

# Public Document Pack



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PUBLIC

To: Members of the Pensions and Investments Committee

Tuesday, 12 October 2021

Dear Councillor,

Please attend a meeting of the **Pensions and Investments Committee** to be held at **10.30am** on **Wednesday, 20 October 2021** in the Council Chamber, County Hall, Matlock, 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**

## **AGENDA**

### **PART I - NON-EXEMPT ITEMS**

1. Apologies for Absence
2. To receive declarations of interest (if any)
3. To confirm the minutes of the meeting held on 8 September 2021 (Pages 1 - 6)

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

- 4 (a) Derbyshire Pension Fund Annual Report (Pages 7 - 10)
- 4 (b) Derbyshire Pension Fund Risk Register (Pages 11 - 24)
- 4 (c) Governance Policy & Compliance Statement (Pages 25 - 38)
- 4 (d) Half Year Administration Performance Report - 1 April 2021 - 30 September 2021 (Pages 39 - 58)
- 5. Exclusion of the Public

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

## **PART II - EXEMPT ITEMS**

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

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

- 7. LGPS Investment Pooling (Pages 59 - 140)

PUBLIC

**MINUTES** of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE** held on 8 September 2021 at County Hall, Matlock.

**PRESENT**

Councillor D Wilson (in the Chair)

**Derbyshire County Council**

Councillors R Ashton, N Atkin, B Bingham, M Foster, D Muller (substitute member), G Musson, and M Yates

**Derby City Council**

Councillor L Care

Also in attendance – M Fairman, D Kinley, A Nelson and S Webster; N Calvert, O Fishburn, R Graham and N Read (representing the Pension Board)

Apologies for absence were received on behalf of Councillors P Smith (Derbyshire County Council) and M Carr (Derby City Council) and M Wilson (Trade Union representative)

**41/21** **MINUTES RESOLVED** that the minutes of the meeting held on 21 July 2021 be confirmed as a correct record and signed by the Chairman.

**42/21** **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 and a general overview of the current market situation.

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

The Fund's latest asset allocation as at 31 July 2021 and the recommendations of the Director of Finance & ICT and Mr Fletcher, in relation to the Fund's new intermediate 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 £380m.

The old benchmark, together with the intermediate and final benchmarks approved by Committee in November 2020 were presented. The intermediate benchmark came into effect from 1 January 2021, and the final Benchmark will become effective by 1 January 2022 at the latest.

The value of the Fund's investment assets had increased by £151m (+2.6%) between 30 April 2021 and 31 July 2021 to £6.035bn, the first time the Fund had exceeded £6.0bn. Over the twelve months to 31 July 2021, the value of the Fund's investment assets had increased by £893m (+17.4%). A copy of the Fund's valuation at 31 July 2021 was attached at Appendix 3 to the report.

Mr Fletcher referred to the current economic and markets outlook position with particular reference to the recovery from the pandemic, the impact of the new Biden administration in the US, the development of a stricter regulatory regime in China, and the outlook for inflation.

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

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

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

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

**42/21**      **STEWARDSHIP REPORT** Members were provided with an overview of the stewardship activity carried out by Derbyshire Pension Fund's external investment managers in the quarter ended 30 June 2021, together with an update in respect of the stewardship engagement carried out by the Local Government Pension Fund Forum (LAPFF) over the same time period, and to note the Fund's representatives at LAPFF meetings.

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

- Q2 2021 LGIM ESG Impact Report
- Q1 2021/22 LGPSC Quarterly Stewardship Report

These two reports provided an overview of the investment managers' current key stewardship themes and voting and engagement activity over the last quarter.

The background to Derbyshire Pension Fund's membership of the LAPFF was set out for the Committee. In October 1990, Derbyshire Pension Fund was one of seven founding members of the 'Like Minded Pensions Authorities' (LIMPA), which was later renamed as the Local Authority Pension Fund Form (LAPFF) in May 1992. For over 30 years, LAPFF had worked to promote the highest standards of corporate governance to protect the long-term value of local authority pension funds. A copy of LAPFF's Engagement Report for the quarter to 30 June 2021 was set out at Appendix 4 to the report. The Engagement Report set out details of LAPFF's engagement activities in the quarter, which included over 90 engagements with 59 companies on topics including: Climate Change; Board Composition; Employment Standards; Environmental Risk; Human Rights; and General Governance. In future, Councillor Wilson, as Chairman of this Committee, would also represent Derbyshire Pension Fund at meetings of the LAPFF.

The Committee was informed of the positive impact the members of LAPFF had had with regard to voting and influencing companies to take a much stronger line and have a greater ambition in relation to climate change and encouraging investment in renewable energy.

**RESOLVED** to (1) note the stewardship activity of LGIM, LGPSC and LAPFF; and

(2) note that the Chairman of the Committee and a member of the Fund's In-house Investment Management Team will represent the Fund at meetings of the LAPFF.

**43/21**      **UPDATES TO THE FUNDING STRATEGY STATEMENT** The Committee was advised of the outcome of consultation in respect of the proposed updates to the Funding Strategy Statement (FSS) for Derbyshire Pension Fund and asked that approval be given for the updated FSS to be adopted with immediate effect.

At the meeting on 21 July 2021, the Committee was advised of the proposed changes to the FSS following the introduction of new powers for administering authorities to review employer contributions between actuarial valuations and to adopt more flexible methods of collecting exit payments from exiting employers, and of the intention to consult with all participating employers on the draft updated FSS. The consultation with participating employers commenced on 26 July 2021 and ran until 22 August 2021.

Employers had been provided with a link to the draft version of the updated FSS and all the other supporting information which was noted by Committee at the meeting on 21 July 2021, including guidance documents issued by the Ministry of Housing, Communities and Local Government, and the LGPS Scheme Advisory Board. Each employer had been asked to consider how the updated FSS may impact on participating employers in Derbyshire Pension Fund. All employers were invited to submit their views and comments on the updated FSS via a secure webform to enable responses to the consultation to be submitted quickly and easily.

In order to ensure that all employers had the opportunity to review the updated FSS and provide comments, the Fund had:

- issued an email to each participating employer's contacts on the opening of the consultation period on 26 July 2021 which included a brief summary of the changes made to the draft FSS
- published a news item on the Fund's website, also on 26 July 2021
- included a reminder about the consultation in the July Employer Newsletter which was issued to all employer contacts and published on the Fund's website on 29 July 2021

The Fund had received three responses to the consultation from employers. Two of the responses were from admitted bodies and one was from a scheduled body employer. The responses were summarised in a table at Appendix 2 to the report along with the Fund's response to each employer's comments.

It was noted that the number of responses to the consultation was low, however, the consultation was widely highlighted to employers and had been open for four weeks. Discussions would be held with the Pension Board to look at potential methods of encouraging greater responses to Fund consultations, although it was noted that, in this case, it was difficult to see what more could be done.

The responses received to the consultation did not require any amendments to be made to the updated FSS which was included in the report at Appendix 3. Subject to the Committee's approval of the updated FSS, it was noted that it would be applied with immediate effect and that all participating employers would be provided with a link to a copy of the revised version.

**RESOLVED** that the Committee (1) notes the outcome of the consultation in respect of Derbyshire Pension Fund's updated Funding Strategy Statement; and

(2) confirms that no changes were required to the updated Funding Strategy Statement and approves the revised Statement to be applied with immediate effect.



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**FOR PUBLICATION**

**DERBYSHIRE COUNTY COUNCIL**

**PENSIONS AND INVESTMENTS COMMITTEE**

**20 October 2021**

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

**Derbyshire Pension Fund Annual Report**

**1. Purpose**

- 1.1 To seek approval for the Director of Finance & ICT, in conjunction with the Chair of the Committee, to approve the publication of the Pension Fund's Annual Report for 2020-21.

**2. Information and Analysis**

- 2.1 In accordance with the Local Government Pension Scheme Regulations 2013, the Administering Authority must prepare and publish an Annual Report for the Pension Fund (the Fund) on or before 1 December following the year end.
- 2.2 It is the Fund's standard practice to present a copy of the Annual Report to Committee prior to 1 December each year and seek approval to publish the Annual Report on the Fund's website. However, this is not possible this year because of the timing of Committee meetings and the completion of the external audit in respect of both the County Council's (the Council) and Fund's 2020-21 Statement of Accounts which have yet to be completed. Whilst the Pension Fund's external audit is substantially complete, the external audit in respect of the Council remains ongoing.

