris Aligned Investment Initiative (PAII)** to explore how investors can align their portfolios with the goals of the Paris Agreement, and to translate the Paris Agreement into a net zero framework for asset owners and asset managers, taking into consideration their different mandates and starting points.

The PAII notes that if policy and corporate action does not progressively transition towards the net zero goal, it will be extremely challenging for a large number of investors to achieve a portfolio of assets that has net zero emissions in 2050.

The **Net Zero Investment Framework (the Framework)** issued for consultation by the IIGCC in August 2020 provides recommended methodologies and actions which asset owners and asset managers should utilise to assess and undertake alignment of their portfolios towards net zero, in order to maximise their contribution to the decarbonisation of the real economy.

The PAII Net Zero Investment Framework considers that 'Paris aligned' investment means **implementing an investment strategy that is consistent with achieving the goal of global net zero emissions by 2050**.

The Framework states that delivering a net zero strategy should focus on achieving two alignment objectives:

- Decarbonising investment objectives in a way that is consistent with achieving global net zero greenhouse gas emissions by 2050.

- Increasing investment in climate solutions that are needed to meet that goal, such as renewable energy, low carbon buildings, and energy efficient technologies.

The Framework presents five components of a net zero investment strategy, setting out recommended approaches at the different levels of investment management, and for different asset classes.

COMPONENT	PURPOSE
Governance and Strategy	To set the overall commitment towards global net zero emissions, provide direction, and a basis for action. Monitoring and accountability for delivery of strategy and achievement of targets are also included.
Setting portfolio level objectives and targets	To set objectives and targets that: ▸ promote investor action that drives decarbonisation of assets ▸ increase investment in climate solutions ▸ define expected progress in emissions reduction and investment at the portfolio level, and measure achievement.
Strategic Asset Allocation (SAA)	To define an optimal asset allocation for the portfolio in order to help achieve alignment goals alongside standard risk/return objectives and other constraints, and specify the way in which asset allocation should be implemented – via choice of benchmarks and design of investment mandates – to achieve goals.
Asset class alignment: ▸ **Sovereign Bonds** ▸ **Listed Equity and Corporate Fixed Income** ▸ **Real Estate**	Assess the current and future potential alignment of assets to the global net zero goal, and their contribution to climate solutions, using relevant indicators and metrics. Incentivise assets to achieve decarbonisation and contribute to climate solutions, and thereby meet portfolio level targets, by: ▸ Using portfolio construction and investment decisions to increase capital allocation to more aligned assets and climate solutions, and withdraw investment from poor performing assets ▸ Using engagement, stewardship, and management to influence assets towards greater alignment
Advocacy and market engagement	To shift the policy environment to support decarbonisation and investment in climate solutions, and increase the ability of investors to take forward a net zero investment strategy. To encourage the market to provide the data, tools, and advice that underpins investors' investment strategy implementation.

The work done to develop the Framework has highlighted some of the challenges and complexities in managing a portfolio towards net zero and assessing alignment of assets. The Framework currently covers four major asset classes: sovereign bonds; listed equity; corporate fixed income; and real estate.

Further work will be undertaken in Phase II of the PAII to broaden the Framework to include two additional asset classes: infrastructure and private equity, and to address technical issues such as Scope 3 emissions and additional target methodologies.

Asset Classes
It is recognised that there are different issues to consider and different challenges to overcome in achieving net zero alignment within each asset class. Some of these issues/challenges are set out below for four of the main asset classes:

Sovereign Bonds
- It is not currently possible to assign carbon emissions to a sovereign bond, with the carbon intensity of a sovereign bond more reflective of the economy invested in and future carbon reduction targets of that country (e.g. UK Gilts and the UK Governments target to be net zero by 2050)
- The future carbon reduction targets of a specific country can be subject to rapid political and regulatory change
- Sovereign bonds are typically held for defensive purposes and focused on sovereign bonds with strong credit ratings in developed markets. As a result, there is a limited opportunity set for investors to use (e.g. UK Gilts, US Treasuries; German Bunds; Japanese Government Bonds)
- Increasing investor interest in green bonds (i.e. a bond that is specifically earmarked to raise money for climate and environmental projects typically by a multilateral development bank such as the World Bank or European Investment Bank) but there is a limited supply of these bonds and they may well have different risk profile and credit quality to a sovereign bond

Listed Equities
- Whilst listed equities are the most developed asset class in terms of measuring carbon emissions, measurement remains in its infancy, and there is a lack of complete and consistent carbon emission metrics, making robust and consistent benchmarking difficult
- The ability of corporate entities to transition to net zero is heavily reliant on global policy support and robust and consistent regulation
- Countries are moving at different speeds. For example, Emerging Markets account for an increasing share of global GPD but have higher emissions than developed markets and are expected to transition to net zero at a slower pace than developed markets. Investing in Emerging Markets

creates a trade-off between accessing potentially attractive investment returns and increased diversification but higher carbon emissions
- The majority of current disclosures are limited to Scope 1 & 2 emissions and exclude Scope 3 emissions which can be significant
- The current debate is focused on supply. The use of fossil fuels (including by-products) is embedded across the supply chains, production processes and sales channels of a significant proportion of the companies listed on the major global stock exchanges, and focusing solely on the energy producers is not addressing the demand side, which is equally as important
- It takes time for a business to property plan and execution a transition strategy and this is likely to vary significantly by business. Investors need to set realistic transition timescales and then monitor progression closely through collaborative and active engagement
- An increasing number of investors chasing ‘green assets and sectors’ increases the risk of pushing up the valuations to unsustainable levels
- Although renewable energy technology is developing quickly, renewable energy investments, together with related storage and transition assets, are exposed to technology and operational risks, and potential political and regulatory changes. Renewable energy assets should be held as part of a well-diversified investment portfolio but should not be viewed as risk free assets
- It is currently difficult to assess forward looking level of carbon-offsetting assets required to balance the portfolio to a net zero carbon position
- Demand for ‘high quality’ carbon offset assets (i.e. assurance that emissions exit, sustainable and are not double counted) is high and may outstrip supply, pushing up valuations and reduce overall investment returns
- Divestment from specified sectors and industries restricts the potential use of low-cost index funds
- The development of sustainable and low carbon products remains at a relatively early stage with some commentators highlighting the risk of ‘greenwashing’. Early transitions into badly designed products is likely to result in duplicated transition costs
- LGPS investment pooling requirements potential limit the ability of individual LPGS pension funds to implement bespoke strategies and targets

Corporate Fixed Income

The majority of the issues/challenges for corporate fixed income are the same as those that apply to listed equities, however the measurement of carbon emissions data related to corporate fixed income is even more in its infancy than the measurement of carbon emissions data related to listed equities.

Real Estate

- The current lack of complete and consistent carbon efficiency & carbon reduction metrics, makes robust and consistent benchmarking difficult
- There is a risk of manager green washing and double counting of carbon emissions
- Measurement criteria can vary significantly. For example, should a property's emissions be based on the actual building or should it also take into account the tenants' upstream and downstream emissions (e.g. industrial units and big box distribution sheds)
- Refurbishment costs to improve the energy efficiency of an existing property portfolio may be high and lead to a dilution in the portfolio running yield
- The divestment of existing properties which fail to meet any future climate-related criteria may lead to book value losses, particularly at times of market illiquidity
- New builds are likely to have lower operating carbon emissions but often ignore significant emissions used during the development and construction phase
- Sector characteristics and carbon emissions need to be balanced against the need to maintain a geographically diversified portfolio spread across multiple sectors (e.g. offices; retain; industrial; alternatives; residential)
- An increasing number of investors chasing 'green properties and sectors' increases the risk of pushing up the valuations of these properties and sectors to unsustainable levels
- LGPS investment pooling requirements potentially limit the ability of individual LPGS pension funds to implement bespoke strategies and targets

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Agenda Item No. 4 (c)

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

4 November 2020

Report of the Director of Finance and ICT

CONFLICTS OF INTEREST POLICY

1 Purpose of the Report

To seek approval for the draft Derbyshire Pension Fund Conflicts of Interest Policy (the Policy) attached as Appendix 1.

2 Background

Conflicts of interest have always existed for those with Local Government Pension Scheme (LGPS) administering authority responsibilities as well as for advisers to LGPS funds. This reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as an elected member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority. Further, any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.

Whilst the current legislative background largely relates to managing conflicts of interest with respect to members of Local Pension Boards, in the interests of best practice, this Policy will relate to:

- All members of Derbyshire Pension Board (the Board)
- All members of the Pensions and Investments Committee (the Committee), including trade union observers
- Senior officers involved in the governance and management of the Pension Fund (the Director of Finance & ICT, the Head of Pension Fund, the members of the Pension Officers' Management Group, senior officers from Legal Services)
- All advisers and suppliers to the Fund, whether providing advice or supplies to the Board, the Committee or Fund officers

The Policy is intended to aid good governance, in conjunction with the Fund's other governing policies, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund.

The Policy will be reviewed annually and will be revised if the conflict of interest management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant regulations or guidance which need to be taken into account.

3 Financial Considerations

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

4 Other Considerations

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

5 Background Papers

Background papers are held by the Head of Pension Fund.

6 Officer's Recommendation

That the Committee approves the draft Derbyshire Pension Fund Conflicts of Interest Policy attached as Appendix 1.

Peter Handford

Director of Finance & ICT

Appendix 1

DERBYSHIRE PENSION FUND

CONFLICTS OF INTEREST POLICY

Introduction

This is the Conflicts of Interest Policy (the Policy) of Derbyshire Pension Fund (the Fund), administered by Derbyshire County Council. The Policy sets out the process for identifying, monitoring and managing conflicts of interest in the governance and management of the Fund.

Conflicts of interest have always existed for those with Local Government Pension Scheme (LGPS) administering authority responsibilities as well as for advisers to LGPS funds. This reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example, as an elected member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority. Further, any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.

LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the LGPS beneficiaries and participating employers. This, however, does not preclude those involved in the management of the LGPS fund from having other roles or responsibilities which may result in an actual or potential conflict of interest.

This Conflicts of Interest Policy is an aid to good governance, in conjunction with the Fund's other governance documents, encouraging transparency and minimising the risk of any matter prejudicing decision making or the management of the Fund.

The legislative background currently largely relates to managing conflicts of interest with respect to members of Local Pension Boards. In the interests of best practice, this Policy will relate to all individuals involved in the management and governance of Derbyshire Pension Fund. Further information on the legislative background and related guidance is attached as Appendix 1.

Purpose and objectives

The aim of the Policy is to provide guidance to members of the Pensions and Investments Committee and the Pension Board, officers, advisers and suppliers on how to manage conflicts when undertaking their roles and in relation to Derbyshire Pension Fund. It is also intended to provide assurance to the Fund's members, employers and wider stakeholders that conflicts are managed appropriately.

Along with the County Council's other constitutional documents, including Codes of Conduct for members and for officers, it aims to ensure that individuals involved in the governance and management of the Fund do not act improperly or create a perception that they may have acted improperly.

The Pension Fund's governance objectives are to:

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

The identification and management of conflicts of interest is integral to the Fund achieving its governance objectives.

