

Public Document Pack



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PUBLIC

To: Members of Pensions and Investments Committee

Tuesday, 20 April 2021

Dear Councillor,

Please attend a meeting of the **Pensions and Investments Committee** to be held at **10.45 am** on **Wednesday, 28 April 2021**. 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,

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

Helen Barrington
Director of Legal and Democratic Services

A G E N D A

PART I - NON-EXEMPT ITEMS

1. To receive apologies for absence
2. To receive declarations of interest (if any)
3. To confirm the minutes of the meeting held on 3 March 2021 (Pages 1 - 6)

To consider the reports of the Director of Finance and ICT as follows:

- 4 (a) Communications Policy (Pages 7 - 24)
- 4 (b) Risk Register (Pages 25 - 38)
- 4 (c) Half-Year Pension Administration Performance Report (Pages 39 - 54)
- 5. Exclusion of the Public

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

PART II - EXEMPT ITEMS

- 6. To receive declarations of interest (if any)
- 7. To confirm the exempt minutes of the meeting held on 3 March 2021

To consider the exempt report of the Director of Finance and ICT on:

- 8. Summary of Appeals & Ombudsman Escalations during 2020-21 (Pages 55 - 72)

PUBLIC

MINUTES of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE**
held on 3 March 2021

PRESENT

Councillor J Perkins (in the Chair)

Derbyshire County Council

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

Derby City Council

Councillors L Care and M Carr

Derbyshire County Unison

Mr M Wilson

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

7/21 **MINUTES RESOLVED** that the minutes of the meeting held on 20
January 2021 be confirmed as a correct record.

8/21 **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 an update 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 January 2021 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 £330m.

The Fund's Investment Strategy Statement which had been approved by Committee in November 2020, noted that the Fund's currency exposure in respect of Income Assets and Protection Assets should be hedged back to sterling. Previously the currency hedge related solely to the Fund's Protection Assets.

The current quarterly operational transaction limit for currency hedging purposes was £100m. For transactions above that level, approval would be sought from the Director of Finance & ICT. The limit was set several years ago, when the Fund's investments assets were significantly lower, and the currency hedge only covered Protection Assets. As the currency hedge now covered both Income Assets and Protection Assets, the IIMT estimated that the transaction value of the Fund's quarterly currency hedge was likely to be in the region of £350m. The IIMT recommend that the quarterly operational transaction limit for currency hedging was increased from £100m to £350m.

Mr Fletcher referred to the current economic and markets outlook position with particular reference to the roll-out of the Covid-19 vaccine and the new Biden administration in the US and in particular, the President's willingness to re-join the Paris Accord.

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;

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

(4) the quarterly operational transaction limit for currency hedging is increased from £100m to £350m.

9/21 **STEWARDSHIP REPORT** Members were provided with an overview of the stewardship activity carried out by Legal & General Investment Management (LGIM), in the quarter ended 31 December 2020.

The Q4 2020 LGIM ESG Impact Report was presented to ensure that the Pensions & Investments Committee was aware of the engagement activity

being carried out by LGIM. LGIM managed around £1.4bn of assets on behalf of the Fund through passive products covering: Low Carbon Global Sustainable Equities; UK Equities; Japanese Equities; and Emerging Market Equities. The report provided an overview of LGIM's current key stewardship themes and voting and engagement activity over the last quarter. Consideration would be given to how the Fund could raise awareness of its investment activity to a wider audience.

The quarterly Stewardship Report to the Pensions & Investments Committee generally also included a quarterly stewardship report from LGPS Central Limited (LGPSC), the Fund's pooling company. However, following a change to the LGPSC stewardship reporting cycle, this had not been possible for the last quarter. LGPSC planned to issue an annual stewardship report for the year to 31 March 2021 in April 2021, which will be reported to Committee in due course. This will be supported by higher level quarterly updates thereafter.

RESOLVED that Committee notes the stewardship activity of LGIM.

10/21 **DERBYSHIRE PENSION FUND PENSION ADMINISTRATION STRATEGY** The Committee's approval was sought for the draft Derbyshire Pension Fund Pension Administration Strategy which was attached as Appendix 1 to the report.

All employers participating in the Fund would be signposted to the revised version of the PAS which will be published on the Fund's website. The PAS sets out the roles, responsibilities and service standards which the Fund and participating employers will be expected to deliver in order to enable the efficient administration of Fund members' records. It also included details of how employers will be monitored, supported and managed should they fail to meet their required standards of performance in submitting accurate and timely data and payments to the Fund.

The last review of the PAS was undertaken and approved by the Committee in January 2020. The revisions made at that time were mainly concerned with a revision to the method of charging employers where performance standards were not being met. This draft revised version of the PAS included changes to recognise the Fund's implementation of the i-Connect secure data transmission service hosted by Aquila Heywood, the supplier of the Fund's pensions administration system. The methods of submitting data to the Fund as an employer using the i-Connect service, and as an employer yet to implement i-Connect, were both summarised in the revised PAS.

Additionally, the revised version recognised the Fund's development of a member self-service portal, which was to be introduced in 2021, and included a new section on data protection responsibilities. It was intended to consult with the Fund's participating employers and the local pension board on the revised

Pension Administration Strategy. The results of the consultation will be reported to the Committee in April 2021.

Approval was sought for the Director of Finance & ICT, in conjunction with the Chairman of the Committee, to consider the results of the consultation in the meantime, and for the Director of Finance & ICT and the Chairman to determine if any revisions to the proposed Pension Administration Strategy were necessary following the consultation, to enable the strategy to be implemented from 1 April 2021.

RESOLVED that the Committee (1) approves the draft Derbyshire Pension Fund Pension Administration Strategy attached as Appendix 1 to the report, subject to the outcome of the consultation with the Fund's participating employers and the local pension board; and

(2) delegates the consideration of the results of the consultation, and the determination of whether any revisions to the proposed Pension Administration Strategy are necessary following the consultation, to the Director of Finance & ICT in conjunction with the Chairman.

11/21 **DERBYSHIRE PENSION FUND SERVICE PLAN** Approval was sought for the Derbyshire Pension Fund's Service Plan for 2021-22, including the annual budget for the year. The Head of Pension Fund highlighted the key achievements for 2020-21.

The forecast budget requirement for 2020-21 was £32.918m, made up of operational costs of £5.269m and investment management expenses (IMEs) of £27.649m. The current expected outturn for 2020-21 was £33.523m, made up of operational costs of £5.126m and IMEs of £28.398m. The forecast overspend reflected a £1.497m increase in IME costs, largely driven by a higher level of assets under management (assets under management were, on average, approximately £270m higher than forecast during the year), partially offset by the expectation that property expenses will be £0.748m lower than forecast and that operational costs will be £0.143m lower than forecast.

Adjusting the 2020-21 budget forecast to take into account the additional costs related to the increase in assets under management, gives a restated 2020-21 forecast of £34.319m. The forecast outturn for 2020-21 of £33.523m was 1.8% above the unadjusted budget forecast, and 2.3% below the adjusted budget forecast.

For 2021-22, a budget of £33.796m was sought to deliver the services of the Pension Fund, made up of operational costs of £5.425m and IME costs of £28.371m; this represented an increase of 0.8% on the forecast outturn for 2020-21. It was noted that the forecast budget for 2021-22 would be adjusted to take into account the actual level of assets under management and the actual asset mix when the expected budget outturn is reviewed next year.

Councillor Marshall-Clarke wished to thank the Head of Pension Fund and her team for what they had achieved during a particularly difficult year. Members of the Committee agreed that this was a very positive report despite all the challenges.

RESOLVED that the Committee approves the 2021-22 Service Plan, including the annual budget of £33.796m.

12/21 **TREASURY MANAGEMENT STRATEGY** Approval was sought for Derbyshire Pension Fund's proposed Treasury Management Strategy for 2021-22, attached as Appendix 1 to the report.

Derbyshire Pension Fund's (the Fund) Treasury Management Strategy had historically formed part of the County Council's Treasury Management Strategy. However, for 2021-22, the Fund had prepared a standalone Treasury Management Strategy to better reflect the characteristics and requirements of the Fund. In line with the County Council's Treasury Management Strategy, the Fund places security of capital and liquidity ahead of investment return.

The Fund's current benchmark allocation to cash was 2% (about £120m at current asset values). The Fund generally needed to retain a higher level of instant access funds than the County Council. A major buying opportunity in the market could require immediate access to significant sums of cash for investment. The Fund's actual cash allocation at 31 January 2021 was 6.4%, equating to £359m. Future commitments at 31 January 2021 totalled around £330m. The proposed Treasury Management Strategy for 2021-22 included the following requirements and comments:

- The Fund's objective when investing money is to strike a balance between risk and return, minimizing the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income
- The Fund prioritises liquidity for cash investments over investment return
- The maximum amount and duration of cash investments by counterparty should be according to the limits set out in Table 1 on page 4 of the Treasury Management Strategy.
- Investments should be limited by type in accordance with Table 2 on page 6 of the Treasury Management Strategy.

RESOLVED to approve the Treasury Management Strategy for 2021-22 attached as Appendix 1 to the report.

13/21 **EXCLUSION OF THE PUBLIC** **RESOLVED** to move that under Section 100(a)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following item of business on the grounds that in view of the nature of the business, that if members of the public were present exempt

information as defined in Paragraphs 1 & 3 of Part 1 of Schedule 12A of the Local Government Act 1972 would be disclosed to them and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

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 20 January 2021 (contains exempt information)
3. To consider the exempt reports of the Director of Finance & ICT on:
 - a) LGPS Investment Pooling (contains information relating to the financial or business affairs of any particular person (including the Authority holding that information))
 - b) Investment in Infrastructure (contains information relating to the financial or business affairs of any particular person (including the Authority holding that information))
 - c) Stage 2 Appeal under the LGPS Application for Adjudication of Disagreement Procedure - GT (contains information relating to any individual)
 - d) Stage 2 Appeal under the LGPS Application for Adjudication of Disagreement Procedure - CC (contains information relating to any individual)

Agenda Item No. 4 (a)

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

28 April 2021

Report of the Director of Finance and ICT

DERBYSHIRE PENSION FUND COMMUNICATIONS POLICY

1 Purpose of the Report

To seek approval for the draft Communications Policy (the Policy) attached as Appendix 1.