- 2.3 The Council's audited accounts, which include the Fund's Statement of Accounts, have yet to be considered and approved by the Council's Audit Committee (scheduled to take place on 7 December 2021), albeit a pre-audit version of the Pension Funds Statement of Accounts have been presented to the Audit Committee and no issues are expected at this stage. As a result, approval is sought for the Director of Finance & ICT, in conjunction with the Chair of the Committee, to approve the publication of the Fund's 2020-21 Annual Report at the first available opportunity following receipt of the external auditor's opinion on the Fund's Statement of Accounts. A copy of the Fund's 2020-21 Annual Report will be circulated to Committee in due course.
- 2.4 The Fund's Annual Report is typically in excess of 200 pages, and is split into a number of sections covering: an Introduction; Key Statistics; Fund Governance; Financial Performance; Investment (including the Fund's carbon risk metrics); Funding; Scheme Administration; and the Fund's Statement of Accounts. There are also several appendices comprised of previously published (and approved) documents, including copies of the Fund's: Governance Policy & Compliance Statement; Communication Policy; Investment Strategy Statement; Funding Strategy Statement; Actuarial Valuation Report; and a Schedule of Employees' and Employers' Contributions.

### **3. Implications**

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

### **4. Background Papers**

- 4.1 Working papers held by the Pension Fund Team.

### **5. Appendices**

- 5.1 Appendix 1 – Implications.

### **6. Recommendation(s)**

- 6.1 Approval is sought for the Director of Finance & ICT, in conjunction with the Chair of the Committee, to approve the publication of the Pension Fund's Annual Report for 2020-21.

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

7.1 The rational for recommendation 6.1 is set out in Section 2.

**Report Author: Peter Handford**  
**Director of Finance & ICT**

**Implications**

**Financial**

1.1 None

**Legal**

2.1 None

**Human Resources**

3.1 None

**Information Technology**

4.1 None

**Equalities Impact**

5.1 None

**Corporate objectives and priorities for change**

6.1 None

**Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)**

7.1 None



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

**20 October 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 detailed annual review of the Risk Register by Derbyshire Pension Board was also introduced in early 2021. A copy of both the Summary and Main Risk Registers are attached to this report as Appendix 2 and Appendix 3 respectively. Changes from the previous quarter are highlighted in blue font.

**2.1 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.

Additional columns have been added to the Risk Register to show trend risk scores going back to the first quarter of 2020-21 to provide additional context.

## **2.2 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 caused by the pandemic. Alternative processes set up to accommodate remote working, remain under review, taking into consideration the possibility of the current working arrangements being in place for some time and the planned longer term expected flexible working arrangements.

## **2.3 High Risk Items**

The Risk Register has the following four high risk items:

- (1) Fund assets insufficient to meet liabilities (Risk No.19)
- (2) LGPS Central related underperformance of investment returns (Risk No.30)
- (3) Impact of McCloud judgement on funding (Risk No.37)
- (4) Impact of McCloud judgement on administration (Risk No.44)

## **2.4 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. The last valuation was completed in March 2020 based on the assets and liabilities at 31 March 2019.

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. Updates to the Fund's FSS were approved by Committee in March 2020 as part of the valuation process and further updates were approved in September 2021 following the introduction of new powers for administering authorities to review employer contributions between actuarial valuations and to adopt more flexible methods of collecting exit payments from exiting employers.

The Fund was 97% funded at 31 March 2019, with a deficit of £163m, up from 87%, with a deficit of £546m at 31 March 2016. The funding level provides a high-level snapshot of the funding position at a particular date and can be very different the following day on a sharp move in investment markets. The next actuarial valuation is due to be carried out at 31 March 2022.

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.

## **2.5 LGPS Central Pool**

The Fund is expected to transition the management of a large proportion of its investment assets to LGPS Central Limited (LGPSC), the operating company of the LGPS Central Pool (the Pool), over the next few years. The Fund has so far transitioned around 10% of its assets into LGPSC active products.

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.

The Fund is also likely to maintain a large exposure to passive investment vehicles in the long term which will reduce the risk of total portfolio underperformance against the benchmark.

## **2.6 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. DLUHC (formerly 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. The underpin will give eligible members the better of the 2014 Scheme CARE or 2008 final salary benefits for the eligible period of service.

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

Any increase in benefits for members will need to be funded by scheme employers. At a whole scheme level, Hymans estimate that total liabilities might increase by around **0.2%**, equivalent to around **£0.5bn** across the whole of the English and Welsh LGPS. This estimate is significantly less than the **£2.5bn** quoted in the DLUHC consultation on the remedy. The difference was largely due to the materially higher pay growth assumption used by the Government Actuary's Department (GAD). In early September 2021, it was reported that, following further work, GAD now estimated that the cost of the remedy for the LGPS over the next 'several decades' was £1.8bn.

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 LGPS Scheme Advisory Board (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 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 DLUHC's remedy is confirmed.

Currently, the Public Service Pensions and Judicial Offices Bill, the enabling legislation which will allow LGPS regulations to implement the McCloud remedy, is making its way through Parliament. The draft LGPS regulations are expected by the end of 2021 with the final regulations expected to be laid in spring 2022 and expected to come into force in spring 2023.

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. Communications are also being developed to check with employers on the data supplied to the Fund since 2014 with respect to changes in part-time hours and service breaks.

Aquila Heywood has provided the Fund with McCloud related tools for testing on the Altair pension administration 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.

## **2.7 New & Removed Items/Changes to Risk Scores**

No new risks have been added to the Risk Register this quarter and no risks have been removed. The current risk score of one risk and the target risk of one other risk have been changed.

## **2.8 Changes to Risk Scores**

### **Employer contributions not received and accounted for on time (Risk No. 26)**

The probability of employer contributions not being received and accounted for on time was increased from rare (1) to 3 (possible) in Q2 2020-21 in recognition of the financial pressures on employers related to the Covid 19 pandemic. This increased the total risk score from 3 to 9.

The Fund reminded employers of their responsibility to provide information and to pay contributions by relevant deadlines. Although the Fund experienced delays in the provision of information from some employers in the early months of the pandemic as staff moved to working remotely, the timely submission of information is now back to pre-pandemic levels and the vast majority of employers continued to pay contributions promptly throughout the period of business disruption. The probability score for this risk is now being reduced to 2 (unlikely) to take account of the Fund's experience over the last 18 months. This reduces the total risk score to 6.

### **Delayed Annual Benefit Statements and/or Pension Savings Statements (also known as Annual Allowance Statements) (Risk No. 42)**

The current total risk score for this risk is 9 with an impact score of 3 (medium) and a probability score of 3 (possible). The target score was 3 with an impact score of 3 and a probability score of 1 (rare). Following a reassessment of what is achievable once the proposed additional mitigations are in place, the target score has been increased to 6, with the impact score remaining at 3 and the probability score increasing to 2 (unlikely).

### **3. Implications**

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

### **4. Background papers**

Papers held by the Pension Fund.

### **5. Appendices**

5.1 Appendix 1 – Implications.

5.2 Appendix 2 – Summary Risk Register

5.3 Appendix 3 – Main Risk Register

### **6. Recommendation**

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

### **7. Reason for recommendation**

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

**Report Author: Peter Handford**  
**Director of Finance & ICT**

**Implications**

**Financial**

1.1 None

**Legal**

2.1 None

**Human Resources**

3.1 None

**Information Technology**

4.1 None

**Equalities Impact**

5.1 None

**Corporate objectives and priorities for change**

6.1 None

**Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)**

7.1 None

**Derbyshire Pension Fund Risk Register**

Date Last Updated **11-Oct-21** Changes highlighted in blue font.

**Objectives**  
 The objectives of the Risk Register are to:  
 Identify key risks to the achievement of the Fund's objectives;  
 consider the risk identified; and  
 assess the significance of the risks.

**Risk Assessment**  
 Identified risks are assessed separately and assigned a risk score. The risk score reflects a combination of the risk occurring (probability) and the likely severity (financial impact).  
 A low risk classification is based on a score of 4 or less; a medium risk score ranges between 5 and 11; and a high risk score is anything with a score of 12 and above.  
 The Risk Register also includes the target score, showing the impact of the risk occurring once the planned risk mitigations and controls have been completed.