To whom this Policy applies

This Conflicts of Interest Policy is established for the guidance of:

- All members of Derbyshire Pension Board (the Board)
- All members of the Pensions and Investments Committee (the Committee), including trade union observers and any other representatives
- Senior officers involved in the governance and management of the Pension Fund (the Director of Finance & ICT, the Head of Pension Fund, the members of the Pension Officers' Management Group, senior officers from Legal Services)
- All advisers and suppliers to the Fund, whether providing advice or supplies to the Board, the Committee or Fund officers

Derbyshire County Council's (the Council) Constitution includes Codes of Conduct for both elected members and for officers, together with a Member and Officer Relationships Protocol (the Protocol); in addition to the requirements of this Policy, elected members and officers are required to adhere to the relevant Council Code of Conduct and to the Protocol.

The Code of Conduct for Members includes requirements in relation to the disclosure and management of personal and pecuniary interests. The Council's Governance, Ethics and Standards Committee, supported by the County Council's Monitoring Officer (the Monitoring Officer), is responsible for the Council's register of elected members' interests.

The Head of Pension Fund will monitor potential conflicts for less senior officers involved in the daily management of the Fund and highlight this Policy to them as he or she considers appropriate. The Council's Code of Conduct for Officers includes expected standards of conduct with respect to: accountability; personal interests; relationships with contractors; and hospitality and gifts.

In this Policy, reference to advisers includes all advisers, suppliers and other parties providing advice and services to the Pension Fund, including but not limited to: the asset pool operator; dispute adjudicators; actuaries; investment consultants; independent advisers; benefits consultants; third party administrators; fund managers; lawyers; custodians; and AVC providers.

Where an advisory appointment is with a firm rather than an individual, reference to 'advisers' is to the lead adviser(s) responsible for the delivery of advice and services to the Pension Fund rather than the firm as a whole.

In accepting any role covered by this Policy, individuals agree that they must:

- acknowledge any potential conflict of interest they may have
- be open with the Pension Fund on any conflicts of interest they may have
- adopt practical solutions to managing those conflicts (seeking advice from a relevant officer, as required)
- plan ahead and agree with the Pension Fund how any conflicts of interest may be managed.

Principles of Public Life

The Seven Principles of Public Life, otherwise known as the 'Nolan Principles' and specified in the Localism Act 2011, apply to anyone who works as a public office-holder. This includes people who are elected or appointed to public office, nationally and locally. All of the individuals to whom this Policy applies are expected to comply with these principles which are integral to the successful implementation of this Policy.

The principles are:

- selflessness
- integrity
- objectivity
- accountability
- openness
- honesty
- leadership

What is a conflict or potential conflict?

The Public Service Pensions Act 2013 defines a conflict of interest as a financial or other interest which is likely to prejudice a person's exercise of functions (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme). Therefore, a conflict of interest may arise when an individual:

- has a responsibility or duty in relation to the management of or advice on the LGPS administered by Derbyshire County Council; and

- at the same time has a separate personal interest (financial or otherwise) or another responsibility in relation to that matter giving rise to a possible conflict with the first responsibility

An interest could also arise due to a family member having a specific responsibility or interest in a matter.

Managing Conflicts

The Fund takes a three stage approach to managing conflicts:

- Identifying
- Managing
- Monitoring

To assist members of the Committee, members of the Board, officers, advisers and suppliers to identify when a conflict may arise, some examples of potential conflicts are attached as Appendix 2.

Derbyshire Pension Fund encourages a culture of openness and transparency and encourages individuals to be vigilant, have a clear understanding of their role and the circumstances in which they may find themselves in a position of conflict of interest, and of how potential conflicts should be managed.

The Head of Pension Fund, or his/her nominee, in conjunction with the Monitoring Officer, or his/her nominee, will evaluate the nature of any dual interests or responsibilities that are highlighted and assess the impact on operations and good governance were an actual conflict of interest to materialise.

Ways in which the Fund will deal with actual conflicts of interest may include:

- the individual concerned abstaining from discussion, decision-making or providing advice relating to the relevant issue
- the individual excluding themselves from the meeting(s) and any related correspondence or material in connection with the relevant issue
- a working group or sub-committee being established, excluding the individual concerned, to consider the matter outside of the formal meeting (where the terms of reference allow this happen)

Provided that the Monitoring Officer is satisfied that the method of management is satisfactory, Derbyshire Pension Fund will endeavour to avoid the need for an individual to have to resign due to a conflict of interest.

Responsibility

Derbyshire County Council as the Scheme Manager (as defined in the Public Service Pensions Act 2013) for Derbyshire Pension Fund must be satisfied that conflicts of interest are appropriately managed. The day to day management of the Pension Fund is delegated to the Director of Finance & ICT. For this purpose, the Head of Pension Fund is the designated individual for ensuring the procedures outlined below are adhered to.

However, it is the responsibility of each individual covered by this Policy to identify any potential instances where his/her personal, financial, business or other interests might come into conflict with his/her LGPS Pension Fund duties.

Operational procedures

Identifying Conflicts	On appointment to their role, or on the commencement of this Policy if later, all individuals to whom this Policy applies will be provided with a copy of this Policy. It is the responsibility of the individual to identify if a conflict exists and to seek advice from the Head of Pension Fund or Council’s Monitoring Officer (or their representative) if required.

	Members of the Pensions & Investments Committee (the Committee), members of Derbyshire Pension Board (the Board) and senior officers involved in the governance and management of the Fund will be required to complete a Declaration Form, as attached at Appendix 3, on their appointment to the Committee, Board or role, or on the commencement of this Policy if later. It is the responsibility of members of the Committee, the Board, and relevant senior officers to keep their declarations of interest up to date. In advance of any formal meeting, any individual who considers they may have a conflict of interest related to an item of business on the agenda should advise the Chair of the meeting and the Head of Pension Fund as soon as possible. At the start of any meetings of the Pensions and Investments Committee meetings, Derbyshire Pension Board, or any other formal Pension Fund meetings, the Chair will ask all individuals present who are covered by this Policy to declare any interests.
Managing Conflicts	Where an actual conflict of interest on an agenda item is identified, an individual will be expected to exclude themselves from participating in the discussion and from voting on the relevant matter. Where a potential conflict of interest on an agenda item is identified, advice will be sought from the Monitoring Officer (or their representative) who will provide guidance regarding the individual's participation in the relevant discussion and vote based on all the available information. If an actual or potential conflict of interest is identified outside of a meeting, the Head of Pensions will consult with the Monitoring Officer (or their representative) to consider any necessary action.

Monitoring Conflicts	All interests declared in meetings of the Committee, the Board and any other formal Pension Fund meetings, will be recorded in the minutes of the meeting and noted in the Pension Fund's Register of Interests (the Register) as attached at Appendix 4. All actual or potential conflicts of interest identified outside of meetings will also be recorded in the Fund's Register of Interests. The Register will be kept under review by the Head of Pension Fund and the Monitoring Officer (or their representative). All relevant individuals will be required to confirm in writing to the Head of Pension Fund that the information held in respect to them is correct. The Fund's Register of Conflicts of Interest may be viewed by any interested party at any point in time. It will be made available to view by the Head of Pension Fund on request.

Potentially sensitive interests should be discussed with the Monitoring Officer (or their representative) who may agree that merely the disclosure of the existence of the interest rather than the detail may be sufficient.

The above operational procedures relate to members of the Committee, members of the Board and senior officers. All advisers and major suppliers to the Fund, including the asset pool operator, must:

- be provided with a copy of this Policy on appointment, or on commencement of this Policy if later
- be provided with any updated Conflicts of Interest Policy
- provide, on request, information to the Head of Pension Fund in relation to how they will manage actual or potential conflicts of interest relating to the provision of advice or services to Derbyshire Pension Fund
- notify the Head of Pension Fund immediately should an actual or potential conflict of interest arise

Review

The Policy was approved by the Pensions and Investments Committee on [ ]. The Policy will be kept under review and will be revised if the conflict management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant regulations or guidance which need to be taken into account.

Appendix 1

Legislative background and related guidance

The Public Service Pensions Act 2013

Section 4 of this Act requires that the scheme manager (in the case of the LGPS, this is the Administering Authority) must be satisfied that a local pension board member does not have a conflict of interest at the point of appointment and from time to time thereafter. It also requires local pension board members (or nominated members) to provide reasonable information to the scheme manager for this purpose.

The Act defines a conflict of interest as “a financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme).”

Further, the Act requires that scheme managers must have regard to any such guidance that the national scheme advisory board issue (see below).

LGPS Scheme Advisory Board (SAB)

The LGPS national scheme advisory board has issued guidance relating to the creation of local pension boards including a section on conflicts of interest. This Conflicts of Interest Policy has been developed having regard to that guidance.

A November 2019 Phase II report from the working groups of the SAB **Good Governance in the LGPS Project** proposed that 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 report noted that some administering authorities 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 report proposed that all administering authorities should be required to publish a specific LGPS conflicts of interest policy and should stipulate the areas that policy should address. In addition to registering interests, this would include information on how conflicts are identified, monitored and managed, including areas of potential conflict that are specific to the LGPS as listed in the report.

Implementation of the Good Governance proposals was delayed due to Covid-19 pandemic, however the proposals have been taken into consideration in the development of this Conflicts of Interest Policy.

The Local Government Pension Scheme Regulations 2013

Regulation 108 of these Regulations applies the requirements of the Public Service Pensions Act (as outlined above) to the LGPS, placing a duty on each administering authority to satisfy itself that local pension board members do not have conflicts of interest on appointment or whilst they are members of the board. It also requires those local pension board members to provide reasonable information to the administering authority in this regard.

Regulation 109 states that each administering authority must have regard to guidance issued by the Secretary of State in relation to local pension boards. Further, regulation

110 provides that the national scheme advisory board has a function of providing advice to administering authorities and local pension boards.

The Pensions Act 2004

The Public Service Pensions Act 2013 also added a number of provisions to the Pensions Act 2004 related to the governance of public service pension schemes and, in particular, conflicts of interest.

Section 90A of the Pensions Act 2004 now requires the Pensions Regulator to issue a code of practice relating to conflicts of interest for local pension board members. The Pensions Regulator has issued such a code and this Conflicts of Interest Policy has been developed having regard to that code.

Further, under section 13 of the Pensions Act 2004, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to conflicts of interest for local pension board members are not being adhered to.

The Localism Act 2011

Chapter 7 of this Act requires councillors to comply with the code of conduct of their local authority and that code of conduct must be consistent with the Seven Principles of Public Life (noted above). In addition the Act requires that the code of conduct must include provisions requiring the disclosure and registration of pecuniary interests and interests other than pecuniary interests.

Advisers' professional standards

Many advisers will be required to meet professional standards relating to the management of conflicts of interest, for example, the Fund's Actuary will be bound by the requirements of the Institute and Faculty of Actuaries. Any contract, protocol or other document entered into between an adviser and the Administering Authority which includes any requirement relating to conflicts of interest, whether as a professional body or otherwise, should be read in conjunction with this Policy.

CIPFA Investment Pooling Governance Principles for LGPS Administering Authorities Guidance

The CIPFA governance principles guidance states "*the establishment of investment pooling arrangements creates a range of additional roles that committee members, representatives, officers and advisors might have*." It includes some examples of how conflicts of interest could arise in these new roles. It highlights the need for Administering Authorities to:

- update their conflicts policies to have regard to asset pooling
- remind all those involved with the management of the Fund of the policy requirements and the potential for conflicts to arise in respect of asset pooling responsibilities
- ensure declarations are updated appropriately.