2 Background

Regulation 61 of the Local Government Pension Scheme Regulations 2013 requires each Local Government Pension Scheme (LGPS) administering authority to produce and publish a policy statement describing how it communicates with its stakeholders.

Derbyshire Pension Fund's (the Fund/Pension Fund) previous policy statement was published in 2019 and has been reviewed to reflect the developments since then in the Fund's approach to communicating with its stakeholders.

A separate document, the Fund's Communications Strategy (the Strategy), which was last prepared in 2018, set out plans for developing the Pension Fund's communications. The Strategy set out the objectives of developing: a member self-service portal; a distinct branding and livery for the Fund; and a bespoke Pension Fund website.

The development of the member self-service portal started following the transfer to a new pensions administration system in 2019; a phased roll out of 'My Pension Online' will begin in May 2021.

The Fund's own branding, logo and website have now become firmly established, providing a distinct identity for the Pension Fund.

The Fund's plans for the further improvement and development of communications over the period 2021 to 2024 have been incorporated in the draft Communications Policy.

It is intended that the Policy will be reviewed annually and revised if communications arrangements merit reconsideration, including if there are any changes to the LGPS or other relevant regulations or guidance which need to be taken into account. Progress against the communications-related objectives will be reported to Committee.

3 Financial Considerations

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

4 Other Considerations

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

5 Background Papers

Background papers are held by the Head of Pension Fund.

6 Officer's Recommendation

That the Committee approves the attached draft Communications Policy attached as Appendix 1.

Peter Handford

Director of Finance and ICT



Communications Policy

April 2021

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Background

Local Government Pension Scheme (LGPS) administering authorities are required to prepare, maintain and publish a statement of policy concerning communications with members, and scheme employers, under Regulation 61 of the LGPS Regulations 2013.

Derbyshire County Council (the Council) is the LGPS administering authority for Derbyshire Pension Fund (the Fund).

A communications policy is a written statement setting out how the Fund delivers the LGPS in relation to its communications with scheme members (and their representatives), prospective scheme members and scheme employers.

Regulation 61 requires that the policy covers:

- the provision of information and publicity about the LGPS to scheme members, representatives of scheme members and scheme employers
- the format, frequency and method of distributing such information or publicity
- the promotion of the LGPS to prospective scheme members and scheme employers.

Previously the Fund prepared a Communications Strategy as a separate document, which set out its aims to develop and improve its methods of communications with a view to encourage target audiences to engage with and understand their membership of (scheme members) or responsibilities in respect of (employers) the LGPS.

Rather than a separate document, this revised version of the Communications Policy incorporates the Fund's latest plans for developing its communications over the 3-year period 2021 to 2024.

This Communications Policy will be reviewed annually and revised when there is a material change to the Fund's methods of communication or engagement with its stakeholders.

The Pensions Regulator oversees pension schemes and provides guidance on how they should best be governed and administered. This includes guidance on communicating with scheme members in a way that, as well as being accurate, is clear and simple to understand and avoids jargon. Much of what the Fund is required to communicate to scheme members, and time limits on these communications are set out in regulation. To ensure compliance with these regulations, the Fund has internal controls in place. Failure to comply with the regulations could result in the need for the Fund to report a statutory breach to The Pensions Regulator.

1. The Fund's stakeholders and audience

Derbyshire Pension Fund currently has over 89,000 individual scheme members with approximately 106,000 separate pension records which are split by active and deferred membership, and pensioner membership where benefits are being paid.

The active membership (currently approximately 38,000) incorporates employees from over 330 participating employers. These employers range from Councils, Academies and Colleges to private companies who have been contracted to deliver public services.

The Fund's stakeholders and other organisations with which it regularly communicates include:

- Active members - who are paying into the LGPS
- Deferred members - whose LGPS benefits are 'on hold'
- Pensioner members - whose LGPS benefits are being paid
- Representatives of scheme members
- Prospective scheme members - employees who can join the LGPS, but who are not currently paying in
- Scheme employers
- Pension Fund team
- Elected Councillors on the administering authority's Pensions and Investments Committee
- Representatives on the Local Pension Board
- Other external bodies, including;
 - Ministry of Housing, Communities and Local Government (MHCLG)
 - Her Majesty's Revenue & Customs (HMRC)
 - Department of Work and Pensions (DWP)
 - Pension Fund's Actuary, Hymans Robertson LLP
 - Other LGPS Funds
 - Public service pension schemes (for example the Teachers' Pension Scheme and NHS Pension Scheme)
 - Other pension schemes
 - Trades Unions
 - Pension Fund Investment Managers, Advisers and Actuaries
 - The Pensions Regulator (tPR)
 - The Pensions Ombudsman
 - The Scheme Advisory Board (SAB)
 - The Local Government Association (LGA)
 - Pension Officers Groups
 - AVC providers

Each of these stakeholder groups requires the Fund to recognise their communications demands to encourage engagement and interaction. The Fund's overriding objective is to ensure that it delivers clear, timely and accessible communications to its stakeholders.

The Fund's policy aims to ensure that it delivers communications to its stakeholders which are:

- **Targeted** for the aim of delivering clear, accurate and effective communications to each different audience group in terms of the style of content and the method of delivery

- **Easy to understand** content where a technical explanation or summary of pension related issues is required, to promote understanding of, and engagement with, the subject in hand, particularly where pension related decisions are being made.
- **Accessible** to ensure that scheme members and other stakeholders with wide ranging disabilities (including visual, auditory, physical, speech, cognitive, language, learning, and neurological), will be able to access online content and communications, and enable devices such as screen readers to work for electronic communications.

Some examples of the Fund's communication-based objectives are to achieve the following:

- Communicate information about the Scheme's rules and regulations in an effective, jargon-free and timely manner to the different groups of customers and stakeholders to enable them to make fully informed pensions decisions
- Keep customers and stakeholders informed about the management and administration of the Fund
- Consult with key stakeholders on changes to policies and procedures that affect the Fund and its stakeholders
- Seek to continually improve the Fund's communication methods by requesting and analysing feedback
- Promote the LGPS as an attractive benefit to Scheme members and an important tool in recruitment to employers
- Work with employers to enable them to fulfil their responsibility to communicate and share information with members in relation to the Scheme
- Communicate with stakeholders in a cost effective manner, utilising technology to its fullest potential
- Maintain the Fund's commitment to regional and national initiatives, taking advantage of partnership working and innovative communication methods developed and tested elsewhere, and sharing the Fund's own experience in return
- Enable equality of access to Pension Fund communications
- Manage information securely to the standards required by the Data Protection Act 2018

2. Accessibility

The Fund aims to ensure that all members can access its services, whatever their needs, and is committed to increasing digital access and delivery of services; making the best use of technology.

The Fund's website is designed to ensure that new content meets the World Wide Web Consortium Accessibility Guidelines (version 2.1 AA standard), which is currently the recommended minimum standard for all council hosted websites. Alternative methods of communications will continue to be offered as required.

All print and electronic communications are designed with consideration for those with additional needs. The Fund offers a Pensions Helpline (phone contact number 01629 538704), which is available for anyone having trouble understanding any of the Fund's documents.

A distinct identity has been developed for Derbyshire Pension Fund to provide Fund members and other stakeholders with additional clarity on the role of the County Council as the administering authority.

3. Communication methods

The Fund has developed a variety of communication methods to ensure that all stakeholders are informed and up to date. A number of these communication methods are targeted at specific stakeholder groups and are set out later in this policy. The following methods are used to communicate with stakeholders:

Derbyshire Pension Fund website

The Fund's website derbyshirepensionfund.org.uk is its primary source of generic LGPS material with sections providing an extensive information resource for all existing and prospective members and Fund employers. Resources include:

- easy to understand content
- videos on specific LGPS matters
- forms and guides
- links to other official websites
- an online pension calculator

The website also has sections dedicated to the Fund's governance arrangements including its policies, strategies and other statements.

The website has been designed to be easily browsed, accessible and user friendly from desktop, laptop, tablet and smartphone devices.

As well as an information resource on the LGPS, the website contains downloadable forms and factsheets for members on a range of topics, including the Scheme guide, Additional Voluntary Contributions (AVCs), transfers etc.

It also includes several online forms available at derbyshirepensionfund.org.uk/contact-us which enable members to engage quickly and easily with the Fund.

These include forms for:

- member enquiries
- member feedback in respect of their experience in engaging with the Fund
- complaints from members in respect of their LGPS membership and / or the Fund's service delivery
- representatives of recently deceased members to notify the Fund of the member's death

Online forms have also been developed to enable employers to:

- inform the Fund of outsourcing arrangements which impact on individual's LGPS eligibility and membership (derbyshirepensionfund.org.uk/admissionbodies)
- Microsoft Office 365 forms to respond to consultations
- Microsoft Office 365 forms to provide feedback on training delivered by the Fund

All forms embedded on the website are securely transferred to the appropriate Fund email inbox.

The website will also allow members to easily access the Fund's online member self-service portal "My Pension Online", which is planned to go live from May 2021.

The Fund will continue to maintain and develop its website and ensure it remains its primary source of Fund and LGPS information for members and employers.

Google Analytics is used to collect information about how visitors use the Fund's website. This information is not used to identify visitors to the website but is used to analyse traffic and engagement with a view to improving the user experience.

My Pension Online

When the Fund's member self-service portal is live, scheme members will be able to access their pension account by registering for "My Pension Online":

derbyshirepensionfund.org.uk/mypensiononline

The online portal will be a secure area, allowing members to view and update some of their personal details held by the Fund. Active and deferred members will also be able to view their latest, and previous, Annual Benefit Statements.

As part of the initial registration process, members will be required to provide their personal email address to the Fund by completing a secure online form on the Fund's website.

The portal will continue to be developed after its opening to members. It is expected that member uptake will take time to build, however, the Fund will be working extensively with employers towards encouraging active members to register.

The Fund's "My Pension Online" platform will be hosted by Aquila Heywood, who provide the Fund's pension administration system.