Risk Assessment	Impact	Probability
Level 1	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	38
High Risk	4
<b>Total Risks</b>	<b>47</b>

**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	19	Funding & Investments	Fund assets insufficient to meet liabilities / Decline in funding level / Fluctuations in assets & liabilities
2	30	Funding & Investments	LGPS Central related underperformance of investment returns - failure to meet investment return targets against specified benchmarks
3	37	Funding & Investments	Impact of McCloud judgement on funding
4	44	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	14	Governance & Strategy	Failure to comply with General Data Protection Regulations (GDPR)
9	15	Governance & Strategy	Failure to communicate with stakeholders
10	17	Governance & Strategy	Risk of challenge to Exit Credits Policy/Determinations
11	24	Funding & Investments	Covenant of new/existing employers. Risk of unpaid funding deficit
12	29	Funding & Investments	LGPS Central Ltd fails to deliver the planned level of long term cost savings
13	42	Pensions Administration	Delayed Annual Benefit Statements and/or Pension Savings Statements (also known as Annual Allowance Statements)
14	3	Governance & Strategy	Failure to comply with regulatory requirements for governance
15	5	Governance & Strategy	An effective investment performance management framework is not in place
16	10	Governance & Strategy	Pension Fund financial systems not accurately maintained/Member or Officer fraud
17	13	Governance & Strategy	Systems failure/Lack of disaster recovery plan/Cyber attack
18	16	Governance & Strategy	Failure of internal/external suppliers to provide services to the Pension Fund due to business disruption
19	18	Governance & Strategy	Risks arising from a potential significant acceleration of the academisation of schools.
20	20	Funding & Investments	Mismatch between liability profile and asset allocation policy
21	21	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	22	Funding & Investments	Failure to correctly assess the potential impact of climate change on investment portfolio and on funding strategy
23	23	Funding & Investments	Failure to consider the potential impact of Environmental, Social and Governance (ESG) issues on investment portfolio
24	27	Funding & Investments	The LGPS Central investment offering is insufficient to allow the Fund to implement its agreed investment strategy
25	28	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	40	Pensions Administration	Insufficient cyber-Liability Insurance relating to the pensions administration system
27	47	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
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4	2	8
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2	4	8

Risk Owner	Target Score			Actual Minus Target Score
	Impact	Probability	Target Score	
HoP/IM	4	2	8	4
HoP/IM	4	2	8	4
HoP	3	3	9	3
HoP	2	4	8	4
DoF/HoP	5	1	5	5
HoP	3	2	6	3
HoP	3	2	6	3
HoP/IM/TL	3	2	6	3
HoP/IM/TL	3	2	6	3
HoP	3	2	6	3
HoP/TL	3	2	6	3
HoP/IM	3	2	6	3
HoP/TL	3	2	6	3
HoP	4	1	4	4
HoP/IM	4	2	8	0
HoP	4	1	4	4
HoP/IM/TL	4	1	4	4
HoP/IM	4	2	8	0
HoP/TL	2	4	8	0
HoP/IM	4	2	8	0
HoP/IM	4	2	8	0
HoP/IM	4	2	8	0
HoP/IM	4	1	4	4
HoP/IM	4	1	4	4
HoP	4	2	8	0
HOP/TLs	2	2	4	4

Trend Scores						
	Q1 20-21	Q2 20-21	Q3 20-21	Q4 20-21	Q1 21-22	Q2 21-22
HoP/IM	12	12	12	12	12	12
HoP/IM	12	12	12	12	12	12
HoP	12	12	12	12	12	12
HoP	12	12	12	12	12	12
DoF/HoP	N/A	10	10	10	10	10
HoP	N/A	9	9	9	9	9
HoP	9	9	9	9	9	9
HoP/IM/TL	9	9	9	9	9	9
HoP/IM/TL	9	9	9	9	9	9
HoP	N/A	9	9	9	9	9
HoP/TL	9	9	9	9	9	9
HoP/IM	8	8	8	8	8	8
HoP/TL	9	9	9	9	9	9
HoP	4	4	4	4	8	8
HoP/IM	6	6	6	6	8	8
HoP	6	6	6	6	8	8
HoP/IM/TL	8	8	8	8	8	8
HoP/IM	N/A	8	8	8	8	8
HoP/TL	N/A	N/A	N/A	N/A	N/A	8
HoP/IM	8	8	8	8	8	8
HoP/IM	8	8	8	8	8	8
HoP/IM	N/A	12	12	12	8	8
HoP/IM	N/A	N/A	N/A	N/A	8	8
HoP/IM	8	8	8	8	8	8
HoP/IM	8	8	8	8	8	8
HoP	8	8	8	8	8	8
HOP/TLs	N/A	N/A	N/A	N/A	8	8

Derbyshire Pension Fund Risk Register

Date Last Updated 11-Oct-21

Changes highlighted in blue font.

Risk Number	Description		Current score			Risk Mitigation Controls & Procedures				Target Score				Trend Scores					
	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	Q1 20-21	Q2 20-21	Q3 20-21	Q4 20-21	Q1 21-22	Q2 21-22	

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. A detailed proposal has been submitted to DCC's Modern Ways of Working Team setting out the Fund's future space requirements; this is currently being considered.	The structure of the Pension Fund Team is being reviewed to enable it to support an agile, customer focussed operating model and to ensure appropriate management and stewardship of the Fund's investments assets, with the aim of providing development opportunities which will build the skills and resilience required for the future.	DOF/HoP	5	1	5	5	N/A	10	10	10	10	10	10
2	Failure to recruit and retain suitable Pension Fund staff/Over reliance on key staff.	Lack of planning, inadequate benefits package, 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 Performance & Backlog Management, targeted internal training sessions, learn 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 on going 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 team are working in different locations, and managers are in regular contact with their teams. The Pension Fund Plan is being updated on a more regular basis to ensure that all members of POM are up to date with all Pension Fund activities.	The Fund will continue to identify and meet staff training needs and will consider further staff rotation to increase resilience. The Pension Fund staffing structure is currently being reviewed (see above).	HoP	3	2	6	3	N/A	9	9	9	9	9	9
3	Failure to comply with regulatory requirements for governance	Failure to match-up to recommended best practice leads to reputational damage, loss of employer confidence or official sanction.	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. Detailed Data Management Procedures in place together with procedures to deal with statutory breaches. Lessons learnt from any breaches discussed at relevant governance group. Governance framework includes PIC and Pension Board. Appointment of third party advisor and actuary. Annual Report and Accounts mapped to CIPFA guidance. Fund membership of LAPFF. Internal and External Audit. Member training programme.	Regular review / Maintain central log of governance policy statements for the whole Fund. Ensure lessons learnt from any breaches are considered by appropriate governance group and any resulting changes in procedures are implemented.	HoP	4	1	4	4	4	4	4	4	4	8	8
4	PIC / Pension Board members lack of knowledge & understanding of their role & responsibilities leading to inappropriate decisions	Change of membership (particularly following elections), lack of adequate training, poor strategic advice from officers & external advisors leads to inappropriate decisions being taken.	3	3	9	Implementation of Member Training Programme including induction training for new members of PIC & PB / Attendance at LGA training program / Advice from Fund officers & external advisors.	On-going roll out of Member Training Programme in line with CIPFA guidance. Targeted training for 'new' subjects being considered by PIC.	HoP	3	2	6	3	9	9	9	9	9	9	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	6	6	8	8	
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 PB; My Plan Reviews. An operations development project has been started to review workflows, letters and KPIs. 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.	Output from the operations development project to be incorporated in processes and target setting.	HoP/ITL	3	2	6	0	6	6	6	6	6	6	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.	Training as above (Risk No. 4).	HoP/IM	3	2	6	0	6	6	6	6	6	6	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.	Procedures are being developed to implement the Fund's Conflicts of Interest Policy.	HoP	3	1	3	0	3	3	3	3	3	3	3

Risk Number	Description		Current score			Risk Mitigation Controls & Procedures				Target Score				Trend Scores					
	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	Q1 20-21	Q2 20-21	Q3 20-21	Q4 20-21	Q1 21-22	Q2 21-22	
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 reviewed the Risk Register in detail in March 2021.	PB to review the Risk Register in detail on an annual basis.	HoP/IM	3	2	6	0	6	6	6	6	6	6	
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	6	6	6	8	8	
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	6	6	6	6	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 contracts.		HoP	3	1	3	0	3	3	3	3	3	3	
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. Fund's Data Management Procedures include a section on cyber crime/cyber risk.	Review of Cyber Security Arrangements/Policies. 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	8	8	8	8	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 requirements included in the Data Improvement Plan. Document Retention Schedule review completed (Oct 21). The Fund's GDPR Working Group has been widened out to become a Data Management Working Group. Detailed Data Management Procedures have been developed, incorporating lessons learnt from previous data breaches, setting out why the Fund needs to protect members' data, how the Fund should protect members' data, and what to do when things go wrong. The document includes practical guidance for Fund officers to be applied in day to day working practices when processing personal data. Any data breaches are considered by the Fund's Data Management Group and any lessons learnt/required changes to procedures agreed. The procedures have been rolled out to the majority of the Team.	Roll out of the Fund's Data Management Procedures to remaining staff. 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	9	9	9	9	9	
15	Failure to communicate with stakeholders	Employers being unaware of employer responsibilities could impact service levels to members or lead to statutory data breaches. 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. The Fund's member self-service system 'My Pension Online' went live in June 2021. It gives registered members access to their Derbyshire LGPS pension information and allows them to carry out future benefit calculations.	Increase registrations to My Pension Online enabling more members to gain access to their Derbyshire LGPS information to improve their general understanding and support them with pension planning.	HoP/IM/TL	3	2	6	3	9	9	9	9	9	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 & VM & 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	N/A	8	8	8	8	8	
17	Risk of challenge to Exit Credits Policy/Determinations.	Exit credit payments were introduced into the LGPS in April 2018. Amending legislation came into force on 20 March 2020 allowing administering authorities to exercise their discretion in determining the amount of any exit credit due having regard to certain listed factors plus 'any other relevant factors'. This discretion is open to wide interpretation and potential challenge from employers.	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 outcome of a recent judicial review (published May 2021) on the LGPS Amendment Regulations 2020 has been considered.	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	N/A	9	9	9	9	9	
18	Risks arising from a potential significant acceleration of the academisation of schools.	Any further division of LGPS members into an increasingly wider pool of employers will increase pressure on employer onboarding; collection of data & contributions; employer training; & actuarial matters. Also likely to lead to an increasing in the outsourcing of functions and services involving LGPS members which in turn would lead to a further increase in the number of employers in the Fund. The evolving landscape of multi-academy trusts is also introducing increased administrative and funding challenges as academies move between trusts and trusts consolidate their academies into single LGPS funds.	2	4	8	The Fund has a robust effective procedure for admitting new academies to the Fund, treating them as individual participating employers backed by robust administrative and actuarial arrangements; this helps to mitigate some of the issues that arise when academies move between trusts.	The Fund will continue to monitor local developments on academisation and the administrative resource required by the Fund to support any increase in participating employers. The funding implications of any academies consolidating in another LGPS fund will also be kept under review.	HoP/TL	2	4	8	0	N/A	N/A	N/A	N/A	N/A	8	