This Conflicts of Interest Policy takes into account of the possibility of conflicts arising in relation to asset pooling in accordance with the CIPFA governance principles guidance.

Appendix 2

Examples of potential conflicts of interest (not exhaustive)

1. An employer representative on Derbyshire Local Pension Board is employed by a company contracted to provide goods or services to the Pension Fund, and Derbyshire Pension Board is reviewing the standards of service provided by that company.

2. The person appointed to consider internal disputes is asked to review a case relating to a close friend or relative.

3. The administering authority is considering buying its own payroll system for paying pensions, rather than using the payroll system used for all employees of the Council. The Chief Financial Officer, who is responsible for the budget of the Council, is expected to approve the report to go to the Pensions and Investments Committee which, if agreed, would result in a material reduction in the recharges to the Council from the Fund.

4. An employer representative on the Derbyshire Pension Board to represent employers generally could be conflicted if he or she only serves to act in the interests of the employing authority, rather than those of all participating employers. Equally, a member representative, who is also a trade union representative, appointed to Derbyshire Pension Board to represent the entire scheme membership could be conflicted if he or she only acts in the interests of his/her union and union membership, rather than all scheme members.

5. An officer of the Fund is asked to provide guidance to the Pensions and Investments Committee or Derbyshire Pension Board on a matter which might affect his/her role and either consciously or sub-consciously avoids providing full details/a balanced view.

6. An employer representative has access to information by virtue of his or her employment, which could influence or inform the considerations or decisions of Derbyshire Pension Board. He or she has to consider whether to share this information in the light of his/her duty of confidentiality to his/her employer. His/her knowledge of this information will put him/her in a position of conflict if it is likely to prejudice his/her ability to carry out their functions as a member of Derbyshire Pension Board.

7. An officer or member of the Pensions and Investments Committee accepting hospitality or gifts from a potential adviser or supplier could be perceived as a potential or actual conflict of interest, particularly where a procurement exercise relating to those services is imminent.

8. A Fund adviser is party to the development of a strategy which could result in additional work for his/her firm, for example delegating due diligence on fund investments.

9. A Fund officer applying to the pool operator for employment may give misleading advice to the Pensions and Investments Committee to further the aims of a prospective employer.

10. A member of the Pensions and Investments Committee serving on the LGPS Central Joint Committee or an officer serving on the LGPS Central Shareholders' Forum or an LGPS Central officer group may be required to consider a matter that would disproportionately benefit or disadvantage Derbyshire Pension Fund.

Appendix 3

Declaration of Interests - Relating to the Governance and Management of Derbyshire Pension Fund administered by Derbyshire County Council

This form must be completed by each member of the Pensions and Investments Committee (the Committee), each member of Derbyshire Pension Board (the Board) and senior officers involved in the governance and management of Derbyshire Pension Fund. It must be returned to the Head of Pension Fund within 28 days of an individual's appointment to the Committee, the Board, or senior officer role, or within 28 days of the commencement of the Fund's Conflicts of Interest Policy, if later.

I, *[insert full name]* , am

Tick as appropriate

- A member of the Pensions and Investments Committee ☐
- A member of the Pension Board ☐
- An officer involved in the governance and management of the Fund ☐

I set out below, under the appropriate headings, my interests, which I am required to declare under the Derbyshire Pension Fund Conflicts of Interest Policy. I have put 'none' where I have no such interests under any heading.

Responsibilities or other interests that could result in a conflict of interest (please list and continue overleaf if necessary):

A) Relating to me

B) Relating to family members

Undertaking:

I declare that I understand my responsibilities under the Derbyshire Pension Fund Conflicts of Interest Policy. I undertake to notify the Head of Pensions of any changes in the information set out above.

Signed ________________________________ **Date** _______________________

Name (CAPITAL LETTERS)

____

A member of the Committee or the Board must, within 28 days of becoming aware of any change (including additional interests) to the interests specified in this form provide written notification to the Head of the Pension Fund of that change.

Appendix 4

Register of Potential and Actual Conflicts of Interest

Date identified	Name of Individual	Role	Details	Actual or potential conflict	How notified	Action taken	Follow up required	Date resolved

Agenda Item No. 4 (d)

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

4 November 2020

Report of the Director of Finance & ICT

GOVERNANCE POLICY AND COMPLIANCE STATEMENT

1 Purpose of the Report

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

2 Background

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

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

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

The Statement has been updated to reflect:

- the move from eight formal meetings of the Pensions and Investments Committee to six formal meetings and two training sessions
- the updated arrangements for representing Derbyshire County Council on the Joint Committee and Shareholders' Forum of the LGPS Central Pool and the delegated authority for the Director of Finance & ICT to make decisions on any matter which requires a decision by the shareholders of LGPS Central Ltd
- the up to date position with regard to compliance with best practice

The updated governance arrangements with respect to the LGPS Central Pool and LGPS Central Ltd were approved by full Council on 9 October 2019.

Compliance with the statutory guidance based on best practice principles has continued to improve; widening scheme member and employer representation in the Fund's governance structure remains an area for development.

The Fund has recently written to all of its members as well as to scheme employers to highlight a recent Pension Fund consultation in order to improve engagement with scheme members and it is intended that a Members' Forum will be established in conjunction with the implementation of the Member Self-Service system.

3 Financial Considerations

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

4 Other Considerations

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

5 Background Papers

Background papers are held by the Head of Pension Fund.

6 Officer's Recommendation

That the Committee approves the draft Derbyshire Pension Fund Governance Policy and Compliance Statement attached as Appendix 1.

Peter Handford

Director of Finance & ICT

Derbyshire Pension Fund

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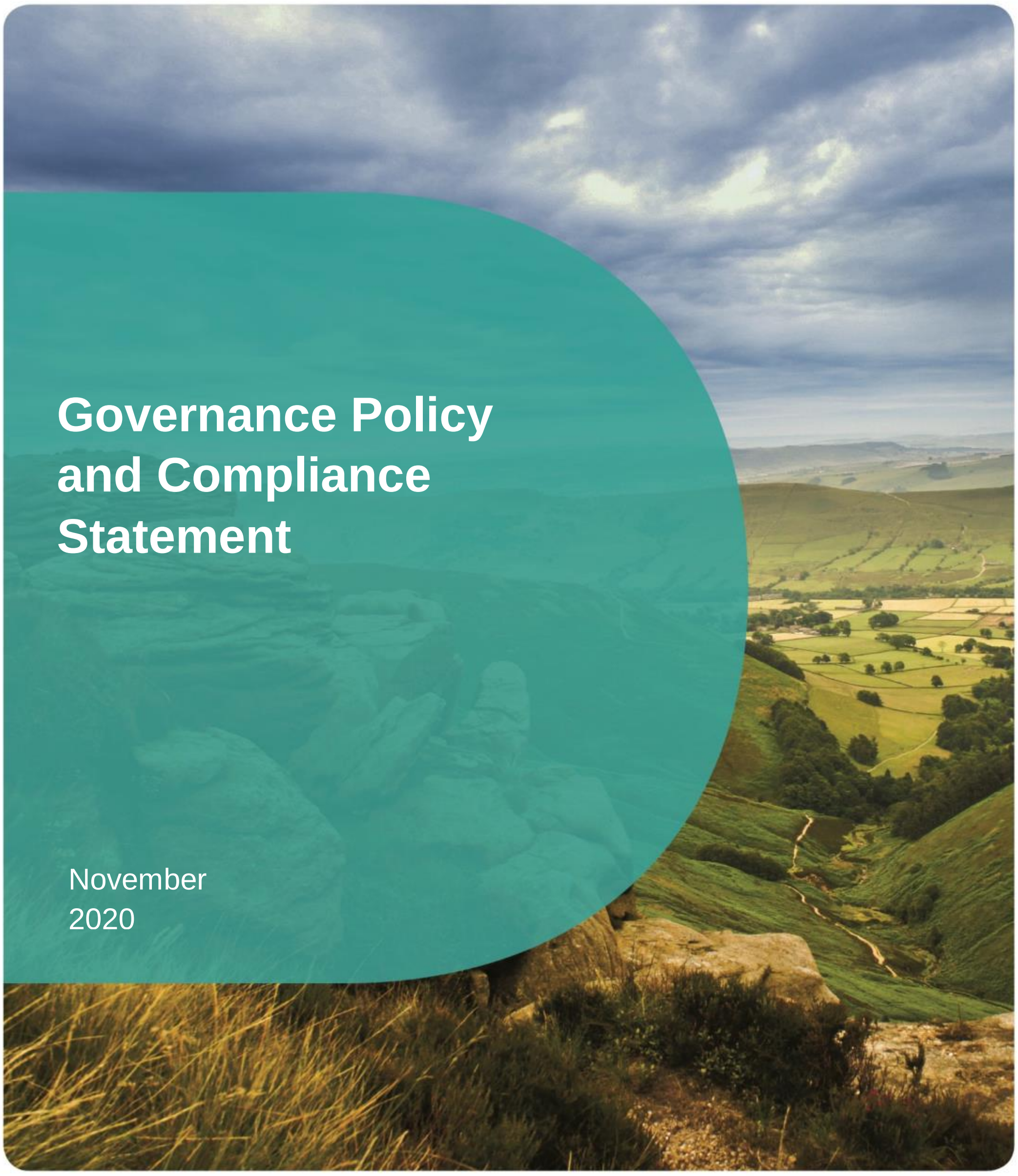


Governance Policy and Compliance Statement

November 2020

County Hall, Matlock, Derbyshire, DE4 3AH
Administered by Derbyshire County Council

lgps

Introduction

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

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

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

Governance Objectives

The Pension Fund's governance objectives are to:

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

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

Governance Arrangements

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

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

Commented [DK(CaP1]: Updated to include external investment management arrangements.

Pensions and Investments Committee

The Committee comprises eight voting Councillors representing the County Council and two voting Councillors representing Derby City Council. The County Council and City Council members of the Committee reflect the political balance of the respective Councils. Two trade union representatives are also entitled to attend meetings of the Pensions and Investments Committee as non-voting members.

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

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

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

The Committee also receives and considers the Fund's:

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

The Committee ensures arrangements are in place for:

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

The Committee is responsible for appointing the Fund's:

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

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

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

Derbyshire Pension Board

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

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

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

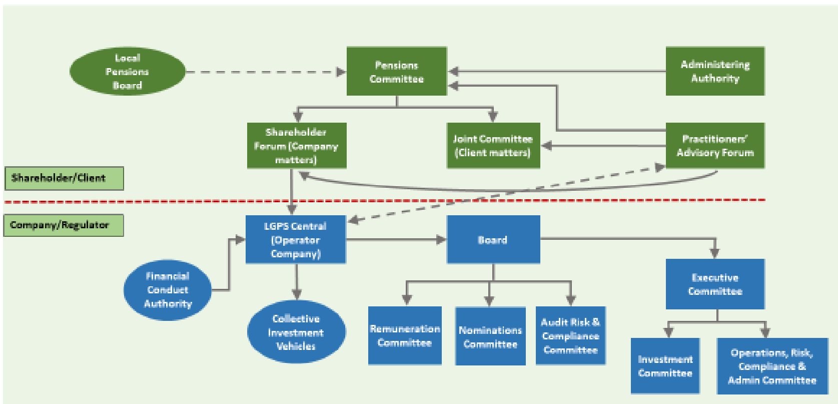
The role of the Pension Board is to assist the administering authority to ensure the effective and efficient governance and administration of the LGPS, including:

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

LGPS Central Pool

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

LGPSC Governance Arrangements



The governance arrangements of the Pool include the following bodies:

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

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

Commented [DK(CaP2]: Updated for the subsitution of the Chair of the Pensions and Investments Committee as the representative on the Joint Committee, approved by full Council 9 October 2019.

