Local Pension Board

Date **Thursday 7 December 2023**
Time **2.00 pm**
Venue **Committee Room 2, County Hall, Durham**

Business

Part A

Items which are open to the Public and Press.

1. Apologies for Absence
2. Declarations of Interest (if any)
3. The Minutes of the Meetings held on 15 June 2023 and 14 September 2023 (Pages 21 - 34)
4. Observations and Feedback from:

   Pension Fund Committee held on 7 December 2023.
5. Local Pension Board Training - Verbal Update
6. Pension Fund Debt Management (Pages 35 - 44)
7. Responsible Investment Policy (Pages 45 - 92)
8. Regulatory Update (Pages 93 - 158)
9. Pension Administration Report (Pages 159 - 170)
10. Pension Fund Annual Report and Accounts - Verbal Update
11. Date of Next Meeting - 14 March 2024
12. Any Other Business

Helen Bradley
Head of Legal and Democratic Services

County Hall
Durham
29 November 2023

To: **The Members of the Local Pension Board**

Scheme Employer Representatives:
Councillors A Hopgood and D Stoker

Scheme Member Representatives:
N Hancock, L Oliver and W Pattison (Chair)

Contact: Martin Tindle **Tel: 03000 269 713**

Pension Fund Committee

Abbreviations

List of commonly used abbreviations

AB	Alliance Bernstein, the Fund's Bonds manager
ACS	Authorised Contractual Scheme, the collective investment scheme used by BCPP for asset pooling
AUM	Assets Under Management
BCPP	Border to Coast Pensions Partnership, the Fund's asset pool
CBRE	Coldwell Banker Richard Ellis, the Fund's Real Estate manager
CEO	Chief Executive Officer
CIO	Chief Investment Officer
CIPFA	The Chartered Institute of Public Finance and Accountancy
CLG	Communities and Local Government (former name of MHCLG)
COO	Chief Operating Officer
COP	Conference of Parties, a UN conference on climate change
CPI	Consumer Price Index
CSR	Corporate Social Responsibility, a term under which companies report their social, environmental and ethical performance
DAA	Dynamic Asset Allocation
DGF	Diversified Growth Fund

EM	Emerging Markets
EMEA	Europe, Middle East & Africa
ESG	Environmental, Social, and Governance – factors in assessing an investment's sustainability
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FSS	Funding Strategy Statement
FTA	FTSE Actuaries UK Gilts Index Series
FTSE	Financial Times Stock Exchange
GEM	Global Emerging Markets
GRESB	Global ESG Benchmark for Real Assets
HMT	Her Majesty's Treasury
Infra	Infrastructure
IRR	Internal Rate of Return
ISS	Investment Strategy Statement
JC	Joint Committee
LGA	Local Government Association
LGPS	Local Government Pension Scheme
LAPFF	Local Authority Pension Fund Forum
LIBOR	London Inter Bank Offered Rate, a benchmark interest rate at which global banks lend to one another
LPB	Local Pension Board
MAC	Multi Asset Credit
MHCLG	Ministry of Housing, Communities and Local Government
MSCI	formerly Morgan Stanley Capital International, publisher of global indexes

NED	Non-Executive Director
NT	Northern Trust, the Fund's Custodian
OECD	Organisation for Economic Co-operation and Development
PF	Pension Fund
PFC	Pension Fund Committee
PLSA	Pensions and Lifetime Savings Association
PRI	The UN-supported Principles for RI
RI	Responsible Investment
RPI	Retail Price Index
S&P	Standard & Poor's, ratings agency and provider of equity indices
S151	An officer with responsibilities under s151 of the Local Government Act 1972
SAB	Scheme Advisory Board
SDG	the UN's Sustainable Development Goals
SILB	Sterling Index Linked Bonds
SONIA	Sterling Over Night Index Average, the overnight interest rate paid by banks
TCFD	Taskforce on Climate Related Financial Disclosures
TER	Total Expense Ratio
TPR	The Pensions Regulator

Author(s)

Paul Cooper Tel: 03000 269798

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Glossary of commonly used terms

A

Active Management

Appointing investment professionals to track the performance of the Fund’s mandates, making buy, hold and sell decisions about the assets with a view to outperforming the market.