Email communications

The Fund maintains several secure email inboxes used by members and employers for the submission of general and individual enquiries, the provision of information and other directed information. The details of each inbox and their purpose is explained in the following table:

Email inbox address	Purpose
pensions@derbyshire.gov.uk	A general inbox for enquiries from members, including those submitted online via the Fund's website on the enquiry form and death notification form.
dpfemployers@derbyshire.gov.uk	For employers to submit notification forms and other information relating to individual members.
pensions.tech@derbyshire.gov.uk	For employers to submit multi-member data returns, contribution payment reports and other payment and data based enquiries
pensions.regs@derbyshire.gov.uk	For queries relating to LGPS regulations, communications, employer training, all Fund events, appeals, and enquiries submitted online via the Fund's website on the feedback form and the complaints form
pensions.iconnect@derbyshire.gov.uk	For employer queries about the Fund's secure data transmission service, i-Connect
pensions.mss@derbyshire.gov.uk	For enquiries about the "My Pension Online" service

Telephone enquiries

The fund has a dedicated Pensions Helpline number (01629 538900) for members to contact the Fund.

The Helpline is currently available Monday to Friday 10.00am to 3.00pm.

Annual report

Administering authorities must prepare and publish an annual report each year.

The report sets out the governance, operational, financial and investment management arrangements of the Fund during the financial year. It also includes a copy of the most up to date actuarial valuation of the Fund, together with the Fund's main policy statements and the Fund's Statement of Accounts for the financial year.

The annual report can be accessed on the Fund's website. A printed copy is available upon request. All participating employers are notified when the annual report has been published.

Funding and Investment Strategy Statements

The Funding Strategy Statement focuses on how employer liabilities are measured, the pace at which the liabilities are funded and how employers, or pools of employers, pay for their own liabilities. It is prepared by the County Council as the administering authority of the Pension Fund in collaboration with the Fund's actuary and following consultation with the Fund's employers and other stakeholders.

The Investment Strategy Statement sets out long term investment strategy of the Pension Fund. It is prepared by the County Council, as the administering authority of the Pension Fund in collaboration with the Fund's independent investment adviser and following consultation with the Fund's stakeholders.

A core objective of the Fund is to ensure enough assets are available to meet members' benefit payments. These payments are guaranteed by regulations and will be met by contributions resulting from the funding strategy or asset returns and income resulting from the investment strategy. As important strategic documents both are made available to all stakeholders via the Fund's website and are reviewed regularly.

Interest from members, employers and the general Derbyshire public in the Fund's responsible investment strategy and its approach to Environmental, Social and Governance (ESG) issues has increased substantially, therefore, the public availability of documents such as the Investment Strategy Statement is vital.

Communications to members

There are 3 categories of Scheme member:

- **Active members** who are contributing to the Scheme
- **Deferred members** who have left the Scheme, but have not yet accessed their pension benefits
- **Pensioner members** who are in receipt of their pension.

It is recognised that communication with each category requires a different, specific approach.

Communication with active members

On joining the scheme, new active members are provided with:

- confirmation of their LGPS membership
- a link to the Scheme information on the website
- forms and information to enable them to request a transfer-in of any previous pensionable service

Each year the Fund provides annual benefit statements to active members. These statements summarise a member's pension account balance to the previous 31 March. These statements are currently posted to members' home addresses. The provision of these statements is subject to scheme employers providing timely year end information to the Fund.

Following the implementation of the "My Pension Online" portal, annual benefit statements will be available to view on individual member accounts as standard practice. The exception to this will be if a member has notified the Fund that they wish to continue to receive paper copies.

The Fund also produces an active member newsletter each year in collaboration with a regional Joint Communications Group, which is published on the Fund website. Active members are directed to the newsletter by a link provided in their annual benefit statement. The content comprises current pension topics within the LGPS and the pensions industry in general, plus important repeated messages.

Prior to the Coronavirus pandemic, face-to-face meetings with active members were arranged. These were delivered by the Fund's Regulations and Communications Team in the form of "Understanding your LGPS pension" presentations and drop-in sessions at various venues around the County hosted by scheme employers. The presentations were delivered to help explain the significant changes in the LGPS regulations over time, and to assist where an employer is going through a restructuring or outsourcing exercise that will have pension-related implications. The drop-in sessions were targeted to coincide with events, such as the issue of the annual benefit statements. The nature of the drop-in sessions meant that members could visit the team informally with any questions they may have about their pension at a convenient time for them.

Until it is deemed safe to resume face-to-face meetings with members, the Fund will provide opportunities for members to meet with members of the Fund's team or join virtual group sessions on Microsoft Teams.

Communication with deferred members

Each year the Fund provides annual benefit statements to deferred members. These statements summarise a member's pension account balance to the previous 31 March. These statements are currently posted to members' home addresses.

Following the implementation of the "My Pension Online" portal, annual benefit statements will be available to view on the individual member's account, however, will continue to be printed and posted to members who notify the Fund that they wish to continue to receive a paper copy.

The Fund also produces a deferred member newsletter each year in collaboration with a regional Joint Communications Group and publishes it on the Fund website. Deferred members are directed to the newsletter by a link provided in their annual benefit statement. The content comprises current pension topics within the LGPS and the pensions industry in general, plus important repeated messages.

Communication with pensioner members

The Fund issues pay advice slips to pensioners each March, April and May notifying them of the percentage rate of annual pension increase and explaining how it is applied. Pensioners will also be sent further payslips to alert them to any further variations in their net monthly amount of 1% or more. The Fund issues P60s annually in respect of the pension received in the previous financial year.

Regarding domestic pensioners, the Fund participates in the National Fraud Initiative and may share information with other bodies responsible for auditing or administering public funds for the purpose of preventing and detecting fraud. The Fund includes brief details about the National Fraud Initiative on payslips for pensioner members at least once per year. The details provided include a link to the Derbyshire County Council website for more information:

derbyshire.gov.uk/nationalfraudinitiativeprivacynotice

Life certificates are issued each year to pensioners living abroad to ensure that they maintain eligibility for benefit (derbyshirepensionfund.org.uk/lifecertificate). The Fund has engaged a specialist tracing service, Target Professional Services, to aim to reduce the liabilities which result from pension overpayments following the death of pensioner members living overseas, via the use of secure electronic solutions. The arrangement with Target Professional Services commenced for

an initial one year period in 2020. This is being monitored and reviewed before an extension to the arrangement is agreed.

Communication with prospective members

Communication with prospective scheme members is initially achieved by the Fund through their employers. Employers are supported in promoting the scheme to all their employees and information is provided by employers within contracts of employment directing employees to the Fund website and the benefits of LGPS membership.

Communications with scheme employers

The Fund's latest Pension Administration Strategy became operational on 1 April 2021. It sets out the standards of performance and best practice that the Fund and its employers should aim to meet when carrying out their LGPS related functions and responsibilities.

The Strategy also sets out the approach the Fund will take to underperformance by employers, including a structure for the charging of avoidable administration costs.

Before the Coronavirus pandemic, regular, large-scale employer events were provided at various venues, some aimed at all employers and others targeted at groups, such as academies. Site visits and workshops were also undertaken to assist individual employers with specific issues and / or provide direct training to their staff. The visits were often requested by employers, but the Fund was also proactive where it identified that an employer would benefit from assistance.

When it is deemed safe to do so, employer visits and events will resume, however, direct contact with employers has continued virtually through Microsoft Teams where requested by employers, or where the Fund considered it to be beneficial to the employer.

Employers are kept up to date with developments which impact on their application of the LGPS regulations by employer newsletters, which are emailed to nominated employer contacts through gov delivery. At least one employer newsletter is produced each quarter, however, at times when several important messages need to be delivered to employers, more frequent newsletters will be issued.

The Fund monitors engagement with the employer newsletters by interpreting the delivery data (delivered, pending and bounced percentages) and performance data (opened and unsubscribes percentages) provided on gov delivery reports. A further in-depth report can also be run to assist the Fund in maintaining an up to date circulation list of employer contacts where emails have bounced or failed.

Communications with Pension Fund team

It is important to ensure that all members of the pension fund team have access to the relevant information and technical knowledge to enable them to perform their duties. This is achieved via use of email, internal meetings, team briefings as well as internal and external training events on specific topics.

Communications with other key stakeholders

The Fund engages and communicates with several external bodies.

These include:

- LGPS Central – in respect of pooled investments
- Pension Fund Investment Managers and Advisers – in respect of investment activity and strategy on behalf of the Fund
- Actuaries – in respect of Funding levels, employers' contributions and valuation of the liabilities of the Fund
- various joint Pension Fund groups – in respect of administration, communications and investments

Pensions and Investments Committee

The Pensions and Investments Committee meets six times a year. It is responsible for the management and administration of the Fund on behalf of the County Council. Members of the Fund's team work closely with the Chair, Deputy Chair and Members of the Committee to ensure that they are fully informed about Fund matters and that they are fully supported in fulfilling their duties and responsibilities.

Members of the Committee receive reports from Fund officers on matters to be determined or reviewed. These reports include:

- quarterly investments reports
- other investment related updates
- half-year administration reports
- reviews of new LGPS related legislation
- determination of local policies
- reviews of the Fund's Risk Register
- Annual Report and Annual Service Plan
- the adjudication of appeals and disagreements at Stage 2 of the adjudication process.

Two trade union representatives are entitled to attend meetings of the Committee as non-voting members and to receive all the Committee papers.

Minutes of meetings (except for restricted items) are available from the Derbyshire County Council website:

democracy.derbyshire.gov.uk/mgCommitteeDetails.aspx?ID=145

Derbyshire Pension Board

The Derbyshire Pension Board was set up in 2015 (in accordance with the Public Services Pensions Act 2013) to assist Derbyshire County Council in its role as the administering authority in complying with Scheme governance and administration responsibilities and complying with the requirements of the Pensions Regulator's code of practice for the governance and administration of public service pension schemes. The Board comprises a Chair, two Employer Representatives and two Fund Member Representatives. Members of the Pension Fund team work closely with the Pension Board,

attending meetings which are held at least twice per year, and ensuring that Board members can fulfil their duties and responsibilities.

Information about the Pension Board and summaries of Pension Board meetings are published on the Fund's website: derbyshirepensionfund.org.uk/pensionboard

4. Plan for the development of communications 2021 – 2024

Communications is a fundamental feature of all Pension Fund activity.