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

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

Commented [DK(CaP3]: Updated for the appointment of the Director of Finance & ICT as the Council's Shareholder Representative, approved by full Council 9 October 2019.

Practitioners' Advisory Forum: a working group of officers appointed by the shareholding councils within the Pool to support the delivery of the objectives of the Pool and to provide support for the Pool's Joint Committee and Shareholders' Forum. The Director of Finance and ICT, the Head of Pension Fund and the Investments Manager represent Derbyshire on the Practitioners' Advisory Forum as required. PAF is supported by four individual working groups: Client Oversight & Governance Group; Finance Working Group; Investment Working Group; and Responsible Investment Working Group.

Review and Compliance with Best Practice

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

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

Principle	Compliance
Structure	
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	**Compliant** The Pensions and Investments Committee is responsible for these functions under the Terms of Reference included in the Council's constitution.
The representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee.	**Partially Compliant** Membership of the Pensions and Investments Committee includes two representatives from Derby City and two non-voting Trade Union representatives as well as eight representatives from the administering authority (also the largest employing body). In practice the Trade Union representatives tend to represent the interests of all scheme members. Membership and employer representation will be kept under review.
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	**Not applicable**
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	**Not applicable**
Representation	
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: • Employing authorities (including non-scheme employers e.g. admitted bodies) • Scheme members (including deferred and pensioner scheme members)	**Partially Compliant** Membership of the Pensions and Investments Committee includes two representatives from Derby City and two non-voting Trade Union representatives, as well as eight representatives from the administering authority (also the largest employing body). In practice the Trade Union representatives tend to represent the interests of all scheme members. Membership and employer

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• Where appropriate, independent professional observers • Expert advisors (on an ad-hoc basis)	representation will be kept under review. The Fund's Independent Investment Advisor attends the investment related Pensions and Investments Committee meetings. Other independent experts attend meetings of the Committee as required e.g. the Fund's Actuary attends to discuss the triennial valuation. Derbyshire Pension Board (the Board) includes two employer representatives (currently one represents a District Council and one represents a Multi-Academy Trust) and two member representatives. The Board has an independent Chair.
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to reports, meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.	**Compliant** All members of the Pensions and Investments Committee, the Pension Board and trade union representatives receive the same Committee meeting reports and have access to the same training. All voting and non-voting members of the Committee are given full opportunity to contribute to the decision making process.
Selection and Role of Lay Members	
That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	**Compliant** All members of the Pensions and Investments Committee receive training on the status, role and function they are required to perform when they join the Committee.
That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	**Compliant** Declarations of interest are required at each Pensions and Investments Committee meeting and recorded in the minutes of the meeting.
Voting	
The policy on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group	**Compliant** The policy on voting rights is clear and transparent. All elected members on the Pensions and Investments Committee have

Commented [DK(CaP4]: This has moved from partially compliant to compliant as all members of the Committee and the Board, and trade union representatives now have access to the same training.

represented on main LGPS committees.	voting rights. The elected members represent employers, local taxpayers and scheme beneficiaries.
Training/Facility Time/Expenses	
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.	**Compliant** The Fund has a training policy which applies to all members of the Pensions and Investments Committee and the Pension Board. A training plan has been developed based on self-assessment forms completed by the members of both bodies and a log of all training is maintained. The reimbursement of member expenses is in line with the County Council's policy of member reimbursement.
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	See above.
That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	See above.
Meetings	
That an administering authority's main committee or committees meets at least quarterly.	**Compliant** The Pensions and Investments Committee meets eight times a year (six formal meetings and two training sessions).
That an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits.	**Not applicable**
That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	**Not applicable** However, an annual Employers' Forum is held to which all employing bodies are invited.

Commented [DK(CaP5]: Updated to reflect the fact that two PIC meetings are now training sessions.

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pensions@derbyshire.gov.uk

Access	
That subject to any rules in the Council's constitution, all members of the main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	**Compliant** All members of the Pensions and Investments Committee (and the Pension Board) have the same access to committee papers, documents and advice to be considered at the Pensions and Investments Committee.
Scope	
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	**Compliant** The Pensions Committee and the Investments Committee have been combined into the Pensions and Investments Committee which covers all aspects of investment, administration and governance. The Committee is now also supported by the Pension Board which assists with governance and administration matters.
Publicity	
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.	**Compliant** The Governance Policy and Compliance Statement is published on the Pension Fund's website. Vacancies for Derbyshire Pension Board are advertised on the website.

Commented [DK(CaP6]: Amended to reflect the fact that Derbyshire County Council employer matters are no longer considered by the Pensions and Investments Committee.

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Agenda Item No. 4 (e)

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

4 November 2020

Report of the Director of Finance & ICT

Half-Year Pension Administration Performance Report
1 April 2020 to 30 September 2020

Content

1. Purpose of the Report

To notify the Pensions and Investments Committee (the Committee) of the administration activity undertaken by the Pension Administration Team (the Team) of Derbyshire Pension Fund (the Fund), and the performance levels achieved, in the first six months of 2020/21.

2. Half-year report

A quarterly report on pension administration performance has previously been provided to the Committee. For the first six months of 2020/21, a half-year report is now provided to Committee which provides a summary of the Fund's performance in key areas of activity.

3. Covid-19 impact

The introduction of the Government's lockdown measures in response to the Covid-19 pandemic posed a number of challenges for the Fund's administration. These included the need to urgently implement a plan to maintain continuity of core service provision while the majority of the team worked remotely from home.

In recognition of the pressures placed on the administration of pension schemes, The Pensions Regulator issued guidance in April 2020 for schemes including the identification of core responsibilities which should be prioritised.

The key services which TPR identified for prioritisation were:

- Paying members' benefits
- Retirement processing
- Bereavement services, and administrative functions required to support these
- Any processes needed to ensure benefits are accurate

TPR also asked administrators and employers to focus on the need for:

- Employers to continue contributing
- The risk of scams to be minimised
- Support for savers to make good decisions

A detailed Covid-19 Business Continuity Plan was developed and set out:

- the key services and critical activities of the Fund
- links to other relevant business continuity plans
- details of plan activation
- communication channels

- updates from bodies involved in the governance of the LGPS
- details of the Fund's governance arrangements
- business continuity updates with respect to Investments, Funding, Pension Administration, Treasury Management and ICT

The Business Continuity Plan was circulated to members of the Committee and members of the Board in April 2020 and remains under review.

4. Workload data

A summary of the Fund's administrative activity during the period 1 April to 30 September 2020 is summarised in the following sections.

4.1 Membership numbers

Membership	30 Sept 2019	31 March 2020	30 Sept 2020
Actives	36,170	38,061	37,274
Deferred	27,940	28,255	30,083
Pensioners	30,323	30,904	31,484
Work in Progress	8,830	8,408	6,426
Totals	**103,263**	**105,628**	**105,267**

The membership figures shown reflect the total number of separate pension records. This includes scheme members with more than one pension record. The actual number of individual members is approximately 85,000 who between them have over 105,000 membership records.

The 'Work in Progress' figure includes

- cases where active memberships have ended and work is currently being undertaken to reassign them to deferred or pensioner membership.

- frozen refunds where active membership has ended after a short period insufficient to qualify for a pension, and work is ongoing to contact members and arrange payment of the refund

4.2 Member deaths

The Fund has contributed monthly data towards the LGPS Scheme Advisory Board's analysis of member deaths during the Covid-19 pandemic to help understand its impact on the LGPS.

In comparison to the same half year period in 2019 when 416 member deaths occurred, there have, to date, been 459 member deaths reported to the Fund as having occurred during the period 1 April 2020 to 30 September 2020. This includes active, deferred and pensioner members.

4.3 Achievement against standards

The following table shows cases in selected key areas of work which were actioned in the period 1 April to 30 September 2020 and the amount completed within legislative timescales included in *The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013*.

Case type	Total number of cases	Target for completion (months)	Target achieved	Target missed	Target achieved %	2019/20 Target achieved %
Retirement Benefits paid	906	1	875	31	96.6%	97.3%
Death cases	623	2	572	51	91.8%	90.9%
Transfer Out quotes	215	3	190	25	88.4%	95.9%
Transfer Out paid	41	3	40	1	97.6%	71.4%
Transfer in	86	3	70	16	81.4%	69.9%
Estimate requests	363	2	359	4	98.9%	96.4%
Refunds paid	808	2	792	16	98.0%	99.4%

4.4 Quantity of work – incoming and completed

Although the administrative priorities for the Fund during the first half of 2020/21 have been the key services noted earlier in this report, the Fund's work in providing services to scheme members in other areas has continued.

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

The number of work items being processed is as follows:

	Oct-March 2019/20	Apr-Sept 2020/21
New work items becoming due in the period	21,671	19,063
Work items completed during the period	24,073	20,438

At the end of September 2020, a total of 10,511 work items remained open and in progress. The table below summarises the main areas of open work, included in the above total.

Work area	Open cases as at 30 Sept 2020
Aggregations	3,450
Outstanding data from employers	1,278
Deferments	1,110
Refund quotes	762
Retirement quotes	214
Death administration (in progress)	194
Retirements (in progress)	63
Others	3,440

4.5 Data quality

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

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

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

To measure the Fund's data quality, the software provider, Aquila Heywood, has provided the latest common and conditional data results for 2019/20 which will be reflected in the Fund's Annual Return to the Regulator later in the year. The results for the last 3 years are shown in the table below:

Year	Common data	Conditional data
2017/18	95%	85%
2018/19	97.6%	92.3%
2019/20	98%	92.5%

4.6 Backlog Management Project

The ongoing project to reduce and ultimately eliminate the numbers of backlog cases in two key areas of pension administration has continued during the first half of 2020/21, however, progress has been slowed due to the impact that remote working has had on the Fund's day to day administration.

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

Aggregations – These are the combining of previously accrued benefits in the LGPS with a new or ongoing active pension record. An aggregation process becomes a backlog case if it is not completed within 12 months.

At the end of 2019/20 the total of backlogged aggregations was 1,865, however, despite the difficulties encountered during the first half of 2020/21, the total had reduced slightly to 1,800.

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

At the end of 2019/20 the total of deferred backlog cases was 1,991. Significant progress has been made in the first half of 2020/21 with the outstanding total at the end of September 2020 being 833.

4.7 Monthly contribution returns

Employers faced a number of challenges in respect of their LGPS responsibilities which emerged as a result of COVID-19. These included difficulties that arose from a move to predominantly remote working for many employers and key staff being furloughed. This was particularly an issue for Admitted Bodies providing outsourced catering and cleaning services to establishments forced to temporarily close.

However, the continuing payment of pension contributions remained a core priority for employers based on payment and contribution reports having to be received by the Fund by the 19th of the month following payment.

A number of employers experienced difficulties in meeting deadlines at the start of the pandemic, and this is reflected by the numbers in the table below showing the instances of late payment and/or submission of contribution reports.

The figures reflect April to August 2020 only, as information for September is still being finalised.