**Funding & Investments**

19	Fund assets insufficient to meet liabilities / Decline in funding level / Fluctuations in assets & liabilities	Objectives not defined, agreed, monitored and outcomes reported / Incorrect assumptions used for assessing liabilities / Investment performance fails to achieve expected target / Changes in membership numbers / VR & VER leading to structural problems in Fund / Demographic changes / Changes in pension rules and regulations (e.g. auto-enrolment and Freedom & choice). 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; 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	12	12	12	12	12
20	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	8	8	8	8	8

Risk Number	Description		Current score			Risk Mitigation Controls & Procedures			Target Score				Trend Scores						
	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	Q1 20-21	Q2 20-21	Q3 20-21	Q4 20-21	Q1 21-22	Q2 21-22	
21	An inappropriate investment strategy is adopted / Investment strategy not consistent with Funding Strategy Statement /Failure to implement adopted strategy and PIC recommendations	Failure to set appropriate 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 2020 following consultation with the Fund's stakeholders. A separate RI Framework and a separate Climate Strategy were also approved by PIC in November 2020 following consultation with the Fund's stakeholders. Quarterly review of asset allocation strategy by PIC with PIC receiving advice from Fund officers and external investment adviser.		HoP/IM	4	2	8	0	8	8	8	8	8	8	
22	Failure to correctly assess the potential impact of climate change on investment portfolio and on funding strategy.	Failure to correctly assess potential financially material climate change risks when setting the investment and the funding strategy leading to possible impact on the funding level/investment underperformance/reputational damage.	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 around: 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 has 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. The Fund will receive an annual Climate Risk Report from LGPS Central Ltd.	HoP/IM	4	2	8	0	N/A	12	12	12	12	8	8
23	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	N/A	N/A	N/A	8	8	
24	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. Failure to correctly assess covenant/put in place appropriate security as part of any debt spreading arrangement/Deferred Debt Agreement could increase the risk of an unpaid funding deficit falling on the other employers in the Fund.	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. Robust procedures will be developed to consider any requests for the Fund to enter into debt spreading arrangements /Deferred Debt Agreements. Covenant, actuarial and legal considerations will be taken into consideration in any decisions regarding debt spreading arrangements/Deferred Debt Agreements and appropriate security will be obtained where necessary.	HoP/TL	3	2	6	3	9	9	9	9	9	9	
25	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 circumstances which the Fund would consider as potential triggers for a review of contribution rates between actuarial valuations were included in the updated FSS approved by PIC in Sept 21. The updated FSS also included the potential for cessation debt to be spread over an agreed period (subject to certain conditions) as an exception to the default position of cessation debt being paid in full as a single lump sum and the potential for the Fund to enter into a Deferred Debt Agreement where a ceasing employer is continuing in business (subject to certain conditions).		HoP/TL	3	2	6	0	6	6	6	6	6	6	
26	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	2	6	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.	HoP/TL	3	1	3	3	3	9	9	9	9	9	
27	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. Ongoing 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	8	8	8	8	8	



Risk Number	Description		Current score			Risk Mitigation Controls & Procedures				Target Score				Trend Scores					
	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	Q1 20-21	Q2 20-21	Q3 20-21	Q4 20-21	Q1 21-22	Q2 21-22	
28	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	8	8	8	8	8	
29	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 by Joint Committee. Monitor and challenge LGPS Central product development, 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 of the PIC to enable full participation in the Joint Committee.	HoP/IM	3	2	6	3	8	8	8	8	9	9	
30	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 by DPF and HoP/IM. Monitor and challenge LGPS Central product development, including manager selection process, through the Joint Committee and PAF/IG participation. Initially carry out due diligence on selection managers internally as confidence is built in the manager selection skills of the company.	Ensure the Partner Funds priorities for determining the sub-fund launch timetable listed under 21, are regularly assessed and applied. Investigate alternative options if any underperformance is not addressed.	HoP/IM	4	2	8	4	12	12	12	12	12	12	
31	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	9	9	9	6	6	
32	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	6	6	6	6	6	
33	The introduction of The Markets in Financial Instruments Directive II (MIFID II) in January 2018 results in the investment status of the Fund being downgraded	Fund being unable to access a full range of investment opportunities and assets being sold at less than fair value should an external investment manager not opt-up the Fund to professional status.	4	1	4	Opt-up process complete; no issues identified.	Monitor ability to maintain opt-up status.	HoP/IM	4	1	4	0	4	4	4	4	4	4	
34	Inadequate delivery and reporting of performance by internal & external investment managers	Could lead to expected investment returns not being achieved.	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	6	6	6	6	6	6	
35	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	4	4	4	4	4	
36	Custody arrangements are insufficient to safeguard the Funds investment assets	Could lead to loss of investment return/assets.	4	1	4	Use of reputable custodian. Regular internal reconciliations to check custodian records / Regular review of performance / Periodic procurement exercises.		HoP/IM	4	1	4	0	4	4	4	4	4	4	
37	Impact of McCloud judgement on funding	The proposed McCloud remedy involves the extension of the current underpin protection given to certain older members of the Scheme when the LGPS benefit structure was reformed in 2014. It removes the condition that requires a member to have been within ten years of their 2008 Scheme normal pension age on 1 Apr 2012 to be eligible for underpin protection. It is proposed that the McCloud remedy will be backdated to the commencement of transitional protections (April 2014). 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. LGPS regulations to implement the remedy are expected to be laid in spring 2022 and expected to come into force in spring 2023. 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 also 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. There is, therefore, uncertainty regarding the level of benefits earned by members from 1st April 14 and also from April 2019. The Government Actuary's Department (GAD) has estimated that the cost of implementing the McCloud remedy for the LGPS over the next several decades will be £1.1bn (down from an initial estimate of £2.5bn). The ultimate cost of the McCloud remedy will depend on confirmation of the proposed remedy and the future path of pay growth/promotion. 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.	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 reflecting the Fund's local assumptions, particularly salary increases and withdrawal rates. The revised estimate as it applies to 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 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	12	12	12	12	12	
<b>Pensions Administration</b>																			
38	Failure to adhere to HMRC / LGPS regulations and reflect changes therein	LGPS benefits calculated and paid inaccurately and/or late leading to possible fines/reputational damage.	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 additional sources of technical resource.	HoP	3	1	3	3	6	6	6	6	6	6	

Risk Number	Description		Current score			Risk Mitigation Controls & Procedures			Target Score				Trend Scores					
	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	Q1 20-21	Q2 20-21	Q3 20-21	Q4 20-21	Q1 21-22	Q2 21-22
39	Failure of pensions administration systems to meet service requirements / Information not provided to stakeholders as required	Replacement pensions administration system leads to implementation related work backlogs, diminished performance and complaints.	3	2	6	The Altair system has achieved 'Business as Usual' status. SLAs are in place with the provider as well as established fault reporting system, regular client manager meetings and a thriving User Group (CLASS). The provider has a robust business continuity plan.	Ensure the company's Business Continuity Plan is subject to regular review and <u>continue to take an active part in the CLASS user group.</u>	HoP/TL	3	1	3	3	9	6	6	6	6	6
40	Insufficient cyber-liability insurance relating to the pensions administration system	The contract with the system supplier limits a cyber liability claim to £2m, unless a claim is based on an event caused by the contractor performing its services in a negligent manner. Separately, DCC has £3m of cyber liability cover through its 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. Liability cover in place via the supplier and separately via DCC (not combined). The supplier is required to carry £5m of professional indemnity insurance as part of the contract.	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	8	8	8	8	8
41	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	6	6	6	6	6
42	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, administration backlogs, and the roll-out of the member-self service system 'My Pension Online' (MPO).	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. Robust roll out plan for member self service system and back up plans in place for printing paper ABSs.	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. <u>Achieve MPO roll out targets.</u>	HoP/TL	3	2	6	3	9	9	9	9	9	9
43	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 LGALGPC, 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	6	6	6	6	6
44	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. 37 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	12	12	12	12	12
45	Lack of two factor authentication for Member Self Service	The Fund is implementing a member self-service solution (MSS) to improve the quality and efficiency of the service it provides to its members. MSS will allow members to view certain parts of their pension information (including Annual Benefit Statements), to undertake a restricted number of data amendments and to carry out benefit projections on-line. The member self-service solution provided by Aquila Heywood does not currently utilise a two-factor authentication method.	3	2	6	Robust registration and log-on procedures have been developed which have been approved by the Council's Information Governance Group (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	N/A	N/A	6	6	6	6
46	Implications of Goodwin ruling.	Following the Walker v Inmospec 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	N/A	N/A	6	6	6	6
47	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	N/A	N/A	N/A	8	8



**FOR PUBLICATION**

**DERBYSHIRE COUNTY COUNCIL**

**PENSIONS AND INVESTMENTS COMMITTEE**

**20 October 2021**

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

**GOVERNANCE POLICY AND COMPLIANCE STATEMENT**

**1. Purpose of the Report**

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

**2. Information and analysis**

**2.1 Background**

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

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

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

## **2.2 Changes to the draft Statement**

Minor updates have been included in the draft Statement to reflect the reappointment of the two members representing Derby City Council, and the current vacancy for an employer representative on the Derbyshire Pension Board.