The Fund's core objectives include aims specifically targeting effective communication with members, employers and other stakeholders.

- To ensure sound governance for the pension fund
- To ensure that sufficient assets are available to meet benefit payments
- To deliver a high quality service to scheme members and employers
- To enable employer contribution rates to be kept as constant as possible and at reasonable cost to the taxpayer
- To deliver clear, timely and relevant communication to all stakeholders

Meeting these objectives when LGPS legislation continues to become more complex, scrutiny against compliance with increasing governance related obligations increases and expectations of electronic solutions is high requires the Fund to continually improve and develop its communications.

Developing the delivery of improved clear, concise and effective communications will enable the Fund to meet its core objectives.

It is therefore critical that the Fund's plans for developing its communications identifies areas which will achieve the necessary improvements.

With assistance and support from Derbyshire Pension Board, the following have been identified as key targets:

- The member self-service portal "My Pension Online" becoming operational
- Improved member feedback, including a Member Forum
- Continued development of the Fund's website
- Development of a Fund Style Guide
- Consistency of communications
- Further development of employer engagement

Review of communications development since 2018

The Fund's previous Communications Strategy covering the period 2018 – 2020 identified the development of a member self-service portal, a distinct branding and livery for the Fund and its own bespoke website as the significant and important targets to achieve.

The development of the member self-service portal was delayed by the transfer to a new pensions administration system in 2019, however, following the completion of development work, the Fund's "My Pension Online" portal is due to open for registration in May 2021.

The Fund's own branding, logo and website have become established enabling fund members and employers to identify with it and understand its role as an LGPS administrator.

Implementation of My Pension Online

This is the member self-service portal to enable scheme members to see their annual benefit statement securely online at any time, along with the ability to submit changes to personal details via the portal.

Management and development of the portal is undertaken by the Fund in liaison with Aquila Heywood, the supplier of the Fund's pension administration system, who will host the portal.

Members will be encouraged to register for "My Pension Online" through communications from the Fund and from employers.

Initially, the Fund will concentrate on the registration of active and deferred members.

Other Funds and public service pension schemes report low initial take up numbers, therefore, the Fund is aiming for a 15% registration of active and deferred members in year 1, however, planning will encourage and cater for the possibility of a higher take up.

The Fund will continually review and re-evaluate registrations targets.

Other Member Engagement

The Fund will set up a Member Forum once the member self-service system has been established. Ensuring that this forum has a broad range of fund member representation will be vital to its success.

Continued development of the Fund's website

Members will access "My Pension Online" via the Fund's website, so there will be a natural increase in the awareness of, and visitors to the website.

This provides an opportunity for the website to reach the notice of a higher proportion of the member population. Ensuring the site remains live and up to date as well as further developing easy to understand user-friendly content and interactivity will be vital. This will be aided by digital technology such as Google analytics, which will help the Fund to further analyse traffic and engagement and help to improve the user experience.

Additionally, as a public service website, the Fund will be required to ensure that it reaches and maintains full compliance with accessibility law and guidance (WCAG 2.1 – Web Content Accessibility Guidelines).

This will include ensuring that content is accessible, including the publication of future Fund documents in accessible formats or as webpages.

Fund style guide

As the Fund writes to different audiences, and produces different types of media, a bespoke style guide will help multiple authors to write in a clear and unified way that reflects the corporate style.

Writing simple, readable and understandable text tackling complex and difficult topics across a range of communications from letters and emails to forms, guides and website content is a significant challenge for the Fund's team.

Preparing a style guide will provide benefits including:

- Consistency
- Clear messages
- Time saving
- Improves communications between teams
- More efficient
- Prevent complaints
- Defines consistent voice
- Sets the tone for the fund
- Professional look and feel
- Builds confidence
- Easily accessible information
- Brand recognition
- Helps to identify redundant work

Letters Project

Aided by a style guide, a project to review approximately 500 standard letters and provide accurate and easy to understand content will provide a significant benefit for the Fund's members.

Subjects to cover in improved member engagement

- Information which will reduce queries received through the Helpline, the online enquiry form, emails and written correspondence
- The benefits of the scheme (to prospective and existing members)
- Increased information on how the Fund's assets are invested
- Increased information about the governance of the scheme
- The need to keep contact details up to date
- Pension scams
- Annual allowance

Continued implementation of i-Connect

i-Connect is the Fund's secure data transmission service which is enabling employers to provide efficient and timely data submissions to the Fund. By April 2021, approximately 50% of the Fund's employers had implemented i-Connect covering approximately 60% of the total of active members.

The Fund's target is for all employers to be working towards implementing i-Connect by the end of 2021.

Employer engagement

The Fund will continue to develop its engagement with employers:

- during the admissions process
- during onboarding to i-Connect
- via its regular communications to fund employers throughout an employer's participation in the Fund
- in the run up to employer exits from the Fund.

Communications will support:

- Employers to understand their responsibilities
- The continued development of employer covenant reviews
- Employers to improve their engagement with their outsourced providers and to improve understanding of risk-sharing arrangements
- Closer Fund relationships with resolution bodies (Town and Parish Councils)
- Engagement with employers on new employer flexibilities following the development of an employer flexibilities policy

5. Communications Policy review

The Derbyshire Pension Fund Communications Policy Statement will be reviewed annually and revised if communications arrangements are required to be amended.

Agenda Item No. 4 (b)

**DERBYSHIRE COUNTY COUNCIL
PENSIONS AND INVESTMENTS COMMITTEE**

28 April 2021

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

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.

Derbyshire Pension Board (the Board) recently undertook a detailed review of the Risk Register and proposed a small number of changes to the risks identified and a number of changes to some of the risk scores. A fresh review of the Risk Register by a different group of people has been very useful and the Board's suggestions have been taken into consideration in this quarterly update.

Risk Score

The risk score reflects a combination of the risk occurring (probability) and the likely severity (impact). Probability scores range from 1 (rare) to 5 (almost

certain) and impact scores range from 1 (negligible) to 5 (very high). A low risk classification is based on an overall risk score of 4 or less; a medium risk score ranges between 5 and 11; and a high risk score is anything with a score of 12 and above.

The Risk Register includes a target score which shows the expected risk score once the proposed additional risk mitigation controls and procedures have been implemented. The difference between the actual and target score for each risk item is also shown to allow users to identify those risk items where the proposed new mitigation and controls will have the biggest effect.

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 four high risk items:

- (1) Fund assets insufficient to meet liabilities (Risk No. 18)
- (2) LGPS Central related underperformance of investment returns (Risk No. 29)
- (3) Impact of McCloud judgement on funding (Risk No. 36)
- (4) 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. 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. Hymans Roberston (Hymans), the Fund's actuary, is shortly due to carry out an interim update on the funding position of the Pension Fund.

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

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 transitioned its legacy UK corporate bond portfolio of around £300m into LGPSC's Global Active Investment Grade Corporate Multi-Manager Fund in March 2020, with a further £25m invested in the LGPSC product in January 2021.

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 Pool's 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.

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, 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 the Government Actuary's Department.

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 to 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.

With respect to the Government's cost control mechanism for public service pension schemes, HM Treasury (HMT) confirmed in February 2021 that it was 'un-pausing' the 2016/17 cost cap valuations, which will take into account the cost of implementing the McCloud remedy. HMT confirmed that any cost cap ceiling breaches will not result in benefit reductions, however, any cost

floor breaches will be honoured, with any benefit increases taking effect from 1 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. Aquila Heywood has provided the Fund with McCloud related tools for testing on the Altair system which would be used to identify, and subsequently bulk load, any required additional service history.

A McCloud Project Board has been set up to formalise the governance of this major project. The Fund will continue to keep up to date with news related to the McCloud remedy 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

Two new risks have been added to the Risk Register this quarter and two risks have been removed. The risk scores for six existing risks have been changed.

New Risks

Failure to consider the potential impact of Environmental, Social and Governance (ESG) issues on investment portfolio (Risk No.22): The Fund is exposed to the risk of not assessing ESG issues when making investment decisions which could lead to investment underperformance and/or reputational damage to the Fund. To mitigate this risk, the Fund has developed a Responsible Investment Framework (the Framework) setting out the Fund's approach to incorporating ESG factors into investment decisions to better manage risk and support the generation of sustainable long term investment returns. The Framework was approved by the Pensions & Investments Committee in November 2020 following consultation with the Fund's stakeholders. The Fund actively monitors the ESG policies and practices of its investment managers, and reports on the stewardship activities of its key investment managers to Committee on a quarterly basis. The risk has been attributed an impact score of 4 (high) and a probability score of 2 (unlikely), giving an overall risk score of 8.

Administration issues with AVC provider (Risk No.46): Following the implementation of a new IT system, the Fund's AVC provider, Prudential, has experienced delays in processing and investing contributions, providing valuations and paying out claims which could lead to delays for the Fund in processing members' retirements. There is also a risk of associated reputational damage for the Fund which has appointed Prudential as its AVC provider. The company has confirmed that members will not suffer any financial detriment due to the delayed processing and investing of their contributions.

The Fund is in regular correspondence with Prudential regarding the outstanding issues and is working with the company to try to ensure that any issues which could delay a member's retirement date are dealt with first. The Fund will continue to work closely with Prudential to support the resolution of outstanding issues. The risk has been attributed an impact score of 2 (low) and a probability score of 4 (probable), giving an overall risk score of 8.

Removed Risks

Conflicting exit payments legislation/Increased administration requirement related to exit payments: Following the disapplication of the exit payment cap and the revocation of the Restriction of Public Sector Exit Payment Regulations 2020, the risk of conflicting legislation and increased administration related to exit payments has been removed from the Risk Register.

Failure to comply with The Pensions Regulator (TPR) governance requirements: This risk has been removed as it is covered by Risk No. 3 - Failure to comply with regulatory requirements for governance.

Changes to Risk Scores

Failure to comply with regulatory requirements for governance (Risk No. 3): The probability score has been increased from 1 (rare) to 2 (unlikely) following a reconsideration of the risk, increasing the overall risk score from 4 to 8.

An effective investment performance management framework is not in place (Risk No.5): The impact score has been increased from 3 (medium) to 4 (high) following a reconsideration of the risk, increasing the overall risk score from 6 to 8.