Active Member

A current employee who is contributing to the pension scheme.

Actuary

An independent professional who advises the Council in its capacity as Administering Authority on the financial position of the Fund.

Actuarial Valuation

The Fund’s actuary carries out a valuation every three years and recommends an appropriate rate of contributions for each of the Fund’s participating employers for the following three years. The valuation measures the Fund’s assets and liabilities, with contribution rates set according to the Fund’s deficit or surplus.

Additional Voluntary Contributions (AVCs)

An option available to active members to build up a pot of money which is then used to provide additional pension benefits. The money is invested separately with one of the Fund’s external AVC providers.

Administering Authority

The LGPS is run by local Administering Authorities. An Administering Authority is responsible for maintaining and investing its own Fund for the LGPS.

Admission/Admitted Body

An organisation whose employees can become members of the Fund by virtue of an admission agreement made between the council in its capacity as Administering Authority and the organisation. It enables contractors who take on council services to offer staff transferred to the organisation continued membership of the LGPS.

Asset Allocation

The apportionment of the Fund’s assets between different types of investment (or asset classes). The long-term strategic asset allocation of the Fund will reflect the Fund’s investment objectives and is set out in the Investment Strategy Statement.

Authorised Contractual Scheme (ACS)

A collective investment scheme used by BCPP. An ACS is a form of investment fund that enables a number of investors to ‘pool’ their assets and invest in a professionally managed portfolio of investments, typically gilts, bonds, and quoted equities. Regulated by the Financial Conduct Authority, it is “tax transparent”; making it particularly useful for pooling pension assets.

B

Benchmark

A measure against which the investment policy or performance of an investment manager can be compared.

Border to Coast Pension Partnership (BCPP)

The Fund's chosen asset pool. BCPP has 11 Partner Funds who collectively have around £45bn of assets. The Partner Funds have appointed a Board of Directors, chaired by Chris Hitchen, which is responsible for ensuring that Border to Coast is run effectively and in line with the guiding principles set by the shareholders. The Chief Executive Officer, Rachel Elwell, is responsible for the day to day running of Border to Coast along with her team.

Border to Coast Joint Committee

As part of their oversight, BCPP Partner Funds formed a Joint Committee which consists of the Chairs of each of the Partner Fund Pension Committees together with other non-voting representatives.

C

CARE (Career Average Revalued Earnings)

From 1 April, 2014, the LGPS changed from a final salary scheme to a Career Average (CARE) scheme. The LGPS remains a defined benefit scheme but benefits built up from 2014 are now worked out using a member's pay each scheme year rather than the final salary at leaving.

Cash Equivalent Value (CEV)

This is the cash value of a member's pensions rights for the purposes of divorce or dissolution of a civil partnership.

Consumer Price Index (CPI)

A method of measuring the changes in the cost of living, similar to the Retail Price Index. Since April 2011 LGPS pensions are increased annually in line with movement in the Consumer Price Index during the 12 months to the previous September.

Commutation

A scheme member may give up part or all of the pension payable from retirement in exchange for an immediate lump sum.

Convertible Shares

Shares that include an option for holders to convert into a predetermined number of ordinary shares, usually after a set date.

Custodian

A financial institution that holds customers' securities for safekeeping to minimise the risk of theft or loss. Most custodians also offer account administration, transaction settlements, collection of dividends and interest payments, tax support and foreign exchange. Custody is currently provided to the Fund by Northern Trust.

D

Death Grant

A lump sum paid by the Fund to the dependents or nominated representatives of a member who dies.

Deferred Member/Pensioner

A scheme member who has left employment or otherwise ceased to be an active member of the scheme who retains an entitlement to a pension from the Fund.

Defined Benefit Scheme

A pension scheme like the LGPS where the benefits that will ultimately be paid to the employee are fixed in advance and not impacted by investment returns. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the future pension promise.

Denomination

The face value of a bank note, coin or postage stamp, as well as bonds and other fixed-income investments. Denomination can also be the base currency in a transaction or the currency a financial asset is quoted in.

Designating Body

Organisations that can designate employees for access to the LGPS. Employees of town and parish councils, voluntary schools, foundation schools, foundation special schools, among others, can be designated for membership of the scheme.