A recruitment exercise to fill the vacancy on the Board is currently underway.

The draft Statement also includes clarification that members of the Pension Board are invited to attend the Committee's meetings as observers.

## **2.3 Review of the composition of the Pensions and Investments Committee**

Widening scheme member and employer representation in the Fund's governance structure remains an area for development and a project has commenced to review the representation of scheme members and employers on the Pensions and Investments Committee.

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

The report included a proposal for future Statutory Guidance to require administering authorities to produce and publish a policy on representation of scheme members and non-administering authority employers on Committees including an explanation of its approach to voting rights for each party.

A report will be prepared for the Committee with an update on progress in the new year.

The Fund has aimed to improve engagement with scheme members' through the implementation of the My Pension Online service, with registration for the service currently underway. It is intended that a Members' Forum will be established following the implementation of the My Pension Online service.

## **3. Implications**

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

#### **4. Background Papers**

Background papers are held by the Head of Pension Fund.

#### **5. Appendices**

6.1 Appendix 1 – Implications

6.2 Appendix 2 – Draft Governance Policy and Compliance Statement

#### **6. Recommendation**

That Committee approves the draft Derbyshire Pension Fund Governance Policy and Compliance Statement attached as Appendix 2.

#### **7. Reason for recommendation**

The current version of the Governance Policy and Compliance Statement was approved by Committee on 4 November 2020. The Statement is reviewed annually.

**Report Author: Peter Handford**  
**Director of Finance & ICT**

**Implications**

**Financial**

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

**Legal**

2.1 None

**Human Resources**

3.1 None

**Information Technology**

4.1 None

**Equalities Impact**

5.1 None

**Corporate objectives and priorities for change**

6.1 None

**Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)**

7.1 None



Derbyshire  
Pension  
Fund

## Appendix 2

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# Governance Policy and Compliance Statement

October 2021

## Introduction

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

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

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

## Governance Objectives

The Pension Fund's governance objectives are to:

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

The identification and management of conflicts of interest is integral to the Fund achieving its governance objectives. A Conflicts of Interest Policy has, therefore, been developed for



the Pension Fund and it was approved by the Pensions and Investments Committee on 4 November 2020.

## **Governance Arrangements**

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

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

### **Pensions and Investments Committee**

The Committee comprises eight voting Councillors representing the County Council and two voting Councillors representing Derby City Council. The County Council members of the Committee reflect the political balance of the Council. The Councillors representing Derby City Council were reappointed to the Committee at the Annual General Meeting of Derby City Council on 26 May 2021.

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

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

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

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

- Governance Policy and Compliance Statement
- Investment Strategy Statement
- Funding Strategy Statement
- Treasury Management Strategy
- Quarterly tactical asset allocation

Other statutory policies required by the Local Government Pension Scheme Regulations and strategy/policy statements in line with best practice

The Committee also receives and considers the Fund's:

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

The Committee ensures arrangements are in place for:

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

The Committee is responsible for appointing the Fund's:

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

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

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

## **Derbyshire Pension Board**

The Public Service Pensions Act 2013 introduced a framework for regulatory oversight by the Pensions Regulator and introduced a new governance structure for the LGPS which

came into effect in April 2015 and included the requirement for administering authorities to establish Local Pension Boards.

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

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

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

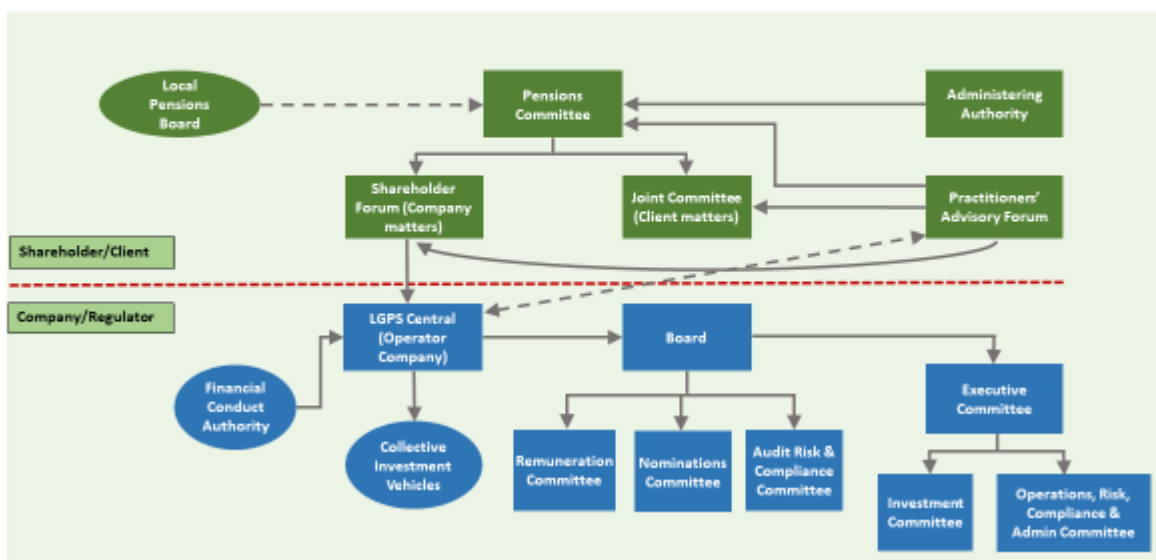
- Securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme
- Securing compliance with any requirements imposed by the Pensions Regulator in relation to the Scheme

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

### LGPS Central Pool

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

### LGPS Governance Arrangements



The governance arrangements of the Pool include the following bodies:

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

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

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

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

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

## Review and Compliance with Best Practice

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

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

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

<p><b>Representation</b></p>	
<p>That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> <li>• Employing authorities (including non-scheme employers e.g. admitted bodies)</li> <li>• Scheme members (including deferred and pensioner scheme members)</li> <li>• Where appropriate, independent professional observers</li> <li>• Expert advisors (on an ad-hoc basis)</li> </ul>	<p><b>Partially Compliant</b> Membership of the Pensions and Investments Committee includes two representatives from Derby City Council and two non-voting Trade Union representatives, as well as eight representatives from the administering authority (also the largest employing body). In practice the Trade Union representatives tend to represent the interests of all scheme members. Membership and employer representation will be kept under review. The Fund's Independent Investment Advisor attends investment related Pensions and Investments Committee meetings. Other independent experts attend meetings of the Committee as required e.g. the Fund's Actuary attends to discuss the triennial valuation. Derbyshire Pension Board (the Board) includes two employer representatives (currently one represents a District Council and the other position is vacant) and two member representatives. The Board has an independent Chair.</p>
<p>That where lay members sit on a main or secondary committee, they are treated equally in terms of access to reports, meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.</p>	<p><b>Compliant</b> All members of the Pensions and Investments Committee, the Pension Board and trade union representatives receive the same Committee meeting reports and have access to the same training. All voting and non-voting members of the Committee are given full opportunity to contribute to the decision making process.</p>
<p><b>Selection and Role of Lay Members</b></p>	
<p>That committee or panel members are made fully aware of the status, role and function they are required to</p>	<p><b>Compliant</b> All members of the Pensions and Investments Committee receive training on the status, role and function they are</p>

perform on either a main or secondary committee.	required to perform when they join the Committee.
That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	<b>Compliant</b> Declarations of interest are required at each Pensions and Investments Committee meeting and recorded in the minutes of the meeting.
<b>Voting</b>	
The policy on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	<b>Compliant</b> The policy on voting rights is clear and transparent. All elected members on the Pensions and Investments Committee have voting rights. The elected members represent employers, local taxpayers and scheme beneficiaries.
<b>Training/Facility Time/Expenses</b>	
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.	<b>Compliant</b> The Fund has a training policy which applies to all members of the Pensions and Investments Committee and the Pension Board. A training plan has been developed based on self-assessment forms completed by the members of both bodies and a log of all training is maintained. The reimbursement of member expenses is in line with the County Council's policy of member reimbursement.
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	See above.
That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	See above.
<b>Meetings</b>	
That an administering authority's main committee or committees meets at least quarterly.	<b>Compliant</b> The Pensions and Investments Committee meets eight times a year (six formal meetings and two training sessions).