Instances of late payments (Apr-Aug 2020)	Total of employers		Instances of late monthly report submissions (Apr-Aug 2020)	Total of employers
1	4		1	47
2	0		2	16
3	1		3	4
4	1		4	2
5	1		5	0

The Fund has worked collaboratively with employers through this difficult period to avoid problems with late payments/submission of data. The Fund is continuing to engage with the employers who have experienced ongoing problems.

4.8 New academies and admission bodies

Academies
11 new academies joined the Fund as fund employers during the first half of 2020/21.

Brief details of each are as follows:

Employer Ref	Employer Name	Start Date	Academy Trust
737	**Chaucer Junior School**	**01/04/2020**	Embark Multi-Academy Trust
738	**Elmsleigh Infant and Nursery School**	**01/04/2020**	Esteem Multi-Academy Trust
739	**Chaucer Infant School**	**01/05/2020**	Embark Multi-Academy Trust
740	**St Martins School**	**01/05/2020**	The Shaw Education Trust
741	**Whaley Thorns Primary School**	**01/06/2020**	T.E.A.M Education Trust

742	**Stubbin Wood School**	**01/06/2020**	T.E.A.M Education Trust
743	**Model Village Primary School**	**01/06/2020**	T.E.A.M Education Trust
745	**Ashbrook Junior School**	**01/09/2020**	Transform Trust
746	**Bakewell CofE Infant School**	**01/09/2020**	DDAT
747	**Bishop Pursglove CofE (A) Primary School**	**01/09/2020**	DDAT
748	**Highfields Spencer Academy**	**01/09/2020**	The Spencer Academies Trust

Admission Bodies
5 new admission bodies formally joined the Fund during the first half of 2020/21:

- Amber Valley Norse Ltd – for the provision of domestic waste collection services for Amber Valley District Council wef 27.6 2020

- Churchill Contract Services– for the provision of cleaning services at Kirk Hallam Academy (The Spencer Academies Trust) wef 1.8.2020

- Mellors Catering Services – for the provision of catering services to Shirebrook Academy and Stubbin Wood School wef 4.4.2020

- Vertas Derbyshire Ltd – for the provision of caretaking and cleaning services for Derbyshire County Council wef 1.9.2020

- Concertus Derbyshire Ltd – for the provision of property design services for Derbyshire County Council wef 1.9.2020

The Admitted Body status of a further six employers is still in process and has yet to be finalised, however, for completeness, as they are operating as Fund employers (ie employing members who are contributing to the scheme) these employers have been included in the summary of employers below.

Employer summary
The number of employers actively participating in the Fund at 30 September 2020 was 332, broken down as follows:

Type of Employer	Notes	Total
Main Councils	**County, City, District & Boroughs**	**10**
University & FE Colleges	**University x 1, FE Colleges x 2**	**3**
Academies	**Individual academies, including those in MATs on a shared employer rate**	**198**
Maintained Schools using an external payroll provider	**County & City Schools using external payroll providers** ***(County x 4, City x 6)***	**10**
Housing Associations	**Scheduled x2 Admitted Bodies x 3** ***(2 x TAB, 1 x CAB)***	**5**
Other Scheduled Bodies	**Peak District National Park Authority, Police, Fire, Chesterfield Crematorium**	**4**
Admitted Bodies	**TABs x 60, CABs x 4** ***(not including Housing Assn's)***	**64**
Town & Parish Councils	**Pre 2001 Pool x 15 Post 2001 Pool x 23**	**38**
Total		**332**

4.9 Complaints, compliments and appeals

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

During the first half of 2020/21 a total of 14 cases identified as complaints were submitted to the Fund by members. Responses have been provided in each case and, to date, none of the cases have been escalated to the appeals stage against the Fund via the Application for the Adjudication of Disagreements Procedure (AADP).

Compliments received from members are also recorded by the Fund and shared with the team member who provided the service. During the first half of 2020/21 a total of 8 compliments had been submitted by members praising the level of service they had received.

Appeals
Progress on complaints which have been escalated to AADP, either as an appeal against the Fund at Stage 1, or an appeal against a scheme employer to be determined by the administering authority at Stage 2, during the first half of 2020/21 are summarised below.

AADP Stage 1
During the first half of 2020/21, one appeal against the Pension Fund at AADP Stage 1 has been received.

AADP Stage 2
During the first half of 2020/21, a total of 3 appeals at AADP Stage 2 were considered by the Committee. Each appeal related to a complaint about a decision made by the member's former employer.

The Pensions Ombudsman
At the end of 2019/20, two cases which had been considered at AADP Stages 1 and 2, were with The Pensions Ombudsman awaiting their determination. Currently both cases are still awaiting final determination. In addition, one further case has been escalated by a member to The Pensions Ombudsman during the first half of 2020/21, and is also awaiting determination.

5. Communications and Training

All plans for workplace-based employer training and sessions for scheme members had to be cancelled from March when the government introduced the lockdown measures in response to Covid-19.

In order to maintain progress with boarding employers onto the i-Connect system (see 6.1) the Fund arranged virtual training sessions for those in the early phases of implementation.

In order to provide relevant information on a number of issues being raised, the Fund prepared sets of "frequently asked questions" for members and employers about the impact of Covid-19 on the LGPS which were published on the Fund's website in April. All employers were notified, and were asked to signpost their scheme members to the website to access the information.

Communications to scheme members
Annual Benefit Statements based on membership as at 31 March 2020 were issued to active and deferred scheme members.

Over 91% of statements have been issued and work is ongoing to issue statements to the outstanding cases.

These predominantly relate to cases where:
- previously used addresses have been identified as no longer applicable, but no new address has been provided by the member
- full information had not been received from employers

These cases are continuing to be worked through, with statements being issued to members as soon as the required information has been received. The Fund is providing support to employers where necessary to assist with the provision of missing information and continues to prioritise the provision of statements including good quality data.

A **letter to all scheme members** was issued on 24 September which highlighted the Fund's development of an online service to be called 'My Pension Online'. Members were notified that, from 2021, annual benefit statements would be issued via the online service, and were asked to let the Fund know if they still wished to receive a paper statement. The letter also notified members about other matters, including how to respond to a consultation about the Fund's proposed Investment Strategy Statement, RI Framework and Climate Strategy and the impact of the McCloud judgement.

The Fund ensured that each member only received one letter regardless of the number of pension records they held.

Communications to employers
During the first half of 2020/21, the Fund issued the following newsletters to employers:

Date issued	Bulletin	Topics included
8 April 2020	Special	Impact of Covid-19 on the LGPS
24 June 2020	167	Electronic signatures, Exit credits, Employer webinar, i-Connect, Member self-service, Standard contract wording
18 September 2020	168	McCloud update, Part-time hours, Public sector exit payment cap, Exit credits policy, i-Connect update, Consultation on Investment Strategy Statement, Responsible Investment Framework & Climate Strategy, Local Government Association (LGA) update, Letter to scheme members.

All Employer Newsletters are available on the Fund's website.

6. Projects

6.1 i-Connect

The programme for employers to implement the i-Connect system, part of the functionality linked to the Altair pension administration system, has developed during the first half of 2020/21.

The programme commenced at the start of 2020 and, to date, 78 employers have successfully implemented i-Connect for the transmission of member data from their payroll system directly into Altair.

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

The Fund engages with, and provides support for, each employer to ensure the accuracy and timeliness of their data transmissions. The target for the i-Connect project is to have all employers on-board by the end of 2021.

6.2 Back scanning project

An estimated 3 million documents are held by the Fund on microfiche records. A project to upload the documents into the Altair system has now commenced, and is being undertaken, following a procurement exercise, by EDM Group Ltd who specialise in providing high volume, bulk document scanning and digitisation services.

All fiche records were collected from the Fund by EDM Group Ltd in July 2020. The fiches are being loaded as digitised documents onto the respective Altair records in batches.

To comply with audit requirements, details were taken of sample fiches prior to collection and will be checked against the digitised version held on record. It is estimated that the project will be completed by the end of December 2020.

6.3 Member Self-Service

The implementation of Member Self-Service (MSS), a further functionality linked to Altair, is being finalised with a view to the system being ‘live’ in early 2021.

The Fund’s MSS Project Board agreed that the system’s name when used by members would be ‘My Pension Online’. This name will appear alongside the Derbyshire Pension Fund logo.

MSS will be available to all scheme members, with the main functionality being the member’s ability to access their own pension records securely online. Annual Benefit Statements will be issued online from 2021, although members will have the option to continue receiving a paper copy. Details on how to register will be provided to members when ‘My Pension Online’ is live in early 2021.

6.4 Other projects

McCloud Project
A McCloud Project Group was set up in July to prepare for the implementation of the remedy in respect of the McCloud and Sargeant judgements. A response to the MHCLG Amendments to the Statutory Underpin Consultation was developed by this group and approved by the Chair of the Pensions and Investments Committee and the Director of Finance and ICT for submission to MHCLG.

Exit Payment Cap Project
Similarly, the Fund is currently establishing a group to review working procedures for the changes in scheme regulations which will come into force, at short notice, as a result of the new legislation governing the restriction of exit payments in the public sector.

7. Collaboration

Whilst the Covid-19 pandemic has forced the cancellation of numerous face-to-face meetings, members of the team have continued to learn, share and network with colleagues from other Funds and the wider industry at virtual meetings. Those attended during the first half of 2020/21 are as follows:

Group	Meetings
East Midlands Pensions Officers Group (EMPOG)	29 June 2020
LGPS Joint Communications Group	22 May 2020
LGPS Central Administration Sub-Group	7 April 2020 4 May 2020 23 July 2020

The Fund is also working collaboratively with other LGPS funds to understand the implications and implementation issues associated with the McCloud remedy and the exit payments cap legislation.

8. Other Activity

Online learning and knowledge systems
The Fund is currently reviewing the potential benefits of two systems to assist in the areas of staff training and development, and specialist pensions legal and regulatory information.

1. The TEC learning platform built by Aquila Heywood as an LGPS education tool for staff training and development.

2. The Perspective online service built by Pendragon, a specialist information provider dedicated to supplying legal and regulatory information to the pensions industry.

9. 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.

10. Officer's Recommendation

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

Peter Handford

Director of Finance & ICT

Agenda Item No. 4 (f)

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

4 November 2020

Report of the Director of Finance & ICT

DERBYSHIRE PENSION FUND ANNUAL REPORT

1 Purpose of the Report

To seek approval for the Director of Finance & ICT, in conjunction with the Chair of the Committee, to approve the publication of the Pension Fund's Annual Report for 2019-20.

2 Information and Analysis

In accordance with the Local Government Pension Scheme Regulations 2013, the Administering Authority must prepare and publish an Annual Report for the Pension Fund (the Fund) on or before 1 December following the year end.

It is the Fund's standard practice to present a copy of the Annual Report to Committee prior to 1 December each year and seek approval to publish the Annual Report on the Fund's website. However, this is not possible this year because of the timing of Committee meetings and the external audit in respect of both the County Council's (the Council) and Fund's 2019-20 Statement of Accounts which have yet to be completed due to delays caused by the Covid-19 pandemic. This is not unique to either the Council or the Fund, and many other UK county councils and LGPS pension schemes have reported similar audit delays.