Discretion

The power given by the LGPS to enable a participating employer or Administering Authority to choose how they will apply the scheme in respect of several its provisions. For some of these discretions it is mandatory to pass resolutions to form a policy as to how the provision will apply. For the remaining discretionary provisions, a policy is advised.

Direct Property

Direct investment in property is buying all or part of a physical property. Property owners can receive rent directly from tenants and realise gains or losses from the sale of the property.

Diversified Growth Funds (DGF)

An alternative way of investing in shares, bonds, property and other asset classes; DGFs are funds that invest in a wide variety of asset classes in order to deliver a real return over the medium to long-term. The Fund's DGF is managed by BlackRock.

E

Employer Contribution Rates

The percentage of an employee's salary participating employers pay as a contribution towards that employee's LGPS pension.

Employer Covenant

The covenant is an employer's legal obligation and financial ability to support their defined benefit (DB) obligation now and in the future.

Equities

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

ESG

ESG is the consideration of environmental, social and governance factors alongside financial ones in the investment decision-making process. E, S, and G are the three key factors in assessing an investment's sustainability

F

Fiduciary Duty

Fiduciary duties exist to ensure that those who manage other people's money act in beneficiaries' interests rather than their own.

Financial Instruments

Tradable assets of any kind, which can be cash, evidence of an ownership interest in an entity or a contractual right to receive or deliver cash or another financial instrument.

Fixed Interest Securities

Investments, mainly in Government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date that can be traded on a recognised stock exchange in the meantime.

Fund of Funds (FoF)

A fund that holds a portfolio of other investment funds.

G

Guaranteed Minimum Pension (GMP)

The LGPS guarantees to pay a pension that is at least as high as a member would have earned had they not been contracted out of the State Earning Related Pension Scheme (SERPS) at any time between 6 April 1978 and 5 April 1997. This is called the guaranteed minimum pension (GMP).

I

Index

A calculation of the average price of shares, bonds or other assets in a specified market to provide an indication of the average performance and general trends in the market.

Internal Rates of Return (IRR)

The internal rate of return (IRR) is a metric used to estimate the profitability of potential investments. Generally, the higher an IRR, the more desirable an investment is to undertake.

L

Local Government Pension Scheme (LGPS)

The LGPS is collectively the largest public sector pension scheme in the UK, which provides DB benefits to employees of local government employers and other organisations that have chosen to participate.

Local Pension Board (LBP)

Since April 2015, each Administering Authority is required to establish and operate a Local Pension Board. The Pension Board is responsible for assisting the Administering Authority in securing compliance with the LGPS regulations, overriding legislation and guidance from the Pensions Regulator. The Board is made up of equal representation from employer and scheme member representatives.

M

Myners Principles

A set of principles based on Paul Myners' 2001 report, Institutional Investment in the United Kingdom. The Myners' principles for defined benefit schemes cover:

Effective decision-making

Clear objectives

Risk liabilities

Performance assessment

Responsible ownership

Transparency and reporting.

O

Ordinary Shares

An ordinary share represents equity ownership in a company and entitles the owner to vote at the general meetings of that company and receive dividends on those shares if a dividend is payable.

P

Partner Funds

The Fund's chosen asset pool, BCPP, has 11 Partner Funds - Bedfordshire, Cumbria, Durham, East Riding, Lincolnshire, North Yorkshire, South Yorkshire, Surrey, Teesside, Tyne & Wear, Warwickshire.

Pension Liberation Fraud

Members with deferred benefits may be approached by companies offering to release funds early from these benefits. The Pensions Regulator has advised pension funds to make members aware of the potential warning signs of pension liberation fraud.

Pensions Online

The Fund's online portal where scheme members may view their pensions records, complete retirement calculations, and update personal details.

Pensions Regulator

The Pensions Regulator (TPR) s the UK regulator of workplace pension schemes. TPR make sure that employers put their staff into a pension scheme and pay money into it. TPR also make sure that workplace pension schemes are run properly so that people can save safely for their later years.

Pooled Funds

Funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

Pooling in the LGPS

Central government requires local authorities to pool their pension assets, to achieve four principles:

1. Cost savings through economies of scale
2. Improved governance
3. Improved approach to responsible investment
4. Improved ability to invest in infrastructure

Proxy Voting

Proxy voting allows shareholders to exercise their right to vote without needing to attend AGMs. This can involve shareholders with voting rights delegating their votes to others who vote on their behalf.