<p>That an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits.</p>	<p><b>Not applicable</b></p>
<p>That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.</p>	<p><b>Not applicable</b> However, an annual Employers' Forum is held to which all employing bodies are invited.</p>
<p><b>Access</b></p>	
<p>That subject to any rules in the Council's constitution, all members of the main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.</p>	<p><b>Compliant</b> All members of the Pensions and Investments Committee (and the Pension Board) have the same access to committee papers, documents and advice to be considered at the Pensions and Investments Committee.</p>
<p><b>Scope</b></p>	
<p>That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.</p>	<p><b>Compliant</b> The Pensions Committee and the Investments Committee have been combined into the Pensions and Investments Committee which covers all aspects of investment, administration and governance. The Committee is now also supported by the Pension Board which assists with governance and administration matters.</p>
<p><b>Publicity</b></p>	
<p>That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.</p>	<p><b>Compliant</b> The Governance Policy and Compliance Statement is published on the Pension Fund's website. Vacancies for Derbyshire Pension Board are advertised on the website.</p>





**FOR PUBLICATION**

**DERBYSHIRE COUNTY COUNCIL**

**PENSIONS AND INVESTMENTS COMMITTEE**

**20 October 2021**

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

**Half-Year Pension Administration Performance Report  
1 April 2021 to 30 September 2021**

**1. Purpose of the Report**

To notify the Pensions and Investments Committee (the Committee) of the administration activity undertaken by the Pension Administration Team (the Team) of Derbyshire Pension Fund (the Fund), and the performance levels achieved, in the first half of 2021/2022.

**2. Half-year report**

This report relates to the first half of 2021/2022 covering the period 1 April 2021 to 30 September 2021 and provides a summary of the Fund's performance in key areas of pension administration activity.

Maintaining efficient administration is important towards retaining the confidence and trust of scheme 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. The Administration Team**

The Administration Team's core role is to ensure that pension benefits are paid to members accurately and in a timely manner, and to provide clear information on pension options to members to help their planning for retirement.

The pension administration function covers a range of activities including: -

- calculation, processing and payment of members' and survivors' pension benefits
- employer services, including data and contribution collection functions
- maintenance and development of the pension administration system (Altair), the Fund's website and the online member self-service provision (My Pension Online)
- implementation and communication of regulatory and procedural changes
- engaging with members and employers to answer queries, provide relevant accessible information and develop understanding of the LGPS

#### **4. Covid-19 impact**

The Government's lockdown measures in response to the Covid-19 pandemic presented several challenges for the Fund's administration during 2020/21, particularly with the majority of the team working remotely from home throughout the year.

Working from home for most of the team has continued through the first half of 2021/22 and the Fund's robust procedures and business continuity plans have ensured that service provision has been maintained across the range of administration activities. A detailed Covid-19 Business Continuity Plan which was initially developed in April 2020 has provided a base for the maintenance and continuation of services.

The provision of services has continued to develop around remote working arrangements including the implementation of soft phone technology which has enabled calls to the Pensions Helpline to be taken through Microsoft Teams functionality on each team member's laptop.

A small team has remained office-based in order to maintain functions such as printing, packaging and posting letters and pension documents. Issuing formal documentation to members by post has remained the core method of communication. The implementation of the member self-service provision, "My Pension Online" which launched in June 2021 will enable development of electronic communications in more areas of the Fund's administration.

#### **5. Workload data**

A summary of the Fund's administrative activity during the period 1 April 2021 to 30 September 2021 is summarised in the following sections.

## 5.1 Membership numbers

Membership	31 March 2020	30 Sept 2020	31 March 2021	30 Sept 2021
Actives	38,061	37,274	37,996	37,390
Deferred	28,255	30,083	30,807	31,052
Pensioners	30,904	31,484	31,930	32,618
Work in Progress	8,408	6,426	5,992	6,248
<b>Totals</b>	<b>105,628</b>	<b>105,267</b>	<b>106,725</b>	<b>107,308</b>

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 30 September 2021 was 89,966 who between them have 107,308 membership records.

- **Active** members are those who are in employment and continuing to contribute to the scheme
- **Deferred** members are those who have ended their active participation as contributing members, but have yet to access their pension benefits
- **Pensioner members** are those who are already in receipt of pension benefits

The '**Work in Progress**' total of memberships includes:

- cases where active memberships have ended, and work is currently being undertaken to reassign them to deferred or pensioner membership
- recent and frozen refunds where active memberships have ended after a short period which is insufficient to qualify for a pension, and work is ongoing to contact members and arrange payment of a refund of contributions
- aggregation cases where a member's pension records for different jobs may be combined, but the work to complete the aggregating of records has yet to be completed

## 5.2 Pensioner deaths

The Fund contributed monthly data until June 2021 towards the LGPS Scheme Advisory Board's (the Board) analysis of pensioner 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 pandemic. The latest reports which reviewed pensioner deaths to 31 March 2021 identified that there had been excess mortality for both male and female pensioners across all age bands, however, suggested that it was possible to conclude that deaths had occurred earlier than expected and had effectively been brought forward in time with the likely outcome that the short term future may see lower levels of mortality, balancing out the increased mortality during 2020/21. Although early deaths lead to a reduction in liabilities for pension funds, it was felt that the impact on overall scheme funding was negligible (approx. 0.2% reduction) in the context of the total liabilities that require to be funded.

During 2020/21 there were a total of 920 deaths of pensioner members in Derbyshire Pension Fund which represented a 22% increase on 2019/20 (753). At the time of preparing this report, pensioner deaths since April 2021 are 294.

Administration following a pensioner's death includes several processes including:

- reviewing eligibility for a death grant payment and survivor benefits
- gathering data of eligible beneficiaries for death grant and survivor benefits
- verifying their eligibility
- calculating ongoing benefits
- preparing a separate pension record

### 5.3 Achievement against standards

The following table shows cases in selected key areas of work which were actioned in the period 1 April 2021 to 30 September 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	1,048	1	1,036	12	98.9%	1,783 (97.1%)
Death cases	505	2	492	13	97.4%	1,214 (93.7%)
Transfer Out quotes	327	3	310	17	94.8%	462 (84.2%)
Transfer Out paid	43	3	42	1	97.7%	78 (97.4%)

<b>Transfer in</b>	65	3	58	7	89.2%	165 (79.4%)
<b>Estimate requests</b>	553	2	551	2	99.6%	741 (99.1%)
<b>Refunds paid</b>	889	2	690	199	77.6%	1,852 (95.5%)

The following provides a brief description of the cases included in the figures shown in the table. A completed case reflects the completion of data gathering, calculation, documentation, processing, and payment (where applicable).

**Retirement Benefits Paid** –member retirements (voluntary, redundancy or business efficiency, ill-health, flexible and deferred).

**Death cases** – deaths of all members (active, deferred, pensioner and survivor beneficiaries).

**Transfer Out quotes** – provision of transfer values to deferred members who have applied for the value of the benefits with a view to transferring to a different pension arrangement.

**Transfer Out paid** – completion of transfers where deferred members wish to proceed with their transfer to a different pension arrangement.

**Transfer In** – completion of transfers where new active members decided to transfer membership from other LGPS funds or a different pension scheme which is part of the Public Sector Transfer Club. The Fund currently only accepts transfers in from other “Club” schemes.

**Estimate requests** – provision of:

- written estimates of pension benefits for members considering accessing their pension benefits at a future date and
- shortfall costs for employers considering redundancies or business efficiencies

**Refunds paid** – completion of refund payments to members whose active membership ended before they qualified for pension benefits.

#### **5.4 Quantity of work – incoming and completed**

The administrative priorities for the Fund during the first half of 2021/22 have continued to be the key services noted earlier in this report which had been identified by The Pensions Regulator as those which should take precedence during the pandemic. However, the Fund’s work in providing services to

scheme members in other areas has continued mostly at normal levels experienced before the pandemic.

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 2020/21 and the second half-year period in 2020/2021 are included.

### Number of work items processed

	<b>Apr- Sept 2020/2021</b>	<b>Oct- March 2020/2021</b>	<b>Apr- Sept 2021/2022</b>
New work items becoming due in the period	19,063	26,823	33,631
Work items completed during the period	20,438	24,672	23,609

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.

The increase in workload over the first half year of 2021/22 was largely generated by work from the introduction of the My Pension Online service for members and continued progress of more employers implementing the i-Connect secure data transmission service.

This includes the development of a new workflow in the Altair pension administration system which alerts members on their My Pension Online record that there is work in progress on their pension record which may result in changes to the value of their pension.

Additionally, enquiries have emerged from the backloading of data from employers during their implementation of the i-Connect secure data transmission service.