Due to the delays, the Council's audited accounts, which include the Fund's Statement of Accounts, have yet to be considered and approved by the Council's Audit Committee, albeit it should be noted that no issues are expected at this stage and the committee has had the opportunity to question and comment on the unaudited accounts. As a result, approval is sought for the Director of Finance & ICT, in conjunction with the Chair of the Committee, to approve the publication of the Fund's 2019-20 Annual Report before 1 December 2020 as required by the Regulations. A copy of the Fund's 2019-20 Annual Report will be reported to Committee in December 2020.

The Fund’s Annual Report is typically in excess of 200 pages, and is split into a number of sections covering: an Introduction; Key Statistics; Fund Governance (including a copy of the 2019-20 Annual Report of Derbyshire Pension Board); Financial Performance; Investment; Funding; Scheme Administration; and the Fund’s Statement of Accounts. There are also several appendices comprised of previously published (and approved), including copies of the Fund’s: Governance Policy & Compliance Statement; Communication Policy Statement; Investment Strategy Statement; Funding Strategy Statement; Actuarial Valuation Report; and a Schedule of Employees’ and Employers’ Contributions.

This year, the Investment section of the Annual Report will be updated to include details of the Fund’s carbon risk metrics. These metrics were presented to Committee in March 2020 and are disclosed in the Fund’s Climate-Related Disclosures Report, a copy of which is available on the Fund’s website.

3 Considerations

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

4 Background Papers

Working papers are held by the Pension Fund Team.

5 Officer’s Recommendation

Approval is sought for the Director of Finance & ICT, in conjunction with the Chair of the Committee, to approve the publication of the Pension Fund’s Annual Report for 2019-20.

PETER HANDFORD

Director of Finance & ICT

Agenda Item No. 4 (g)

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

4 November 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 (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.

Covid 19
The Fund's Business Continuity Plan has continued to work well and all of the Fund's critical activities have been maintained throughout the period of business disruption. Alternative processes set up to accommodate remote working, remain under review. The implications of the continuation of the current working arrangements for a longer period of time are being evaluated.

High Risk Items
The Risk Register has the following five High Risk items:

(1) Fund assets insufficient to meet liabilities (Risk No. 19)

(2) Failure to consider the potential impact of climate change (Risk No. 22)

(3) LGPS Central related underperformance of investment returns (Risk No. 29)

(4) Impact of McCloud judgement on funding (Risk No 36)

(5) Impact of McCloud judgement on administration (Risk No. 43)

Fund assets insufficient to meet liabilities
There is a risk for any pension fund that assets may be insufficient to meet liabilities; funding levels fluctuate from one valuation to the next, principally reflecting external risks around both market returns and the discount rate used to value the Fund's liabilities. Every three years, the Fund undertakes an actuarial valuation to determine the expected cost of providing the benefits built up by members at the valuation date in today's terms (the liabilities) compared to the funds held by the Pension Fund (the assets), and to determine employer contribution rates.

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 2020 FSS was approved by Committee in March 2020.

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. Using a risk-based approach to determine the appropriate investment return assumption for reporting the whole Fund results, there was an improvement in the funding level of the Pension Fund to 97% at March 2019, with a reduction in the deficit from £564m to £163m. On a like-for-like basis of calculation, the funding level at March 2019 would have been 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. A further interim funding assessment will take place at the end of December 2020.

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 recent review of the Fund's long-term investment strategy has resulted in a proposed further 2% switch from growth assets to income assets.

Potential impact of climate change
It is recognised that material climate change risks and opportunities could be experienced across the whole of the Fund's portfolio. The urgency of addressing the issue of climate change has increased as the world has experienced a number of extreme weather events and as five of the warmest years on record have been recorded since 2010.

The Fund is exposed to risks related to the transition to a lower-carbon economy and to risks related to the physical impacts of climate change. Climate related risks are expected to affect most economic sectors and industries; however, opportunities will also be created for organisations focused on climate change mitigation and adaptation solutions. It is acknowledged that it is difficult to estimate the exact timing and severity of the physical effects of climate change.

The Fund procured a Climate Risk Report from LGPS Central Ltd structured around The Taskforce on Climate-related Financial Disclosures' (TCFD) four thematic areas of: governance; strategy; risk management; and metrics and targets. The report included an assessment of financially material climate-related risks within the Fund's investment portfolio, highlighted climate-related opportunities and provided an evidence base to support the development of a Climate Strategy and a Climate Stewardship Plan for the Pension Fund.

A Climate Strategy has now been developed for the Fund and was approved for consultation by Committee in September 2020. Once a climate strategy has been agreed and is in the process of being implemented, the probability score will be reviewed.

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. The Fund is expected to invest via LGPSC's pooled investment vehicles and has recently transitioned its legacy UK corporate bond portfolio of around £300m into LGPSC's Global Active Investment Grade Corporate Multi-Manager Fund. The Fund also has in place advisory management agreements with LGPSC in respect of 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. MHCLG published its proposed remedy related to the McCloud judgement in July 2020.

The proposed remedy involves the extension of the current underpin protection given to certain older members of the Scheme when the LGPS benefit structure was reformed in 2014. It removes the condition that requires a member to have been within ten years of their 2008 Scheme normal pension age on 1 Apr 2012 to be eligible for underpin protection. It is also proposed that underpin protection will apply where a member leaves with either a deferred or an immediate entitlement to a pension (previously it just applied to immediate entitlements). The underpin will give the member the better of the 2014 Scheme CARE or 2008 final salary benefits for the eligible period of service.

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

Any increase in benefits for members will need to be funded by scheme employers. At a whole scheme level, Hymans estimate that total liabilities might increase by around **0.2%**, equivalent to around **£0.5bn** across the whole of the English and Welsh LGPS. This estimate is significantly less than the **£2.5bn** quoted in the MHCLG consultation. The difference is largely due to the materially higher pay growth assumption used by GAD.

Hymans forecast that the impact of the remedy might be to increase average primary contributions by around **0.2%** of pay, with an increase in secondary contributions of around **0.1%** of pay. Whilst the impact at the whole scheme level is expected to be small, it may be material at an individual employer level. 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. Following the publication of MHCLG's proposed McCloud remedy, the LGPS Scheme Advisory Board is considering its options regarding the pause of its cost cap process. It is currently exploring legal and actuarial options to mitigate the potential challenges of implementing any cost cap related improvements in benefits, while recognising its obligation to bring forward changes that reflect in full the cost of any benefit improvements since April 2019.

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 were 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 was 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 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 funding risk score will be reviewed when MHCLG's remedy is confirmed.

The administration risk relates to the enormous challenge that will be faced by administering authorities and employers in backdating scheme changes over such a significant period; this risk has been recognised by the 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.

A McCloud Project Team has been set up to formalise the governance of this major impending project. The Fund will continue to keep up to date with news related to the McCloud remedy and the cost cap process from the Scheme Advisory Board, the Local Government Association, the Government Actuary's Department and the Fund's actuary.

New & Removed Items/Changes to Risk Scores
Three new risks have been added to the Risk Register this quarter. There have been no changes to existing risk scores this quarter.

New Risks
Conflicting exit payments legislation/Increased administration requirement related to exit payments (Risk No. 44): The Restriction of Public Sector Exit Payments Regulations 2020 (Exit Payment Regulations) were approved by Parliament and will come into force on 4 November 2020. The cap of £95,000 will apply to the aggregate sum of payments made in consequence of termination of employment.

On 7 September 2020, MHCLG published a consultation on restricting exit payments (including both redundancy compensation pay and early access to pensions) in local government in England and Wales. The additional further exit payment reforms proposed by MHCLG, which include the accommodation of the Exit Payment Regulations, are currently subject to consultation and are not expected to come into force before the end of this year.

This means that there will be a period of legal uncertainty when scheme employers are under an obligation under the Exit Payment Regulations to potentially limit strain cost payments and administering authorities are required under existing LGPS regulations to pay unreduced pensions to qualifying scheme members. MHCLG is expected to issue a statement with respect to the difficulty this causes for local government employers and LGPS administering authorities very shortly. The LGPS Scheme Advisory Board is also obtaining legal advice on the risk of challenge to LGPS authorities during this period.

In the meantime, the Fund has temporarily paused the provision of benefit estimates linked to retirements on the basis of redundancy or business efficiency until there is further clarity. Before the finalisation of any such retirements that are currently in process, confirmation will be sought from the relevant employer that payments comply with the Exit Payments Regulations.

The further exit payment reforms proposed by MHCLG involve options being offered to members which will increase the administrative work associated with redundancy/business efficiency retirements and the level of communication required between employers and the Fund. The Fund will work with other LGPS funds to develop common approaches to dealing with the new options when they are confirmed. The risk has been attributed an impact score of 3 and a probability score of 3.

Lack of two factor authentication for Member Self Service (Risk No. 45):
The Fund is implementing a member self-service solution (MSS) to improve the quality and efficiency of the service it provides to its members. MSS will allow members to view certain parts of their pension information (including Annual Benefit Statements), to undertake a restricted number of data amendments and to carry out benefit projections on-line.

The member self-service solution provided by Aquila Heywood does not currently utilise a two-factor authentication method. To mitigate this risk, robust registration and log-on procedures have been developed which have been approved by the Council’s Information Governance Group. The risk has been attributed an impact score of 3 and a probability score of 2.

Implications of Goodwin ruling (Risk No. 46):
Following the Walker v Innospec Supreme Court ruling, the government decided that in public service schemes, surviving male same-sex and female same-sex spouses and civil partners of public service pension scheme members will, in certain cases, receive benefits equivalent to those received by widows of opposite sex marriages.

A recent case brought in the Employment Tribunal (Goodwin) against the Secretary of State for Education highlighted that these changes may lead to direct sexual orientation discrimination within the Teachers’ Pension Scheme (TPS), where male survivors of female scheme members remain entitled to a lower survivor benefit that a comparable same-sex survivor. The government concluded that changes are required to the TPS to address the discrimination and believes that this difference in treatment will also need to be remedied in those other public service pension schemes, where the husband or male civil partner of a female scheme member is in similar circumstances.

A consultation will take place on the required regulatory changes for the LGPS. It is expected that the Fund will need to investigate the cases of affected members, going back as far as 5 December 2005 when civil partnerships came into force, which will provide administration challenges. The risk related to the Goodwin ruling is included on the Risk Register as an administration risk as the impact on the liabilities of LGPS funds is currently expected to be minimal. The risk has been attributed an impact score of 2 and a probability score of 3.

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

Appendix 1

Date Last Updated	**25-Oct-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.