Pension Fund financial systems not accurately maintained / Member or Officer fraud (Risk No.10): The impact score has been increased from 3 (medium) to 4 (high) following a reconsideration of the risk, increasing the overall risk score from 6 to 8.

Failure to consider the potential impact of climate change on investment portfolio and on funding strategy (Risk No.21): Following approval of the Fund's Climate Strategy and the completion of the first phase of transitions to the increased Global Sustainable Equities allocation, the probability score has been reduced from 3 (possible) to 2 (unlikely), reducing the overall risk score from 12 to 8.

LGPS Central Ltd fails to deliver the planned level of long term cost savings (Risk No.28): Following a reconsideration of the risk, the impact score has been reduced from 4 (high) to 3 (medium), and the probability score has been increased from 2 (unlikely) to 3 (possible), increasing the overall risk score from 8 to 9.

The UK's withdrawal from the EU results in high levels of market volatility or regulatory changes (Risk No.30): Following the UK's withdrawal from the EU the probability score has been reduced from 3 (possible) to 2 (unlikely), reducing the overall risk score from 9 to 6. The risk will remain on the Risk Register until the possible regulatory implications of the UK's withdrawal from the EU become clearer.

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

Date Last Updated 19-Apr-21

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.

Appendix 1

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

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

Summary of Risk Scores	
Low Risk	5
Medium Risk	37
High Risk	4
Total Risks	46

Risk Score
 0 - 4
 5 - 11
 12 and above

Low Risk
 Medium Risk
 High Risk

Summary of Risk Scores Greater Than Eight

Risk Ranking	Main Risk Register No	Identification	
		Risk Area	High Level Risk
1	18	Funding & Investments	Fund assets insufficient to meet liabilities / Decline in funding level / Fluctuations in assets & liabilities
2	29	Funding & Investments	LGPS Central related underperformance of investment returns - failure to meet investment return targets against specified benchmarks
3	36	Funding & Investments	Impact of McCloud judgement on funding
4	43	Pensions Administration	Impact of McCloud judgement on administration
5	1	Governance & Strategy	Failure to implement an effective governance framework
6	2	Governance & Strategy	Failure to recruit and retain suitable Pension Fund staff/Over reliance on key staff
7	4	Governance & Strategy	Pensions & Investments Committee (PIC)/Pension Board (PB) members lack of understanding of their role & responsibilities leading to inappropriate decisions
8	15	Governance & Strategy	Failure to comply with General Data Protection Regulations (GDPR)
9	16	Governance & Strategy	Failure to communicate with stakeholders
10	18	Governance & Strategy	Risk of challenge to Exit Credits Policy
11	23	Funding & Investments	Covenant of new/existing employers. Risk of unpaid funding deficit
12	25	Funding & Investments	Employer contributions not received and accounted for on time
13	28	Funding & Investments	LGPS Central Ltd fails to deliver the planned level of long term cost savings
14	41	Pensions Administration	Delayed Annual Benefit Statements and/or Pension Savings Statements (also known as Annual Allowance Statements)
15	3	Governance & Strategy	Failure to comply with regulatory requirements for governance
16	5	Governance & Strategy	An effective investment performance management framework is not in place
17	10	Governance & Strategy	Pension Fund financial systems not accurately maintained/Member or Officer fraud
18	13	Governance & Strategy	Systems failure/Lack of disaster recovery plan/Cyber attack
19	16	Governance & Strategy	Failure of internal/external suppliers to provide services to the Pension Fund due to business disruption
20	19	Funding & Investments	Mismatch between liability profile and asset allocation policy
21	20	Funding & Investments	An inappropriate investment strategy is adopted/Investment strategy not consistent with Funding Strategy Statement/ Failure to implement adopted strategy and PIC recommendations
22	21	Funding & Investments	Failure to consider the potential impact of climate change on investment portfolio and on funding strategy
23	22	Funding & Investments	Failure to consider the potential impact of Environmental, Social and Governance (ESG) issues on investment portfolio
24	26	Funding & Investments	The LGPS Central investment offering is insufficient to allow the Fund to implement its agreed investment strategy
25	27	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
26	39	Pensions Administration	Insufficient cyber-Liability Insurance relating to the pensions administration system
27	46	Pensions Administration	Administration issues with AVC provider

Current score		
Impact	Probability	Current Score
4	3	12
4	3	12
3	4	12
3	4	12
5	2	10
3	3	9
3	3	9
3	3	9
3	3	9
3	3	9
3	3	9
3	3	9
3	3	9
3	3	9
4	2	8
4	2	8
4	2	8
4	2	8
4	2	8
4	2	8
4	2	8
4	2	8
4	2	8
4	2	8
2	4	8

Risk Owner	Target Score				Previous Score
	Impact	Probability	Target Score	Actual Minus Target Score	
HoP/IM	4	2	8	4	12
HoP/IM	4	2	8	4	12
HoP	3	3	9	3	12
HoP	2	4	8	4	12
DoF/HoP	5	1	5	5	10
HoP	3	2	6	3	9
HoP	3	2	6	3	9
HoP/IM/TL	3	2	6	3	9
HoP/IM/TL	3	2	6	3	9
HoP	3	2	6	3	9
HoP/TL	3	2	6	3	9
HoP/TL	3	1	3	6	3
HoP/IM	3	2	6	3	8
HoP/TL	3	1	3	6	6
HoP	4	1	4	4	4
HoP/IM	4	2	8	0	6
HoP	4	1	4	4	6
HoP/IM/TL	4	1	4	4	8
HoP/IM	4	2	8	0	8
HoP/IM	4	2	8	0	8
HoP/IM	4	2	8	0	8
HoP/IM	4	2	8	0	8
HoP/IM	4	2	8	0	12
HoP/IM	4	2	8	0	N/A
HoP/IM	4	1	4	4	8
HoP/IM	4	2	8	0	8
HoP	4	2	8	0	8
HoP/TLs	2	2	4	4	N/A

Derbyshire Pension Fund Risk Register

Date Last Updated 19-Apr-21

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

Governance & Strategy

1	Failure to implement an effective governance framework	Failure to provide effective leadership, direction, control and oversight of Derbyshire Pension Fund (DPF) leading to the risk of poor decision making/lack of decision making, investment underperformance, deterioration in service delivery and possible fines/sanctions/reputational damage. This risk could be amplified during a period of business disruption.	5	2	10	Derbyshire County Council (DCC) is the administering authority for the Pension Fund, responsible for managing and administering the Fund. Responsibility for the functions of the Council as the administering authority of DPF is delegated to the Pensions & Investments Committee (PIC). A Local Pension Board assists the Council with the governance and administration of the Fund (PB). Day to day management of the Fund is delegated to the Director of Finance & ICT (DoF) who is supported by the Head of Pension Fund (HOP) and in house investment and administration teams. The governance arrangements for the Fund are clearly set out in the Fund's Governance Policy and Compliance Statement which is reviewed each year. Both PIC & PB have detailed Terms of Reference. The Commissioning, Communities & Policy Scheme of Delegation sets out authorising levels for officers. The management team (POM) of the Pension Fund meets weekly and a Pension Fund Plan documents the ongoing workload of the Fund. A Pension Fund performance Dashboard has been developed to provide performance management information for POM; it will also be reviewed on a quarterly basis by the Finance & ICT Management Team and at meetings of the Pension Board. A detailed Business Continuity Plan sets out the arrangements for maintaining the critical activities of the Fund during a period of business disruption. Arrangements have been developed to facilitate virtual PIC and virtual PB meetings for occasions when physical meetings are not possible.	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 amplified 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 ongoing and forecast activities of the Fund. The investment staffing structure was reviewed post the implementation of investment pooling. Market supplements for the HOP and the IM were extended from December 2019. A new Assistant Fund Manager joined the Fund at the beginning of May 20. 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.	HoP	3	2	6	3	9
3	Failure to comply with regulatory requirements for governance	Failure to match-up to recommended best practice leads to reputational damage, loss of employer confidence or official sanction.	4	2	8	DPF maintains current PIC approved versions of: Administering Authority Discretions; Admission, Cessation & Bulk Transfer Policy; Communications Policy Statement; Exit Credits Policy; Governance Policy & Compliance Statement, Funding Strategy Statement, Investment Strategy Statement, Pension Administration Strategy, 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.	HoP	4	1	4	4	4
4	PIC / Pension Board members lack of knowledge & understanding of their role & responsibilities leading to inappropriate decisions	Change of membership (particularly following elections), lack of adequate training, poor strategic advice from officers & external advisors leads to inappropriate decisions being taken.	3	3	9	Implementation of Member Training Programme including induction training for new members of PIC & PB / Attendance at LGA training program / Advice from Fund officers & external advisors.	HoP	3	2	6	3	9
5	An effective investment performance management framework is not in place	Poor investment performance goes undetected / unresolved.	4	2	8	PIC training; external performance measurement is reported to committee on a quarterly basis; Pension Board oversight of the governance of investment matters; My Plan Reviews. Review of the Pension Fund performance Dashboard.	HoP/IM	4	2	8	0	6
6	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 started with Deaths and will then move onto Retirements. A Pension Fund performance Dashboard has been developed to provide performance management information for POM; it will also be reviewed on a quarterly basis by the Finance & ICT Management Team and at meetings of the Pension Board.	HoP/TL	3	2	6	0	6
7	An effective PIC performance management framework is not in place	Poor PIC performance goes undetected / unresolved.	3	2	6	Defined Terms of Reference; PIC training; Support from suitably qualified officers and external advisor; Monitoring of effectiveness of PIC by Pension Board. A Pension Fund performance Dashboard has been developed to provide performance management information for POM; it will also be reviewed on a quarterly basis by the Finance & ICT Management Team and at meetings of the Pension Board.	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. Fund Conflicts of Interest Policy approved by PIC in November 2020.	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 quarterly and to PB meetings. PB to review the Risk Register in detail on an annual basis.	HoP/IM	3	2	6	0	6