At the end of September 2021, a total of 19,482 work items were identified as remained open and in progress. The table below summarises the main areas of open work, included in the above total:

<b>Work area</b>	<b>Open cases as at 30 September 2021</b>
Undecided leavers	6,169
Aggregations	3,327
i-Connect enquiries with employers	2,330

Other enquiries with employers	1,555
Address traces	1,523
Notification of deferred benefits	886
Refund quotes	509
Refunds to payment	140
Retirement quotes	306
Death administration (in progress)	200
Retirements (in progress)	60
Transfer In	43
Transfer Out quotes	136
Transfers Out to payment	7
Others	2,291
<b>Total</b>	<b>19,482</b>

The following provides a brief description of some of the cases not included in the descriptions in 5.3

**Undecided leavers** – members who have left their employment but have yet to finalise what they want to do with regard to their pension benefits.

**Aggregations** – the combining of previously accrued benefits in the LGPS with a new or ongoing active pension record.

**i-Connect enquiries** – individual data enquiries with employers who have implemented the i-Connect secure data transmission service for the monthly submission of member data.

**Other employer enquiries** – ongoing queries with employers relating to:

- information on members whose active membership has ended and
- outstanding enquiries from year-end returns

**Notification of deferred benefits** – the calculation of a member's pension benefits at the point of ending active membership and becoming a deferred member.

**Address traces** – outstanding enquiries with tracing services for deferred members' home addresses.

## 5.5 Data quality

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

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

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

To measure the Fund's data quality, the software provider, Aquila Heywood, has provided the latest common and conditional data results for 2020/2021 which are shown in the table below together with the results for the previous 3 years:

Year	Common data	Conditional data
2017/2018	95%	85%
2018/2019	97.6%	92.3%
2019/2020	98%	92.5%
2020/2021	98.2%	93.5%

The data quality scores for 2020/2021 will be included in the Fund's Annual Report for 2020/21.

### **5.6 Backlog Management Project**

An ongoing project to reduce and ultimately eliminate the numbers of backlog cases in two key areas (aggregations and deferred membership) of pension administration has continued throughout the first half of 2021/22. Continuing high levels of new aggregation cases and the complexity of some of the cases has resulted in the number of backlog cases reducing slowly. A return of greater numbers of staff to office-based working should help to increase the rate of backlog reduction with more direct team support available to finalise more of the complex aggregations.

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

**Aggregations** –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 2020/2021, the total of backlogged aggregations was 1,797. The total had reduced slightly to 1,604 by the end of September 2021.

**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 was made during 2020/2021 and the outstanding total at the end of March 2021 had reduced significantly again to 168.

The total by the end of September 2021 had increased slightly to 452. This has been due to ongoing work with employers to identify and submit missing leaver details for members whose active membership had ended.

### **5.7 Monthly contribution returns**

Since the start of the pandemic, employers have faced a number of challenges in respect of their LGPS responsibilities. 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 has remained a core priority for employers based on payment and contribution reports having to be received by the Fund by the 19<sup>th</sup> of the month following payment.

The Fund has continued to work with employers who have experienced difficulties with completing payments and submitting contribution reports. Full data relating to contribution payments and reports from employers is currently only available to July 2021, however, the current averages for employer submissions received by the Fund by the monthly deadline reflect that during 2021/2022 so far, approximately 96% of contribution payments, and approximately 90% of related contribution reports were received on time.

The Fund is continuing to work collaboratively with employers 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.

### **5.8 New academies and admission bodies**

#### **Academies**

When a Local Authority maintained school converts to an academy, it automatically becomes a scheduled body in the LGPS. Scheduled bodies are required to provide LGPS membership to their eligible employees.

The creation of academies has significantly increased the number of LGPS scheduled bodies in recent years which has generated additional administrative challenges for LGPS funds as scheme members have become spread across a much wider pool of employers.

Although the number of academisations slowed during the pandemic, the Secretary of State for Education stated in April 2021 that the Government

would be considering introducing policies with the aim of accelerating the numbers of school conversions.

A total of 5 new academies joined the Fund as an individual LGPS employer in the period 1 April to 30 September 2021.

Previous full year totals had been 37 in 2019/20 and 18 in 2020/21.

Brief details of each are as follows:

<b>Employer Ref</b>	<b>Employer Name</b>	<b>Start Date</b>	<b>Academy Trust</b>
756	Brackendale Spencer Academy	1 April 2021	The Spencer Academies Trust
757	Oakwood Junior School	1 April 2021	Odyssey Collaborative Trust
758	Hollingwood Primary School	1 July 2021	Flying High Trust
759	Castleward Spencer Academy	1 September 2021	The Spencer Academies Trust
760	Clover Leys Spencer Academy	1 September 2021	The Spencer Academies Trust

As at 30 September 2021, the remaining total of Local Authority maintained schools in Derbyshire County Council and Derby City Council was 316.

### **Admission Bodies**

Applications from 6 organisations for Admission Body status, based on commencing a contract during the first half of 2021/22 with a scheme employer which includes the transfer of active scheme members, are currently being processed.

The employers involved in the arrangements are:

- Derbyshire County Council
- Bolsover District Council
- Ecclesbourne School
- Derby Cathedral School
- Academies operated by Odyssey Collaborative Trust
- Academies operated by The Harmony Trust

## Employer summary

The number of employers actively participating and paying contributions to the Fund as at 30 September 2021 was 337, broken down as follows:

Type of Employer	Notes	Total
<b>Main Councils</b>	County, City, District & Boroughs	<b>10</b>
<b>University &amp; FE Colleges</b>	University x 1, FE Colleges x 2	<b>3</b>
<b>Academies</b>	Individual academies, including those in MATs on a shared employer rate. Also includes 2 x Central MAT teams.	<b>205</b>
<b>Maintained Schools using an external payroll provider</b>	County & City Schools using external payroll providers (County x 4, City x 3)	<b>7</b>
<b>Housing Associations</b>	Scheduled x2 Admitted Bodies x 3 (2 x TAB, 1 x CAB)	<b>5</b>
<b>Other Scheduled Bodies</b>	Peak District National Park Authority, Police, Fire, Chesterfield Crematorium	<b>4</b>
<b>Admitted Bodies</b>	TABs x 63, CABs x 4 (not including Housing Assn's)	<b>67</b>
<b>Town &amp; Parish Councils</b>	Pre 2001 Pool x 15 Post 2001 Pool x 21	<b>36</b>
<b>Total</b>		<b>337</b>

Please note that the total of Admitted Bodies includes employers whose participation in the Fund commenced in an earlier period, but payments of contributions had been delayed until the Admission Agreement was finalised.

## Exits from the Fund

During the first half of 2021/22 the following employers' active participation in the Fund ended. The list includes an employer whose last active member in the Fund left during March 2021 but was not included in the list of employer exits in the previous half-year report provided to the Committee in April.

Employer	Reason	Date of active participation ending
Caterlink (catering provision at Reigate Primary School)	Last active member left	March 2021
Vinci (cleaning provision at Ashcroft and Portway Primary Schools)	Contract ended	April 2021
Glapwell Parish Council	Last active member left	April 2021
Action for Children (community nursery service)	Last active member left	April 2021

Mellors Catering Services (catering provision at Ecclesbourne School)	Contract ended	July 2021
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In addition, 3 schools maintained by Derby City Council returned to the Council's payroll service during the first half of 2021/22. During their period of using an alternative payroll provision, each school was treated as a separate employer by the Fund for the collection of data and pension contributions.

The 3 schools are as follows:

- Pear Tree Infant School – returned to inclusion in submissions from Derby City Council wef 1 July 2021
- Walbrook Nursery School - returned to inclusion in submissions from Derby City Council wef 1 July 2021
- Shelton Junior School - returned to inclusion in submissions from Derby City Council wef 1 September 2021

### **East Midlands Education Trust**

The Trust currently operates 19 academies located across Nottinghamshire, Derbyshire, and Leicestershire. The Trust successfully applied to the Secretary of State at the former Ministry of Housing, Communities and Local Government (now Department of Levelling Up, Housing and Communities) to consolidate all of its academies into a single LGPS Fund. The Nottinghamshire Pension Fund was chosen as the majority of the Trust's academies are located in the county. The Trust's objectives included paying a single contribution rate in order to simplify financial planning, reduce the administrative costs of dealing with separate funds and simplifying and reducing the cost of other processes such as financial reporting.

As a result, the administering authority for the following 6 academies changed from Derbyshire to Nottinghamshire from 1 September 2021:

- The Ripley Academy
- John Flamsteed Community School
- Street Lane Primary School
- Chellaston Infants School
- Chellaston Juniors School
- Homefields Primary School

## **5.9 Complaints, compliments and appeals**

### **Complaints and compliments**

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

During the first half of 2021/2022 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 and employers are also recorded by the Fund and shared with the team member who provided the service. During the first half of 2021/2022 a total of 8 compliments had been recorded as submitted by members and employers praising the level of service they had received.