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
TL	Team Leader
IM	Investments Manager

Summary of Risk Scores	
Low Risk	6
Medium Risk	35
High Risk	5
Total Risks	**46**

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

Summary of Risk Scores Greater Than Eight

		Identification		Current score			Target Score					
Risk Ranking	*Main Risk Register No*	**Risk Area**	**High Level Risk**	*Impact*	*Probability*	*Current Score*	**Risk Owner**	*Impact*	*Probability*	*Target Score*	*Actual Minus Target Score*	*Previous Score*
1	19	Funding & Investments	Fund assets insufficient to meet liabilities / Decline in funding level / Fluctuations in assets & liabilities	4	3	12	HoP/IM	4	2	8	4	12
2	22	Funding & Investments	Failure to consider the potential impact of climate change on investment portfolio and on funding strategy	4	3	12	HoP/IM	4	2	8	4	N/A
3	29	Funding & Investments	LGPS Central related underperformance of investment returns - failure to meet investment return targets against specified benchmarks	4	3	12	HoP/IM	4	2	8	4	12
4	36	Funding & Investments	Impact of McCloud judgement on funding	3	4	12	HoP	3	3	9	3	12
5	43	Pensions Administration	Impact of McCloud judgement on administration	3	4	12	HoP	2	4	8	4	12
6	1	Governance & Strategy	Failure to implement an effective governance framework	5	2	10	DoF/HoP	5	1	5	5	10
7	2	Governance & Strategy	Failure to recruit and retain suitable Pension Fund staff/Over reliance on key staff	3	3	9	HoP	3	2	6	3	9
8	4	Governance & Strategy	Failure to comply with regulatory requirements	3	3	9	HoP	3	2	6	3	9
9	15	Governance & Strategy	Failure to comply with General Data Protection Regulations (GDPR)	3	3	9	HoP/IM/TL	3	2	6	3	9
10	16	Governance & Strategy	Failure to communicate with stakeholders	3	3	9	HoP/IM/TL	3	2	6	3	9
11	18	Governance & Strategy	Risk of challenge to Exit Credits Policy	3	3	9	HoP	3	2	6	3	9
12	23	Funding & Investments	Covenant of new/existing employers. Risk of unpaid funding deficit	3	3	9	HoP/TL	3	2	6	3	9
13	25	Funding & Investments	Employer contributions not received and accounted for on time	3	3	9	HoP/TL	3	1	3	6	3
14	30	Funding & Investments	The UK's withdrawal from the EU results in high levels of market volatility or regulatory changes	3	3	9	HoP/IM	3	2	6	3	9
15	41	Pensions Administration	Delayed Annual Benefit Statements and/or Pension Savings Statements (also know as Annual Allowance)	3	3	9	HoP/TL	3	1	3	6	6
16	44	Pensions Administration	Conflicting exit payments legislation/Increased exit payments related administration	3	3	9	HoP/TL	3	2	6	3	N/A
17	13	Governance & Strategy	Service failure, loss of sensitive data, financial loss and reputational damage	4	2	8	HoP/IM/TL	4	1	4	4	8
18	17	Governance & Strategy	Failure of internal/external suppliers to provide services to the Pension Fund due to business disruption	4	2	8	HoP/IM	4	2	8	0	8
19	20	Funding & Investments	Inaccurate forecast of liabilities / Inappropriate Strategy	4	2	8	HoP/IM	4	2	8	0	8
20	22	Funding & Investments	The transition of the Fund's assets into LGPS Central's investment vehicles results in a loss of assets/and or excessive transition costs	4	2	8	HoP/IM	4	2	8	0	N/A
21	26	Funding & Investments	The LGPS Central investment offering is insufficient to allow the Fund to implement its agreed investment strategy	4	2	8	HoP/IM	4	1	4	4	8
22	28	Funding & Investments	LGPS Central fails to deliver the planned level of long term cost savings	4	2	8	HoP/IM	4	2	8	0	8
23	39	Pensions Administration	Insufficient cyber-Liability Insurance relating to the pensions administration system	4	2	8	HoP	4	2	8	0	8

Derbyshire Pension Fund Risk Register | **Appendix 2**

Date Last Updated **25-Oct-20**

Risk Number	Description: High Level Risk	Description of risk and potential impact	Current score: Impact	Probability	Current Score	Risk Mitigation Controls & Procedures: Current	Proposed	Risk Owner	Target Score: Impact	Probability	Target Score	Actual Minus Target Score	Previous Score
Governance & Strategy													
1	Failure to implement an effective governance framework	Failure to provide effective leadership, direction, control and oversight of Derbyshire Pension Fund (DPF) leading to the risk of poor decision making/lack of decision making, investment underperformance, deterioration in service delivery and possible fines/sanctions/reputational damage . This risk could be amplified during a period of business disruption.	5	2	**10**	Derbyshire County Council (DCC) is the administering authority for the Pension Fund, responsible for managing and administering the Fund. Responsibility for the functions of the Council as the administering authority of DPF is delegated to the Pensions & Investments Committee (PIC). A Local Pension Board assists the Council with the governance and administration of the Fund (PB). Day to day management of the Fund is delegated to the Director of Finance & ICT (DoF) who is supported by the Head of Pension Fund (HOP) and in house investment and administration teams. The governance arrangements for the Fund are clearly set out in the Fund's Governance Policy and Compliance Statement which is reviewed each year. Both PIC & PB have detailed Terms of Reference. The Commissioning, Communities & Policy Scheme of Delegation sets out authorising levels for officers. A detailed Business Continuity Plan sets out the arrangements for maintaining the critical activities of the Fund during a period of business disruption. Arrangements have been developed to facilitate virtual PIC meetings for occasions when physical meetings are not possible.	Arrangements are being developed to facilitate virtual PB meetings for occasions when physical meetings are not possible and to enable PB members without .gov.uk addresses to fully participate in virtual PIC meetings.	DOF/HoP	5	1	**5**	5	**10**
2	Failure to recruit and retain suitable Pension Fund staff/Over reliance on key staff.	Lack of planning, inadequate benefits package, remote location leads to failure to recruit and retain suitable investment and pension administration staff leading to the risk of inappropriate decision making, investment underperformance, deterioration in service delivery, over reliance on key staff and possible fines/sanctions/reputational damage. The risks related to over-reliance on key staff are amplied during a period of business disruption.	3	3	**9**	Knowledge sharing takes place through Pension Fund governance groups including: Pension Officer Managers (POM); Regulation Update Meeting (RUM); Data Management; and Backlog Management, targeted internal training sessions, team briefings, internal communications and My Plans. The Fund also works with the LGA to support the development of Fund training and utilizes Heywood's TEC online training facilities. A Pension Fund Plan is available to all members of POM and includes a brief summary of the main onoing and forecast activities of the Fund. The investment staffing structure was reviewed post the implemenation of investment pooling. Market supplements for the HOP and the IM were extended from December 2019. A new Assistant Fund Manager joined the Fund at the beginning of May 20. In response to the COVID 19 outbreak, members of the Fund's management team are working in different locations, and managers are in regular contact with their teams. The Pension Fund Plan is being updated on a more regular basis to ensure that all members of POM are up to date with all Pension Fund activities.	The Fund will continue to identify and meet staff training needs and will consider further staff rotation to increase resilience. The Pension Fund staffing structure is currently being reviewed.	HoP	3	2	**6**	**3**	**9**
3	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: Administering Authority Discretions; Admission, Cessation & Bulk Transfer Policy; Communications Policy Statement; Exit Credits Policy; Governance Policy & Compliance Statement, Funding Strategy Statement, Investment Strategy Statement, Pension Administration Strategy. 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.	HoP	4	1	**4**	**0**	**4**
4	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.	HoP	3	2	**6**	**3**	**9**
5	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.		HoP/IM	3	2	**6**	**0**	**6**
6	An effective pensions administration performance management framework is not in place	Poor pensions administration performance / service goes undetected / unresolved.	3	2	**6**	PIC training; Half year pension administration KPI reporting in line with Disclosure Regulations reviewed by PIC and DoF; My Plan Reviews. An Operations Development Project has been started to review workflows, letters and KPIs. The Project will start with Deaths and then move onto Retirements.	Output from the Operations Development Project to be incorporated in processes and target setting.	HoP/TL	3	2	**6**	**0**	**6**
7	An effective PIC performance management framework is not in place	Poor PIC performance goes undetected / unresolved.	3	2	**6**	Defined Terms of Reference; PIC training ;Support from suitably qualified Officers and external advisor; Monitoring of effectiveness of PIC by Pension Board.		HoP/IM	3	2	**6**	**0**	**6**
8	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 incorporated into updated Investments Procedures & Compliance Manual.	Pension Fund Conflicts of Interest Policy presented to Nov PIC, includes procedures to cover members of the Pension Board.	HoP	3	1	**3**	**0**	**3**
9	Failure to identify and manage risk	Failure to prepare and maintain an appropriate risk register results in poor planning, financial loss and reputational damage.	3	2	**6**	Risk Register maintained, reviewed on a regular basis, discussed at formal and informal POMs and reported to PIC and PB quarterly..		HoP/IM	3	2	**6**	**0**	**6**
10	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; monthly key control account reconciliations; on-going training & CIPFA updates.	Development of Fund-wide Procedures Manual.	HoP	3	1	**3**	**3**	**6**

Risk Number	Description: High Level Risk	Description of risk and potential impact	Current score: Impact	Probability	Current Score	Risk Mitigation Controls & Procedures: Current	Proposed	Risk Owner	Target Score: Impact	Probability	Target Score	Actual Minus Target Score	Previous Score
11	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
12	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.	HoP	3	1	3	0	6
13	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.	Review of Cyber Security Arrangements/Policies.	HoP/IM/TL	4	1	4	4	8
14	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.	HoP	3	1	3	3	6
15	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.	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/IM/TL	3	2	6	3	9
16	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 pension administration system 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/IM/TL	3	2	6	3	9
17	Failure of internal/external suppliers to provide services to the Pension Fund due to business disruption.	The Pension Fund is reliant on other DCC Sections for: the provision and support of core IT; treasury management of Fund cash; CHAPs & VIM & Standard SAP BACs payments; pensioner payroll; and legal advice and administration support to PIC & PB. The Fund is reliant on external providers for: the pension administration system; provision of custodial services; hedging services; performance measurement and actuarial services. External fund managers are responsible for management of a large proportion of the Fund's assets on both a passive and an active basis. Business continuity failures experienced by any of these providers could have a material impact on the Fund.	4	2	8	The business continuity arrangements of all of these providers have been sought and received by the Pension Fund. During the COVID 19 outbreak to date (16.04.20), continuity arrangements have worked well.	The Fund will keep up to date with the continuity arrangments of these providers and will continue to assess the risk of exposure to particular organisations/providers.	HoP/IM	4	2	8	0	8
18	Risk of challenge to Exit Credits Policy.	Exit credit payments were introduced into the LGPS in April 2018. Amending legislation came into force on 20 March 2020 allowing administering authorities to exercise their discretion in determining the amount of any exit credit due having regard to certain listed factors plus 'any other relevant factors'. This discretion is open to wide interpretation and potential challenge from employers.	3	3	9	Legal and actuarial advice was sought in the forumulation of the Fund's Exit Credit Policy.	The Fund will keep up to date with developments with respect to exit credits. Further legal and actuarial advice will be sought where necessary.	HoP	3	2	6	3	9