Q

Quantitative Easing

Quantitative easing (QE) is when a central bank creates new money electronically to buy financial assets like Government bonds with the aim of directly increasing private sector spending in the economy and returning inflation to target.

R

Related Party Transactions

This is an arrangement between two parties joined by a special relationship before a deal, like a business transaction between a major shareholder and a corporation.

Responsible Investment (RI)

Responsible investment involves incorporating environmental, social and governance (ESG) considerations into investment decision-making while practising active ownership. RI can help deliver sustainable, long-term returns for investors.

Retail Price Index

A method of measuring the changes in the cost of living. It reflects the movement of prices covering goods and services over time. Until April 2011, the amount by which LGPS pensions were increased annually was based on movement in the Retail Price Index during the 12 months to the previous September. From April 2011, the Government changed the amount by which pensions increase from Retail Price Index to Consumer Price Index (CPI).

Return

The total gain from holding an investment over a given period, including income and increase or decrease in market value.

Rule of 85

Under previous LGPS regulations, when a member elected to retire before age 65, the Rule of 85 test was used to find out whether the member retired on full or reduced pension benefits. If the sum of the member’s age and the number of whole years of their scheme membership was 85 or more, benefits were paid in full. If the total was less than 85, the benefits were reduced. The Rule of 85 was abolished on 1 October, 2006 - however, members contributing to the LGPS prior to this date will have some or all of their pension benefits protected under this rule.

S

Scheduled Body

An organisation that has the right to become a member of the LGPS under the scheme regulations. Such an organisation does not need to be admitted as its right to membership is automatic.

Spot Rate

The price quoted for immediate settlement on a commodity, security or currency. It is based on the value of an asset at the moment of the quote, which in turn is based on how much buyers are willing to pay and how much sellers are willing to accept depending on factors such as current market value and expected future market value.

State Pension Age (SPA)

The earliest age at which State Pension can be paid, which different to the earliest age LGPS may be claimed. Under the current law, the State Pension age is due to increase to 68.

Stock Lending

This is loaning a stock, derivative or other security to an investor or firm. It requires the borrower to put up collateral (cash, security or a letter of credit). When stock is loaned, the title and the ownership is transferred to the borrower and title is returned at the end of the loan period.

T

TCFD

The Taskforce on Climate Related Financial Disclosures was set up to develop voluntary, consistent, climate related financial risk disclosures to guide companies in providing information to investors, lenders, insurers and other stakeholders. It is expected that MHCLG will consult on mandatory TCFD disclosures in the LPGS by the end of 2021.

The Pension Advisory Service (TPAS)

The Pensions Advisory Service (TPAS) gives information and guidance to members of the public on state, company and personal pensions. It helps any member of the public who has a problem with their occupational or private pension arrangement. TPAS is an executive non-departmental public body, sponsored by the Department for Work and Pensions.

Transfer Value

A transfer value is a cash sum representing the value of a member's pension rights.

Transferred Service

Any pension that members have transferred into the LGPS from a previous pension arrangement that now counts towards their LGPS membership.

U

UK Stewardship Code

A code first published by the FRC in 2010 to enhance the quality of engagement between asset managers and companies in the UK. Its principal aim is to make asset managers more active and engaged in corporate governance matters in the interests of their beneficiaries. The Code was revised in 2020.

Unrealised gains/losses

The increase or decrease in the market value of investments held by the fund since the date of their purchase.

Author(s)

Paul Cooper Tel: 03000 269798

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DURHAM COUNTY COUNCIL

At a Meeting of **Local Pension Board** held in **Committee Room 1A/1B, County Hall, Durham** on **Thursday 15 June 2023** at **2.00 pm**

Present:

Members of the Committee:
Councillors D Stoker and L Oliver

1 Apologies for Absence

Apologies for absence were received from Councillor A Hopgood, N Hancock, and W Pattison.

In the absence of the Chair, it was agreed that L Oliver Chair the meeting.

L Oliver in the Chair

2 Declarations of Interest

There were no Declarations of Interest.