Risk Number	Description		Current score			Risk Mitigation Controls & Procedures			Target Score				Previous Score
	High Level Risk	Description of risk and potential impact	Impact	Probability	Current Score	Current	Proposed	Risk Owner	Impact	Probability	Target Score	Actual Minus Target Score	
10	Pension Fund financial systems not accurately maintained / Member or Officer fraud	Member or officer fraud, financial loss and reputational damage.	4	2	8	Creation and documentation of Internal controls; internal/external audit; monthly key control account reconciliations; on-going training & CIPFA updates.	Development of Fund-wide Procedures Manual.	HoP	4	1	4	4	6
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. Enhanced Data Management Procedures document to include section on cyber crime/cyber risk. Mapping exercise to be undertaken to map where the Fund's data is held, on what systems, how it is combined and how and where it moves. Review of the information security arrangements of 3rd party suppliers to the Fund to be undertaken.	HoP/IM/TL	4	1	4	4	8
14	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
15	Failure to communicate with stakeholders	Employers being unaware of employer responsibilities could impact service levels to members or lead to statutory/data breaches. Employees being unaware of how the Fund is governed, the benefits of the scheme, how the Fund's assets are invested, the risk of breaching the annual pension savings allowance, the risk of pension scams and the importance of keeping contract details up to date could lead to disengagement between members and the Fund, financial impacts for members, and reputational damage to the Fund.	3	3	9	Communications Policy considered by PIC - April 2021. The Pension Administration Strategy (PAS) which sets out employer responsibilities is reviewed annually and highlighted to employers. For any material proposed changes to the PAS, employers will be consulted. Stakeholders receive information and guidance in line with best practice discussed at the national LGPS Comms Forum, delivered by a fully resourced, specialist team. The Pension Fund website and clear Pension Fund branding helps stakeholders to be clear about the role of the Fund.	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
16	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, continuity arrangements have worked well.	The Fund will keep up to date with the continuity arrangements of these providers and will continue to assess the risk of exposure to particular organisations/providers.	HoP/IM	4	2	8	0	8
17	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 formulation of the Fund's Exit Credit Policy and has been sought to assist the Fund's first exit credit determination.	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

Funding & Investments

18	Fund assets insufficient to meet liabilities / Decline in funding level / Fluctuations in assets & liabilities	Objectives not defined, agreed, monitored and outcomes reported / Incorrect assumptions used for assessing liabilities / Investment performance fails to achieve expected target / Changes in membership numbers / VR & VER leading to structural problems in Fund / Demographic changes / Changes in pension rules and regulations (e.g. auto-enrolment and Freedom & choice). These factors could contribute to a decline in the funding level of the Fund and result in employers (funded in the majority of cases by taxpayers) needing to make increased contributions to the Fund.	4	3	12	Actuarial valuations and determination of actuarial assumptions; Funding Strategy Statement; Annual funding assessment (under review under new risk based valuation methodology); Setting of contribution rates; Regular review of the Investment Strategy Statement (ISS) and the Strategic Asset Allocation Benchmark; Quarterly reviews of tactical asset allocation; Due diligence on new investment managers; Monitoring of investment managers' performance; Maintenance of key policies on ill health retirements; early retirements etc.	Continued 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
19	Mismatch between liability profile and asset allocation policy	Inaccurate forecast of liabilities / inappropriate Strategy leading to cashflow problems.	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 forecasting exercise for the Fund.	HoP/IM	4	2	8	0	8
20	An inappropriate investment strategy is adopted / Investment strategy not consistent with Funding Strategy Statement / Failure to implement adopted strategy and PIC recommendations	Failure to set appropriate investment strategy / monitor application of investment strategy leading to possible impact on the funding level/investment underperformance/reputational damage.	4	2	8	The ISS, which includes the Fund's Strategic Asset Allocation Benchmark is formulated in line with LGPS Regulations and takes into account the Fund's liabilities/information from the Fund's actuary/advice from the Fund's external investment adviser. The ISS was approved by PIC in November following consultation with the Fund's stakeholders. A separate RI Framework and a separate Climate Strategy were also approved by PIC in November following consultation with the Fund's stakeholders. Quarterly review of asset allocation strategy by PIC with PIC receiving advice from Fund officers and external investment adviser.		HoP/IM	4	2	8	0	8

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	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
21	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 leading to possible impact on the funding level/investment underperformance/reputational damage.	4	2	8	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 setting out the Fund's approach to addressing the risks and opportunities related to climate change formulated and approved by PIC in Nov 20 following consultation with stakeholders. The first phase of the transitions to the increased allocation to Global Sustainable Equities have taken place in January 2021 which will support the delivery of the targets included in the Climate Strategy for reducing the carbon footprint of the listed equity portfolio by at least 30% relative to the weighted benchmark in 2020 by the end of 2025 and investing at least 30% of the Fund portfolio in low carbon & sustainable investments by the end of 2025.	The second phase of the transitions to increase the allocation to Global Sustainable Equities will take place later in 2021. The carbon footprint & the low carbon and sustainable investment targets will be reviewed in 2023.	HoP/IM	4	2	8	0	12
22	Failure to consider the potential impact of Environmental, Social and Governance (ESG) issues on investment portfolio.	Failure to consider financially material ESG risks when making investment decisions leading to possible investment underperformance/reputational damage.	4	2	8	Responsible Investment Framework setting out the Fund's approach to ESG approved by PIC on Nov-20 following consultation with stakeholders. Ongoing monitoring of investment manager ESG policies and practices, including preparation of quarterly PIC Stewardship Report setting out the stewardship activities of the Fund's key investment managers.	Work ongoing to assess compliance with the updated UK Stewardship Code - the UK Stewardship Code (2020).	HoP/IM	4	2	8	0	N/A
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 have attended employer covenant training 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 could be unacceptable/unaffordable to employers leading to non-payment/delayed payment of contributions.	3	2	6	Consideration of employer covenant strength / scope for flexibility in actuarial proposals.	The process for reviewing employer contribution rates outside of the actuarial valuation process will be considered during the formulation of a policy to implement the new powers for administering authorities (introduced via the Local Government Pension Scheme (Amendment) (No.2) Regulations 2020) to review employer contributions, spread exit payments and introduce new deferred debt agreements and deferred employer status.	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, satisfying 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 monitored by POM and disclosed in the half yearly pensions administration performance report to PIC & PB. The Fund has developed a late payment charging policy. 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 Ltd investment offering is insufficient to allow the Fund to implement its agreed investment strategy	Failure to provide sufficient and appropriate product categories results in inability to deliver investment strategy and increases the risk of investment underperformance.	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 Fund's assets into LGPS Central Ltd's investment vehicles results in a loss of assets and/or avoidable or excessive transition costs	Failure to fully reconcile the utilisation of the Fund's assets and charge through of transition costs could have a financial impact on the Fund.	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

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	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		
28	LGPS Central Ltd fails to deliver the planned level of long term cost savings	LGPS Central Ltd fails to deliver the planned level of cost savings either through transition delays, poor management of its cost base or failure to launch appropriate products at the right price could delay the point at which the Fund breaks even (with costs savings outweighing the costs of setting up and running the company).	3	3	9	Review and challenge annual budget and changes to key assumptions; Review, challenge and validate LGPS Central product business cases; Quarterly update of the cost savings model; Reconcile charged costs to the agreed cost sharing principles; Terms of Reference agreed for PAF; Shareholders Forum and Joint Committee; The DOP & 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 LGPS Central Ltd.	Update control procedures now that LGPS Central Ltd 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	3	2	6	3	8	
29	LGPS Central Ltd related underperformance of investment returns	LGPS Central Ltd related underperformance of investment returns against targets could lead to the Fund failing to meet its investment return targets.	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/IMG 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 26, 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 withdraw from the EU.	3	2	6	Continual monitoring of asset allocation and performance by investment staff and quarterly monitoring by PIC. Keep up to date with developments with respect to the UK's relationship with the EU and the implications for the Fund's investment strategy. There are no proposed or imminent amendments to proposed LGPS Investment Pooling as a result of the UK's withdrawal from the EU.	Monitor regulatory changes, and continually monitor asset allocation.	HoP/IM	3	2	6	0	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 and works closely with DCC's Senior Accountant Treasury Management who manages the Fund's cash balances.	The Fund's actuary is due to undertake a cashflow forecasting 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	Could lead to expected investment returns not being 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	
34	Investments made in complex inappropriate products and or unauthorised deals	Could lead to loss of investment 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	HoP/IM	4	1	4	0	4	
35	Custody arrangements are insufficient to safeguard the Funds investment assets	Could lead to loss of investment 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 eligible 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 0.5% higher as at 31 March 2020, an increase of approximately £31.1m. The impact on employers' funding arrangements will likely be dampened by the funding arrangements they have in place. 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	

Pensions Administration

37	Failure to adhere to HMRC / LGPS regulations and reflect changes therein	LGPS benefits calculated and paid inaccurately and/or late leading to possible fines/reputational damage.	3	2	6	Management processes, calculation checking, dedicated technical and training resource, working with the LGA and other Pension Funds regarding accurate interpretation of legislation, implemented more robust pensions administration system in March 19.	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 as 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