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Funding & Investments

Risk Number	Description: High Level Risk	Description of risk and potential impact	Current score: Impact	Probability	Current Score	Risk Mitigation Controls & Procedures: Current	Proposed	Risk Owner	Target Score: Impact	Probability	Target Score	Actual Minus Target Score	Previous Score
19	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 funding assessment; Setting of contribution rates; Asset allocation reviews; ISS; Monitoring of investment managers' performance; Maintenance of key Policies on ill health retirements; early retirements etc.	Implementation of the Fund's Strategic Asset Allocation Benchmark which aims to reduce investment risk following the improvement in the Fund's funding level.	HoP/IM	4	2	8	4	12
20	Mismatch between liability profile and asset allocation policy	Inaccurate forecast of liabilities / Inappropriate Strategy.	4	2	8	Actuarial reviews; Funding Strategy Statements; Annual funding assessment; Review by PIC; ISS ; Asset allocation reviews; Cash flow forecasting.	The Fund's actuary is due to undertake a cashflow foreasting exercise for the Fund.	HoP/IM	4	2	8	0	8
21	An inappropriate investment strategy is adopted / Investment strategy not consistent with Funding Strategy Statement /Failure to implement adopted strategy and PIC recommendations	Failure to set appropriate strategy / monitor application of strategy.	4	2	8	Strategy takes into account Fund's liabilities; ISS set in line with LGPS Regulations; ISS sets out the Fund's approach to Environmental, Social & Governance matter; ISS reviewed and agreed by PIC; Quarterly review of asset allocation strategy by PIC; & PIC receives advice from Fund Officers and external advisor.	Responsible Investment Framework approved for consultation by PIC in Sept 20 and will be presented to PIC again in Nov 20.	HoP/IM	4	2	8	0	8
22	Failure to consider the potential impact of climate change on investment portfolio and on funding strategy.	Failure to consider financially material climate change risks when setting the investment and the funding strategy.	4	3	12	Climate Risk Report procured from LGPS Central Ltd - received in February 2020. Discussed with Fund officers. Taskforce on Climate-related Financial Disclosures (TCFD) report developed to set out the Fund's approach to managing climate related risks and opportunities, structured round: governance; strategy; risk management; and metrics and targets. Climate Risk Report and TCFD report presented to PIC in March 2020. Climate change risk discussed with the Fund's actuary as part of the 2019 triennial valuation process.	Climate Strategy approved by PIC for consultation in Sept 20 and will be presented to PIC again in Nov 20.	HoP/IM	4	2	8	4	N/A

Risk Number	Description		Current score			Risk Mitigation Controls & Procedures			Target Score				
	High Level Risk	Description of risk and potential impact	Impact	Probability	Current Score	Current	Proposed	Risk Owner	Impact	Probability	Target Score	Actual Minus Target Score	Previous Score
23	Covenant of new/existing employers. Risk of unpaid funding deficit.	Failure to agree, review and renew employer guarantees and bonds/ risk of wind-up or cessation of scheme employer with an unpaid funding deficit which would then fall on other employers in the Fund. This risk could be amplified during a period of widespread business disruption/extreme market volatility.	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 has been 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 continue to be sought from relevant employers. Employers who are close to cessation will be monitored and discussions with the Fund's Actuary will take place to determine if any further risk mitigation measures are necessary with respect to the relevant employers.	HoP/TL	3	2	**6**	**3**	**9**
24	Unaffordable rise in employers' contributions	Employer contribution rates unacceptable.	3	2	**6**	Consideration of employer covenant strength / scope for flexibility in actuarial proposals.		HoP/TL	3	2	**6**	**0**	**6**
25	Employer contributions not received and accounted for on time	Late information and/or contributions from employers could lead to issues with completing the year end accounts, satistying audit requirements, breaches of regulations, and, in extreme cases, could affect the Fund's cashflow. This risk could be amplified during a period of widespread business disruption.	3	3	**9**	The Fund ensures that employers are clearly and promptly informed about their contribution rates. Monitoring of the provision of employer information and the payment of contributions takes place within Pensions Section and performance is disclosed in quarterly pensions administration performance report to PIC & PB. The Fund has developed a late payment charging policy. In response to the COVID 19 outbreak, the Fund has reminded employers of their responsibility to provide information and pay contributions by relevant deadlines.	Late payment charges applied to underperforming employers will be disclosed via PIC Reports and Employer Newsletters. In response to the COVID 19 outbreak, the Fund will continue to keep in close contact with employers and will deal with any employer requests on a case by case basis.	HoP/TL	3	1	**3**	**6**	**3**
26	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.	HoP/IM	4	1	**4**	**4**	**8**
27	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**
28	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.	HoP/IM	4	2	**8**	**0**	**8**
29	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 built 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.	HoP/IM	4	2	**8**	**4**	**12**
30	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.	HoP/IM	3	2	**6**	**3**	**9**
31	Failure to maintain liquidity in order to meet projected cash flows	Failure to maintain sufficient liquidity to meet projected cashflows which could lead to financial loss from the inappropriate sale of assets to generate cash flow. The risk is amplified during periods of market volatility/dislocation.	3	2	**6**	The Fund carries out internal cash flow forecasting.	The Fund's actuary is due to undertake a cashflow foreasting exercise for the Fund.	HoP/IM	3	2	**6**	**0**	**6**
32	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**
33	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**

Risk Number	Description: High Level Risk	Description of risk and potential impact	Current score: Impact	Probability	Current Score	Risk Mitigation Controls & Procedures: Current	Proposed	Risk Owner	Target Score: Impact	Probability	Target Score	Actual Minus Target Score	Previous Score
34	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
35	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
36	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). Following the publication of the proposed McCloud remedy for consultation, SAB is considering its options regarding the pause of its cost cap process. It is proposed that the McCloud remedy in the LGPS will be backdated to the commencement of transitional protections (April 2014). 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 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. MHLCLG published a consultation on its proposed McCloud remedy in July 2020. The proposed remedy involves the extension of the current underpin protection given to certain older members of the Scheme when the LGPS benefit structure was reformed in 2014. It removes the condition that requires a member to have been within ten years of their 2008 Scheme normal pension age on 1 Apr 2012 to be eligible for underpin protection. It is also proposed that underpin protection will apply where a members leaves with either a deferred or an immediate entitlement to a pension (previously it was just immediate). The underpin will give the member the better of the 2014 Scheme CARE or 2008 final salary benefits for the eligble period of service. All leavers since 2014 will need to be checked against the new underpin. The remedy is not expected 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.	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 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	3	3	9	3	12

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37	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.	Consider legal support options e.g. legislation databases, continued DCC provision vs 3rd party provider etc.	HoP	3	1	3	3	6
38	Failure of pensions administration systems to meet service requirements / Information not provided to stakeholders as required	Replacement pensions administration system leads to implementation related work backlogs, diminished performance and complaints.	3	2	6	The Altair system has achieved 'Business as Usual' status. SLAs are in place with the provider as well an established fault reporting system, regular client manager meetings and a thriving User Group. The provider has a robust business continuity plan.	Ensure Business Continuity Plan is subject to regular review.	HoP/TL	3	1	3	3	9
39	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	4	2	8	0	8
40	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, and Terms of Reference agreed, with responsibility for the ongoing consideration and implementation of the Data Improvement Plan.	Continue to cleanse data; implement longer term measures in the Data Improvement Plan. Maintain regular meetings of the Data Management Group.	TL	3	2	6	0	6
41	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.	HoP/TL	3	1	3	6	6
42	Insufficient technical knowledge	Failure to develop, train suitably knowledgeable staff.E97	3	2	6	Updates from LGE/CLG Pensions Office meetings Quarterly EMPOG meetings/On-site training events. The Fund has procured an additional service from the provider of the new pension administration system which provides flexible learning on demand.	Skills gap audit / formal training programme / Staff Development group/My Plan reviews.	HoP	3	2	6	0	6
43	Impact of McCloud judgement on administration	The LGPS SAB recognises the enormous challenge that could be faced by administering authorities and employers in potentially backdating scheme changes over a significant period. A full history of part time hour changes and service break information from 1st Apr 14 will be needed in order to recreate final salary service.	3	4	12	Keeping up to date with news from the Scheme Advisory Board, the LGA, the Government Actuary's Department and the Fund's Actuary. Liasing with the provider of the Fund's pension administration system as they develop their bulk processes for implementing the McCloud remedy. Although the Fund 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. A McCloud Project Team has been set up with initial workstreams of: governance; case identification; staffing/resources; & communications. The Fund has identified the likely members in scope of the proposed remedy. A response to the MHCLG consultation on Amendements to the Statutory Underpin was submitted by the Fund.	Forumulate a detailed plan of how to deal with the scheme changes as soon as they are confirmed and it is clear what bulk processes the provider of the pension administration system will be putting in place.	HoP	2	4	8	4	12

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44	Conflicting exit payments legislation/Increased exit payments related administration	The Restriction of Public Sector Exit Payments Regulations 2020 (Exit Payment Regulations) were approved by Parliament and will come into force on 4 November 2020. The cap of £95,000 will apply to the aggregate sum of payments made in consequence of termination of employment. On 7 September 2020, MHCLG published a consultation on restricting exit payments (including both redundancy compensation pay and early access to pensions) in local government in England and Wales. The additional further exit payment reforms proposed by MHCLG, which include the accommodation of the Exit Payment Regulations, are currently subject to consultation and are not expected to come into force before the end of this year. This means that there will be a period of legal uncertainty when scheme employers are under an obligation under the Exit Payment Regulations to potentially limit strain cost payments and administering authorities are required under existing LGPS regulations to pay unreduced pensions to qualifying scheme members. The further exit payment reforms proposed by MHCLG involve options being offered to members which will increase the administrative work associated with redundancy/business efficiency retirements and the level of communication required between employers and the Fund.	3	3	9	The Fund has temporarily paused the provision of benefit estimates linked to retirements on the basis of redundancy or business efficiency until there is further clarity. Before the finalisation of any such retirements that are currently in process, confirmation will be sought from the relevant employer that payments are consistent with the Exit Payments Regulations. Keeping up to date with news from MHCLG & LGPS SAB and meeting regularly with officers from DCC's HR & Legal departments to understand the implications of the legislation. Also cooperating regularly with officers from other LGPS funds on this matter.	Take into consideration the statement expected from MHCLG with respect to the difficulty this causes for local government employers and LGPS administering authoritie. The LGPS Scheme Advisory Board is also obtaining legal advice on the risk of challenge to LGPS authorities during this period.	Hop/TLs	3	2	6	3	N/A
45	Lack of two factor authentication for Member Self Service	The Fund is implementing a member self-service solution (MSS) to improve the quality and efficiency of the service it provides to its members. MSS will allow members to view certain parts of their pension information (including Annual Benefit Statements), to undertake a restricted number of data amendments and to carry out benefit projections on-line. The member self-service solution provided by Aquila Heywood does not currently utilise a two-factor authentication method.	3	2	6	Robust registration and log-on procedures have been developed which have been approved by the Council's Information Governance Group.	The Fund will continue to encourage Aquila Heywood to introduced two factor authentication for MSS (it has been introduced for the core Altair product).	HOP/TLs	3	2	6	0	N/A
46	Implications of Goodwin ruling.	Following the Walker v Innospec Supreme Court ruling, the government decided that in public service schemes, surviving male same-sex and female same-sex spouses and civil partners of public service pension scheme members will, in certain cases, receive benefits equivalent to those received by widows of opposite sex marriages. A recent case brought in the Employment Tribunal (Goodwin) against the Secretary of State for Education highlighted that these changes may lead to direct sexual orientation discrimination within the Teachers' Pension Scheme, where male survivors of female scheme members remain entitled to a lower survivor benefit that a comparable same-sex survivor. The government concluded that changes are required to the TPS to address the discrimination and believes that this difference in treatment will also need to be remedied in those other public service pension schemes, where the husband or male civil partner or a female scheme member is in similar circumstances. A consultation will take place on the required regulatory changes for the LGPS. It is expected that the fund will need to investigate the cases of affected members, going back as far as 5 December 2005 when civil partnerships were introduced which will provide administration challenges.	2	3	6	The Fund is keeping up to date with developments on the implications of this ruling for the LGPS.	Further mitigating controls/procedures will be developed when more is known about this recently emerged risk.	HOP/TLs	2	3	6	0	N/A

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

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