### **Appeals**

Appeals via AADP can be made by scheme members when they are dissatisfied with a decision made regarding their LGPS benefits. The most common decision for which appeals are submitted, relates to dissatisfaction with an employer's decision regarding eligibility for ill-health retirement.

There are two possible AADP stages.

#### **Stage 1**

AADPs submitted against an employer's decision are considered at the first stage by the adjudicator appointed by that employer.

AADPs submitted against a decision made by the Fund are considered at the first stage by the Fund's adjudicator.

#### **Stage 2**

Where a member remains dissatisfied following the determination of their Stage 1 appeal, they may submit a Stage 2 appeal which is considered by the administering authority.

The Committee delegated the arrangements for the determination of Stage 2 appeals to the Director of Finance and ICT at the meeting held on 21 July 2021.

An annual report is provided to the Committee which summarises:

- appeals made against the Fund at Stage 1
- all appeals submitted to the administering authority at Stage 2
- cases which are subsequently escalated to The Pensions Ombudsman

Additionally, a brief summary of the numbers of appeal cases which have been determined during each half-year period are included as part of this report.

During the period 1 April to 30 September 2021 the totals of appeals determined at each stage are as follows:

- Stage 1 appeals submitted against the Fund – 0
- Stage 2 appeals submitted to the administering authority – 0

### **The Pensions Ombudsman (TPO)**

Where scheme members remain dissatisfied with the outcome of appeals submitted at AADP Stages 1 and 2, they have the right to refer their complaint to The Pensions Ombudsman to investigate by considering information from all the parties involved in a complaint before making a determination.

The Ombudsman's determinations are final, subject to a successful appeal to the courts on a point of law. They are binding on all the parties and enforceable in court.

During the first half of 2021/2022, the Fund has not been notified of any new cases which have been submitted by scheme members to TPO.

Currently there are three cases awaiting the Ombudsman's determination, all of which were escalated to the Ombudsman by scheme members during 2020. In each case, a determination has been delayed by a backlog of cases caused by the impact of the pandemic.

Of the 3 outstanding cases with the Ombudsman, two relate to decision made by employers in respect of eligibility for ill-health retirement and one relates to a scheme member's dissatisfaction with handling of an application for payment of deferred retirement benefits by her former employer and the Fund.

## **6. Communications and Training**

### **Communications Policy**

The Committee approved a revised version of the Fund's Communications Policy at its meeting on 28 April 2021. The revised version included the development of the Fund's member self-service website, My Pension Online and set the Fund's key priorities for the development of its communications over the next three years as:

- 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

### **i-Connect training**

During the first half of 2021/2022 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. The sessions have also provided employers with an understanding of the benefits of submitting member data via i-Connect for themselves, scheme members and the Fund.

### **Other employer training**

Additionally, virtual training sessions, and bespoke meetings on specific topics to support employers have included training and support on a range of issues including:

- Ill-health retirement procedures
- The role of the adjudicator
- Completion of fund documentation
- Admitted Body Status
- 

### **Communications to scheme members**

The Fund has commenced a programme to invite scheme members to register for My Pension Online. At the time of preparing this report, individual letters had been issued to over 51,300 active and deferred members inviting them to begin the process of registering for My Pension Online.

### **Annual Benefit Statements**

Annual Benefit Statements have this year been made available to members online, although the opportunity to still receive a paper statement has been provided.

By the end of September 2021, the following totals of Annual Benefit Statements had been made available online to members or issued on paper.

- Active members – 89.9%
- Deferred members (with confirmed home addresses) – 97.9%

### **Communications to employers**

During the first half of 2021/2022, the Fund issued the following newsletters to employers:

<b>Date issued</b>	<b>Bulletin</b>	<b>Topics included</b>
23 April 2021	171	<ul style="list-style-type: none"> <li>• Employer guides</li> <li>• My Pension Online</li> <li>• Standard contract wording</li> <li>• LGPS videos</li> <li>• Year-End Return 2020/2021</li> </ul>
21 May 2021	172	<ul style="list-style-type: none"> <li>• Year-end Return 2020/21</li> <li>• i-Connect</li> </ul>

		<ul style="list-style-type: none"> <li>• Outsourcing</li> <li>• Employee details changes</li> </ul>
24 June 2021	173	<ul style="list-style-type: none"> <li>• My Pension Online</li> <li>• McCloud - request for information</li> <li>• Ill health retirement tier 3</li> <li>• Payments for unused holiday</li> </ul>
29 July 2021	174	<ul style="list-style-type: none"> <li>• My Pension Online</li> <li>• Minor Changes to HR and Payroll guides</li> <li>• Fund consultation on draft updates to the Funding Strategy Statement,</li> <li>• Government consultation on Special Severance Payments</li> </ul>
31 August 2021	175	<ul style="list-style-type: none"> <li>• My Pension Online</li> <li>• Funding Strategy Statement consultation responses</li> <li>• Member forms improvements</li> </ul>
30 September 2021	176	<ul style="list-style-type: none"> <li>• My Pension Online</li> <li>• Updated Funding Strategy Statement</li> <li>• Standard contract wording</li> <li>• Training requests</li> <li>• Salary sacrifice AVCs</li> <li>• Employee details changes</li> </ul>

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

## 7. Projects

### 7.1 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 first half of 2021/2022.

Implementation commenced at the start of 2020, and 183 employers are currently securely transmitting member data to the Fund via i-Connect.

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 utilised.

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.

### 7.2 Back scanning project

An estimated 3 million documents are held by the Fund on microfiche records. A project to upload the documents into the Altair system has now been completed. 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 have been loaded onto the respective Altair records.

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.

### **7.3 Member Self-Service (My Pension Online)**

The implementation of the member self-service website, My Pension Online, a further functionality linked to Altair was launched in June 2021.

My Pension Online is 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. Active members are able to undertake certain types of retirement estimates and adjust these instantly in line with varying estimated future retirement dates.

By the end of September 2021 a total of 7,256 members had completed their registration for My Pension Online.

The experience of LGPS and other public sector pension funds has been that registration rates are initially slow. The Fund is continuing to engage with employers to seek their assistance with encouraging scheme members to register.

### **7.4 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. The McCloud judgement refers to the Court of Appeal's ruling that Government's public sector pension reforms unlawfully treated existing public sector scheme members differently based upon members' age on the 1 April 2012. The judgement came after two Employment Tribunals concerning the pensions of judges' (McCloud) and firefighters' (Sargeant).

In May 2021, the government confirmed the key elements of the changes to scheme regulations which will be made in due course as a result of the McCloud judgement. The main points confirmed are that:

- underpin protection will apply to all meet the revised qualifying criteria
- the maximum period of protection will apply from 1 April 2014 to 31 March 2022
- where a member stays in active membership beyond 31st March 2022, the comparison of their benefits will be based on their final salary when

they leave the LGPS, or when they reach their final salary scheme normal retirement age, if earlier

The Public Service Pensions and Judicial Offices Bill (the Bill) which is currently going through its parliamentary stages is the enabling legislation which will allow LGPS regulations to implement the McCloud remedy by extension of the underpin protection. The draft LGPS regulations are expected by the end of 2021 and should enable progress to be made on upgrading pension administration systems to allow for the changes.

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

## **8. Collaborations**

The Fund takes part in several regional and national groups with the aim of learning, sharing, influencing and networking with colleagues from other Funds and the wider pensions industry at meetings. Since March 2020, all of the following collaborative group's meetings have been organised virtually.

### **East Midlands Pension Officers' Group (Quarterly)**

Officers from 5 East Midlands funds share and review current LGPS related issues including the interpretation of scheme regulations, the implementation of new and revised legislation, non-standard cases, and future developments. A representative from the Local Government Association also attends each meeting.

### **LGPS Joint Communications Group (Quarterly)**

Membership of this group enables the fund to work with other LGPS Funds, and provides the opportunity chance to share best practice, communication resources and develop joint projects, such as newsletters for scheme members..

### **LGPS Central - Strategic Administration Group (biannually)**

Officers from LGPS Central's 8 partner Funds discuss strategic matters impacting on the scheme administration role

### **CLASS Local Authority Pensions Group**

Officers from Funds using the Altair pension administration system discuss software and technical issues, including priority developments.

### **National LGPS Technical Group (Quarterly)**

The Fund has gained one of two seats on the National LGPS Technical Group to represent the LGPS Fund in the East Midlands. The Group's functions include advising administering authorities on the interpretation of legislation and representing the views of administering authorities in recommending changes to Scheme regulations.

## **9. Appendices**

### 9.1 Appendix 1 – Implications

## **10. Recommendation**

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

## **11. Reason for recommendation**

The Committee reviews the Pension Fund's workloads and performance levels in respect of its administration activity on a half-yearly basis.

**Report Author: Peter Handford**  
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**Implications**

**Financial**

1.1 None

**Legal**

2.1 None

**Human Resources**

3.1 None

**Information Technology**

4.1 None

**Equalities Impact**

5.1 None

**Corporate objectives and priorities for change**

6.1 None

**Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)**

7.1 None

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