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	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
39	Insufficient cyber-fidelity 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. Further enhancement of procedures to protect against cyber risk.	HoP	4	2	8	0	8
40	Data quality inadequate	Incorrect benefit calculations, inaccurate information for funding purposes leading to possible complaints/ fines/reputation damage/uninformed decision making.	3	2	6	Apply current and short term measures in the Data Improvement Plan. A Data Management Working Group has been formed, and Terms of Reference agreed, with responsibility for the ongoing consideration and implementation of the Data Improvement Plan.	Continue to cleanse data; implement longer term measures in the Data Improvement Plan. Maintain regular meetings of the Data Management Group.	TL	3	2	6	0	6
41	Delayed Annual Benefit Statements and/or Pension Savings Statements (also known as Annual Allowance Statements)	Risk of complaints, TPR fines or other sanctions/reputational damage caused by delays in issuing Annual Benefit Statements/Pensions Savings Statement. Possible delays caused by late employer returns, systems bulk processing issues and administration backlogs.	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. Improve process for identifying non-standard cases of annual pension savings breaches.	HoP/TL	3	1	3	6	6
42	Insufficient technical knowledge	Failure to develop, train suitably knowledgeable staff leading to risk of negative impact on service delivery and risk of fines/sanctions together with risk of reputational damage.	3	2	6	Updates from LGA/LGPC, quarterly EMPOG meetings/on-site training events. The Fund has procured an additional service from the provider of the new pension administration system which provides flexible learning on demand.	Skills gap audit / formal training programme / Staff Development group/My Plan reviews.	HoP	3	2	6	0	6
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. Implementation of the remedy could divert Fund resources and affect service delivery levels. See Risk No. 36 for further information on the McCloud judgement.	3	4	12	Keeping up to date with news from the Scheme Advisory Board, the LGA, the Government Actuary's Department and the Fund's Actuary. Liaising with the provider of the Fund's pension administration system as they develop their bulk processes for implementing the McCloud remedy. Although the Fund has continued to require employers to submit information about changes in part-time hours and service breaks, the McCloud remedy may generate additional queries about changes since 1 Apr 14; employers have, therefore, been asked to retain all relevant employee records. A McCloud Project Team has been set up with initial workstreams of: governance; case identification; staffing/resources; & communications. The Fund has identified the likely members in scope of the proposed remedy. A response to the MHCLG consultation on Amendments to the Statutory Underpin was submitted by the Fund. Tools have been provided by Aquila Heywood for testing on Altair which would be used to identify and subsequently bulk load any required additional service history.	Formulate a detailed plan of how to deal with the scheme changes as soon as they are confirmed and it is clear what bulk processes the provider of the pension administration system will be putting in place.	HoP	2	4	8	4	12
44	Lack of two factor authentication for Member Self Service	The Fund is implementing a member self-service solution (MSS) to improve the quality and efficiency of the service it provides to its members. MSS will allow members to view certain parts of their pension information (including Annual Benefit Statements), to undertake a restricted number of data amendments and to carry out benefit projections on-line. The member self-service solution provided by Aquila Heywood does not currently utilise a two-factor authentication method.	3	2	6	Robust registration and log-on procedures have been developed which have been approved by the Council's Information Governance Group (IGG). A further report on the setting of security questions has been taken to IGG for noting.	The Fund will continue to encourage Aquila Heywood to introduce two factor authentication for MSS (it has been introduced for the core Altair product).	HoP/TLS	3	2	6	0	6
45	Implications of Goodwin ruling.	Following the Walker v Innospec Supreme Court ruling, the government decided that in public service schemes, surviving male same-sex and female same-sex spouses and civil partners of public service pension scheme members will, in certain cases, receive benefits equivalent to those received by widows of opposite sex marriages. A recent case brought in the Employment Tribunal (Goodwin) against the Secretary of State for Education highlighted that these changes may lead to direct sexual orientation discrimination within the Teachers' Pension Scheme, where male survivors of female scheme members remain entitled to a lower survivor benefit than a comparable same-sex survivor. The government concluded that changes are required to the TPS to address the discrimination and believes that this difference in treatment will also need to be remedied in those other public service pension schemes, where the husband or male civil partner or a female scheme member is in similar circumstances. A consultation will take place on the required regulatory changes for the LGPS. It is expected that the fund will need to investigate the cases of affected members, going back as far as 5 December 2005 when civil partnerships were introduced which will provide administration challenges.	2	3	6	The Fund is keeping up to date with developments on the implications of this ruling for the LGPS.	Further mitigating controls/procedures will be developed when more is known about this recently emerged risk.	HoP/TLS	2	3	6	0	6
46	Administration issues with AVC provider.	Following the implementation of a new system, the Fund's AVC provider, Prudential, has experienced delays in processing contributions, providing valuations and paying out claims which could lead to knock-on delays for the Fund in processing members' retirements. There is also a risk of associated reputational damage for the Fund which has appointed Prudential as its AVC provider.	2	4	8	The Fund is in regular correspondence with Prudential regarding the outstanding issues and is working with the company to try to ensure that any issues which could delay members' retirement dates are dealt with first. This matter is also on the agenda of the officer group of local LGPS funds' (EMPOG).	The Fund will continue to work closely with Prudential to support the resolution of outstanding issues.	HoP/TLS	2	2	4	4	N/A

Agenda Item No. 4 (c)

**DERBYSHIRE COUNTY COUNCIL
PENSIONS AND INVESTMENTS COMMITTEE**

28 April 2021

Report of the Director of Finance & ICT

**Half-Year Pension Administration Performance Report
1 October 2020 to 31 March 2021**

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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 second half of 2020/2021.

2. Half-year report

For the first six months of 2020/2021, a half-year report was considered by the Committee in November 2020. This report relates to the second half of 2020/2021 and provides a summary of the Fund's performance in key areas of activity.

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

3. Covid-19 impact

The Government's further lockdown measures in response to the Covid-19 pandemic continued to present a number of challenges for the Fund's administration in the second half of the year, particularly with the majority of the team continuing to work remotely from home.

The Fund, however, has been able to maintain services effectively during remote working which has now continued for over 12 months. The detailed Covid-19 Business Continuity Plan which was initially developed in April 2020 provided a base for the maintenance and continuation of services.

The provision of services has developed around remote working including, since November 2020, the Fund taking part in a Derbyshire County Council (the Council) telephony trial which has enabled calls to the Pensions Helpline to be taken through Microsoft Teams functionality on each team member's laptop. The Council is currently reviewing the experience of the trial.

4. Workload data

A summary of the Fund's administrative activity during the period 1 October 2020 to 31 March 2021 is summarised in the following sections.

4.1 Membership numbers

Membership	31 March 2020	30 Sept 2020	31 March 2021
Actives	38,061	37,274	37,996
Deferred	28,255	30,083	30,807
Pensioners	30,904	31,484	31,930
Work in Progress	8,408	6,426	5,992
Totals	105,628	105,267	106,725

The membership figures shown reflect the total number of separate pension records. This includes scheme members with more than one pension record. The actual number of individual members as at 31 March 2021 was 89,393 who between them have 106,725 membership records.

Due to delays in the setting up of some new members' pension records in the second quarter of 2020/2021, the total for active members included in the half-yearly report to 30 September 2020 did not reflect some new starters in the period June to September 2020. Those members are now included in the latest total. The temporary backlog of setting up new member records has been removed, and the process is up to date.

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 continued to contribute monthly data towards the LGPS Scheme Advisory Board's (the Board) analysis of member deaths during the Covid-19 pandemic to help understand its impact on the LGPS.

The Board commissioned reports by Aon and Barnett Waddingham to analyse LGPS mortality during the early months of the Covid-19 pandemic. The reports identified that there had been excess mortality for both male and female pensioners across all age bands, however, suggested that, as a result of deaths being brought forward, post-pandemic periods may see lower totals of pensioner deaths. Although early deaths lead to a reduction in liabilities for

pension funds, it was felt that the impact on overall scheme funding was negligible in the context of the total liabilities that require to be funded.

During the period April to September 2020 there were a total of 518 Derbyshire Pension Fund member deaths (at the point of the report to the Committee covering the first half of 2020/2021 the Fund had been notified of 459 member deaths).

To date, there have been 467 member deaths notified to the Fund which occurred in the period October 2020 to March 2021, however, it is likely that the number will increase as further death notifications are received.

These totals 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 October 2020 to 31 March 2021 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 %	2019/2020 Target achieved %
Retirement Benefits paid	877	1	856	21	97.6%	97.3%
Death cases	591	2	566	25	95.8%	90.9%
Transfer Out quotes	247	3	199	48	80.6%	95.9%
Transfer Out paid	37	3	36	1	97.3%	71.4%
Transfer in	79	3	61	18	77.2%	69.9%
Estimate requests	378	2	375	3	99.2%	96.4%
Refunds paid	1044	2	977	67	93.6%	99.4%

The number of death cases which had missed the target period for completion was investigated to identify any patterns of reasons for the delays. It was found that a number of cases had been reported as missing the target because they had not been recorded correctly within the pension

administration system which meant that the clock had continued to run when the cases should have been recorded as awaiting information. The matter has been highlighted within the team to avoid further instances of misleading reporting.

4.4 Quantity of work – incoming and completed

Although the administrative priorities for the Fund during 2020/2021 were to maintain the payment of members' benefits and retirement and bereavement processing, the Fund's work in providing services to scheme members in other areas 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 equivalent period in 2019/20 and the first half-year period in 2020/2021 are included.

The number of work items being processed is as follows:

	Oct- March 2019/2020	Apr- Sept 2020/2021	Oct- March 2020/2021
New work items becoming due in the period	21,671	19,063	26,823
Work items completed during the period	24,073	20,438	24,672

The significant increase in workload during the second half of 2020/2021 was mainly due to data cleansing and address tracing exercises which accounted for over 5,000 individual work items in the period.

At the end of March 2021, a total of 11,144 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 31 March 2021
Aggregations	3,301
Outstanding data from employers	381
Deferments	766
Refund quotes	608
Retirement quotes	232
Death administration (in progress)	243
Retirements (in progress)	74
Others	5,539
Total	11,144

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, provided the latest common and conditional data results for 2019/2020 which were reflected in the Fund's Annual Report submitted to the Regulator in December 2020. The results for the last 3 years are shown in the table below:

Year	Common data	Conditional data
2017/2018	95%	85%
2018/2019	97.6%	92.3%
2019/2020	98%	92.5%

The data quality scores for 2020/2021 have yet to be determined by Aquila Heywood and will be reported to the Committee in the next half-yearly report.

4.6 Backlog Management Project

The ongoing project to reduce and ultimately eliminate the numbers of backlog cases in two key areas (aggregations and deferring membership) of pension administration continued throughout 2020/2021, however, progress slowed in respect of reducing the backlog of aggregation cases due to high levels of new case numbers and 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 2019/2020, the total of backlogged aggregations was 1,865. Despite the difficult working arrangements encountered during 2020/2021, the total had reduced slightly to 1,797 by the end of March 2021. (Note – the figure at 30 September 2020 was 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 2019/2020, the total of deferred backlog cases was 1,991. Significant progress has been made during 2020/2021. The outstanding total at the end of September 2020 was 833, and by the end of March 2021 had reduced significantly again to 168.

4.7 Monthly contribution returns

The half-yearly report which covered the period April to September 2020 noted that employers had in that period faced a number of challenges in respect of their LGPS responsibilities which emerged as a result of the Covid-19 pandemic. Challenges included having to implement new procedures to continue their functions including maintaining responsibilities as an LGPS employer with key staff working from home, or in some cases being furloughed.