3 Minutes

The minutes from the meeting held 16 March 2023 were agreed as a correct record and signed by the Chair.

4 Observations from Pension Fund Committee

The Head of Pensions (LGPS), Paul Cooper, noted no Members of the Board had attended Pension Fund Committee earlier in the day. He noted that when the Board last met, attendance of Councillors at Pension Fund Committee had been noted as lower than usual by a Member of the Board. The Head of Pensions (LGPS) explained that information regarding Councillor attendances over the last two years had been fed back to each of the council's Groups Leaders, as previously requested by Board members, so they could take attendances into account when looking at allocation of Members to Committee at Annual Council, 24 May 2023.

The Head of Pensions (LGPS) noted that most significant decision at Committee had been in relation to Global Real Estate, in line with the Investment Strategy, explaining the intention to transition the mandate from CBRE's management to BCPP pooling arrangement, who are supported by the Townsend Group - providing specialist real estate support. He noted that Members of the Committee had received training on Real Estate prior to the Committee making a decision, and it was added that BCPP Real Estate specialists had attended Committee three times in advance of the decision to speak to Members, giving them the opportunity to provide input and challenge, and ask any questions of the BCPP Team.

The Head of Pensions (LGPS) also noted that the Committee had received reports relating to the Committee's Terms of Reference, as well as regular update reports, including in respect of Regulatory matters.

The Chair asked as regards the downturn in town centres in terms of occupancy rates within retail units and asked if this would impact upon the Real Estate portfolio. The Head of Pensions (LGPS) noted whilst there may be some exposure, it would be expected that the Fund's Asset Managers would look at more resilient properties and ensure appropriate diversification. He added that BCPP were looking at key areas and would underweight or avoid sectors where there was more supply than demand.

RESOLVED:

That the information given be noted.

5 Regulatory Update

The Board considered a report from the Corporate Director of Resources which provided details on developments in matters that were both Local Government Pension Scheme (LGPS) specific, as well as providing an update on non-LGPS specific matters of interest (for copy see file of Minutes).

The Head of Pensions (LGPS) noted that the key changes were set out at Appendix 3 to the report, noting that in relation to the Taskforce on Climate-related Financial Disclosures (TCFD), with expected implementation from 2024 and first reporting in late 2025. It was noted that the Fire Brigade Union had been granted permission to appeal High Court judgement on Cost Control Mechanism. It was added that the issues as a result of the McCloud judgement the matter were still ongoing, with consultation being held on the detail of the required changes. The Head of Pensions (LGPS) noted that the some of the issues related to aggregation and Teachers. He noted that further information would be brought back to both the Committee and Board.

In respect of the LGPS and Sharia Law, it was explained that evidence was being sought on LGPS compliance with Sharia, noting some Muslims may leave the LGPS if they felt it was not in line with Sharia Law. He noted that the Scheme Advisory Board were working with a Sharia Scholar to determine whether the LGPS was compatible with Sharia Law.

The Head of Pensions (LGPS) noted that in relation to scams and similar issues, there had been a major data breach at Capita, a third-party administrator, with the Committee having reviewed cyber security as part of the Fund's Risk Register. He noted that a pause had been placed on any transfers to Capita, with a process to write to individuals to double check that they wished to proceed with the exchange of any data. It was added that the Fund would consider a cyber-security scorecard produced by the Fund Actuary, AON. The Head of Pensions (LGPS) noted changes to pension taxation, with confirmation of changes to Annual Allowance and Lifetime Allowance, with affected scheme members to be informed over the summer.

The Chair asked as regards the Sharia Law issue and whether staff legally had to be included within a pensions scheme. The Head of Pensions (LGPS) noted that employers had a legal obligation to enrol employees into a scheme, however, the employee could then opt out should they wish to do so. He added that when looking at the numbers and geography of where disproportionate numbers of LGPS members were opting out, there was evidence that this was in Muslim communities. The Chair asked whether the Sharia Scholar would be providing details of a scheme that would be compatible with Sharia. The Head of Pensions (LGPS) explained that LGPS Regulations at Local Authorities were set by the Department for Levelling Up, Housing and Communities (DLUHC) and therefore it would be for the Ministry to determine any actions, following a response from the Scholar.

RESOLVED:

That the information given be noted.