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.

An increase in late submissions was identified in the first two months of the initial lockdown period (April and May 2020) as employers worked in their new procedures to accommodate most staff working remotely.

The Fund worked with employers who experienced difficulties with completing payments and submitting contribution reports. Full data relating to contribution payments and reports from employers is currently only available to January 2021, however, the current averages for employer submissions received by the Fund by the monthly deadline reflect that during 2020/2021 approximately 97% of contribution payments, and approximately 91% of related contribution reports were received on time.

The Fund has continued to work collaboratively with employers through 2020/2021 to help them avoid problems with late payments/submission of data and is continuing to engage with a small number of employers who have experienced ongoing difficulties.

It became apparent at the year end, that the Fund had not received the County Council's employee pension contributions for April 2020 to February 2021 due to an administrative oversight. The outstanding sum was paid to the Fund immediately on 31st March 2021 and the late payment has been added

to the Statutory Breaches Log maintained by the Fund. Procedures are being reviewed to ensure that this does not reoccur.

4.8 New academies and admission bodies

Academies

During 2020/2021, the number of schools converting to academy status slowed with 18 academies joining the Fund as an individual LGPS employer, compared to 37 during 2019/2020.

In the period October 2010 to March 2021 a total of 7 new academies joined the Fund as an LGPS employer.

Brief details of each are as follows:

Employer Ref	Employer Name	Start Date	Academy Trust
749	Hague Bar Primary School	01/11/2020	The TRUE Learning Partnership
750	Glossopdale School	01/12/2020	
751	Field House Infant School	01/12/2020	Embark Multi-Academy Trust
752	Ladywood Primary School	01/12/2020	
753	Waingroves Primary School	01/12/2020	
754	St James' CE Aided Junior School	01/03/2021	Derby Diocesan Academy Trust
755	Outwood Academy Hasland Hall	01/03/2021	Outwood Grange Academies Trust

Admission Bodies

1 new admission body commenced as a participating Fund employer during the second half of 2020/2021:

- Accuro Facilities Management Ltd – for the provision of cleaning services for Shaw Education Trust at St Andrew's Academy, Derby. wef 01.11.2020

Employer summary

The number of employers actively participating in the Fund at 31 March 2021 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	205
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 54, CABs x 4 (not including Housing Assn's)	58
Town & Parish Councils	Pre 2001 Pool x 15 Post 2001 Pool x 22	37
Total		332

Exits from the Fund

During 2020/2021 the following ceased their participation as contributing employers in the Fund:

Employer	Reason	Date of active participation ending
Caterlink (catering provision at Swanwick Hall School)	End of contract	April 2020
Caterlink (catering provision at Shirebrook/Stubbins Wood Schools)	End of contract	April 2020
Tupton Parish Council	Last member left	June 2020
Veolia (Amber Valley Refuse)	End of contract	June 2020
RM Education Ltd (IT support services at Frederick Gent School)	End of contract	June 2020
Kier (Support services at Chesterfield Borough Council)	End of contract	July 2020
CSE Ltd (IT services at	End of contract	August 2020

Shirebrook Academy)		
Caterlink (catering provision at Abercrombie Primary School)	Last member left	Sept 2020
Arvato (Support services at Chesterfield Borough Council)	End of contract	January 2021
Arvato (Support services at Derbyshire Dales District Council)	End of contract	January 2021

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 second half of 2020/2021 a total of 10 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 second half of 2020/2021 a total of 6 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 second half of 2020/2021 are summarised below.

AADP Stage 1

During the second half of 2020/2021, there were no appeals against the Pension Fund at AADP Stage 1 received.

AADP Stage 2

During the second half of 2020/2021, a total of 4 appeals at AADP Stage 2 were considered by the Committee.

Three of the appeals, which were all upheld by the Committee, related to a complaint about a decision relating to the member's eligibility for the release of pension benefits on the grounds of ill-health made by the member's former

employer. The remaining appeal which was against the Fund was based on a member's dissatisfaction with failure to issue Annual Allowance statements on time in 2017 and 2018. The appeal was not upheld by the Committee.

The Pensions Ombudsman

During the second half of 2020/2021, two cases which had been considered at AADP Stages 1 and 2, were submitted to The Pensions Ombudsman by fund members, and to date both cases still await the Ombudsman's determination.

Of two outstanding cases submitted to the Ombudsman in 2019/2020, one case was escalated by the member to a formal determination stage at which the Ombudsman rejected the complaint.

The remaining outstanding case from 2019/2020 is still to be adjudicated by the Ombudsman.

5. Communications and Training

All plans for workplace-based employer training and sessions for scheme members had to be cancelled from March 2020 when the government introduced the lockdown measures in response to Covid-19.

During the second half of 2020/2021 the Fund has continued to progress with boarding employers onto the i-Connect system (see 6.1) and has undertaken virtual training sessions for those in the early phases of implementation.

Additionally, virtual training sessions, and bespoke meetings on specific topics to support employers, commenced towards the end of 2020 and into 2021 and have included training and support on a range of issues including:

- Ill-health retirement procedures
- Year end returns for employers who have not yet implemented i-Connect
- Completion of fund documentation
- Admitted Body Status
- Public Sector Exit Payment Cap

Communications to scheme members

The majority of Annual Benefit Statements based on membership as at 31 March 2020 were issued to active and deferred scheme members during the first half of 2020/2021, however, statements which could not be issued with the main batches of submissions have been prepared and issued when the member's statement was finalised. These predominantly relate to cases where:

- previously used addresses had been identified as no longer applicable, but no new address had been provided by the member
- full information had not been received from employers

By the end of March 2021, the following totals of Annual Benefit Statements had been issued to members;

- Active members - 95.3%
- Deferred members (with confirmed home addresses) – 97.6%

Communications to employers

During the second half of 2020/2021, the Fund issued the following newsletters to employers:

Date issued	Bulletin	Topics included
7 October 2020	Special	Public Sector Exit Payment Cap update (1)
26 October 2020	Special	Public Sector Exit Payment Cap update (2)
14 January 2021	169	Prudential AVCs, casual and relief staff, opting out, My Pension Online
5 March 2021	170	Revised Pension Administration Strategy, Year-End Return Deadline 23 April, Employee contributions banding changes

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

In addition to Employer Newsletters, the Fund has communicated with all Fund employers on a number of issues including:

- Further updates on the Public Sector Exit Payments Cap which was disapplied by the government in February 2021
- Prudential AVCs
- Consultation on the Fund's Pension Administration Strategy

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 continued to develop throughout the second half of 2020/2021.

Implementation commenced at the start of 2020, and 174 employers are currently securely transmitting member data to the Fund via i-Connect, from their payroll system directly into Altair, and as a result of submitting data on a monthly basis, have not been required to prepare and submit a Year-End Return for 2020/2021.

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

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 working towards implementation 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 is nearing completion. The project has been undertaken in liaison with EDM Group Ltd who specialise in providing high volume, bulk document scanning and digitisation services.

All digitised fiche records have been returned to the Fund by EDM Group Ltd and are being loaded onto the respective Altair records in batches. The majority of records have been loaded and it is expected that the project will be completed in the near future.

Once the Fund has completed a quality control exercise on the returned records, it will instruct EDM Group Ltd to destroy the physical fiche records.

6.3 Member Self-Service (My Pension Online)

The implementation of Member Self-Service (MSS), a further functionality linked to Altair, is being finalised with a view to the system having a phased rollout from May 2021. The service's operational name will be 'My Pension Online'.

MSS will be available to all scheme members, with the main functionality being the member's ability to view certain parts of their pension information, to undertake changes to some of their personal data and to carry out benefit projections online.

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 and their Annual Benefit Statement is ready to view online.

6.4 Other projects

McCloud Project

A McCloud Project Group was set up in July 2020 to prepare for the implementation of the remedy in respect of the McCloud and Sargeant judgements. 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.

In February 2021 the government's response was issued to the consultation on changes to the unfunded public service pension schemes including the teachers, NHS, civil service, police and fire schemes. The LGPS is subject to

a separate MHCLG consultation process and the government's response has yet to be issued.

The Project Group is currently liaising with employers to identify where data required for the McCloud implementation may need to be collected.

Exit Payment Cap Project

On 12 February 2021, Her Majesty's Treasury (HMT) issued a Direction to disapply the Restriction of Public Sector Exit Payments Regulations 2020 (£95K cap) with immediate effect. The Regulations were formally revoked on 19 March 2021.

Instructions were issued to review any exits that occurred between 4 November 2020 and 11 February 2021 where the employer was not able to meet the full strain cost because of the exit cap. No cases of exits from the Fund occurred during that period where the full strain cost was not applied.

The Fund's Public Sector Exit Payments Cap Interim Policy which had been approved in December 2020 to meet the requirements of the exit cap regulations has now been formally stood down and exits from the LGPS are again now all applied in compliance with The Local Government Pension Scheme Regulations 2013.

7. Collaborations

Whilst the Covid-19 pandemic 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 second half of 2020/2021 included:

Group	Meetings
East Midlands Pensions Officers Group (EMPOG)	2 October 2020 14 January 2021
LGPS Joint Communications Group	10 December 2020 12 March 2021
Pensions Managers Conference	17/18 November 2020

The Fund has also worked collaboratively with other LGPS funds to understand the implications and implementation issues associated with the McCloud remedy, and the exit payments cap legislation before it was disappplied.

8. Other Activity

Online learning and knowledge systems

The Fund reviewed 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.

The TEC learning platform remains under review, however, it was decided that a commitment to the Perspective service was not appropriate at this time.

An alternative system providing legal, regulatory and operational guidance is due to be reviewed in the coming months.

Pension Administration Strategy

The Committee approved the Fund's revised Pension Administration Strategy at the meeting on 3 March 2021, subject to consultation with participating employers.

Employers were provided with a link to the revised Strategy and invited to submit comments during the consultation period which ran from 5 to 25 March 2021.

No comments were received, and the Pension Administration Strategy was formally applied from 1 April 2021 following the approval of the Chair of the Committee and the Director of Finance and ICT.

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

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