6 Pension Administration Report

The Board considered a report from the Corporate Director of Resources regarding the Fund's pension administration and service provision to members, as well as providing an update on Key Performance information (for copy see file of Minutes).

The Head of Pensions (LGPS) noted the Pensions Team Leader, Ashleigh Phillips would update the Board on a few issues, including AVCs (Additional Voluntary Contributions), noting previous service-standards issues in relation to the provider, Prudential.

He added that there was not an issue in terms of scheme members' money invested, rather issues had been from a customer services perspective.

The Pension Team Leader noted that in respect of AVCs, the performance had improved significantly since last year and was now operating in line with the terms of the Service Level Agreement. She added that the reintroduction of the Local Government AVC Forum highlighted their desire to improve, with one forum having taken place so far, with a hope to have one forum every six months, providing an opportunity for feedback. She noted that at the last forum, issues were discussed in terms of management of scheme information at the year end, noting Durham had been on time, while some other Schemes had not been on time. The Pensions Team Leader noted that while Prudential aimed to get fully audited information to Funds by September 2023, within their statutory deadline, they would be conducting an exercise during May which would provide an unaudited figure for Funds for use in the Annual Report and Accounts.

The Head of Pensions (LGPS) noted Appendix 1 to the report set out performance information, noting 178 retirement cases in Quarter 4 and 100 percent being within 10 days, with a percentage of 98.5 percent over the last year. He added that in terms of deferment cases, there had been information provided to 306 early leavers, with 97 percent being within one month of the Fund being notified of an early leaver. It was noted that the Fund received 34 requests for transfer-out information during Quarter 2 and 100 percent had been dealt within timescales, with 99 percent dealt within timescales over the year.

The Head of Pensions (LGPS) noted that the Fund received 1,138 requests for a statement of estimate pension entitlement in the quarter and the Team had received around 3,500 calls during the second quarter, with 99.5 percent answered first time, noting 16,180 in the year, with 99.4 percent answered first time. He explained that 19,626 members have registered for the Fund's Pensions Online portal and there had been around 34,000 online calculations completed. It was noted that the portal provided information on demand, and helped the Team in terms of time saved on processing and was proving to be very popular. It was noted that over 15,000 online address/information changes had been transacted, with around 2,900 secure messages having been sent, both providing significant time savings.

RESOLVED:

That the information given be noted.

7 KPI Reporting - Verbal Update

The Head of Pensions (LGPS) noted that whilst in the past KPI information had not reported to the Local Pension Board, Officers had worked with the Board to develop a suite of reporting information. He explained that this had been developed with regular reporting in to the Board, and now it would be a case of looking for any gaps, for example information sent out to a bereaved family, and where there were transfers into the scheme, noting currently only transfers out were reported. He noted if the Board were agreeable, he would look to add in those types of additional performance information.

RESOLVED:

That the verbal update be noted and agree to include the additional performance information as described.

8 Local Pension Board Training - Verbal Update

The Head of Pensions (LGPS) explained that while Members of the Local Pension Board had received training as part of their induction, there remained a requirement for ongoing training in terms of maintaining and updating members' skills and knowledge. He explained there was a bspoke, online, training package available that he felt was cost effective and would enhance the training provision for Board members. He noted that the training was not required to be undertaken immediately, however, if it was introduced it was felt that it would need to be mandatory. The Head of Pensions (LGPS) explained that the training would be an online offer and was bite-sized and would be a quick and reporting out of the system would offer an easy way to provide assurance in respect of members' training. He added that it was also something that could be looked at for Pension Fund Committee members in addition.

The Chair noted he felt the suggestion was a good one, however, asked if there would be a reasonable amount of time allocated for members to look at the training. The Head of Pensions (LGPS) noted an appropriate amount of time would be given.

RESOLVED:

That the verbal update be noted and agreed to look at the proposed training as described.

9 **Pension Fund Communications - Verbal Update**

The Head of Pensions (LGPS) outlined the Pension Fund's existing Communications approach, but noted however, some changes were suggested to be made, though he had first wanted to canvass the board for their views. He explained that currently an e-mail inbox for queries relating was operated, however, it was hard to manage, especially if the e-mail was not clear who the person was enquiring. He added that the Online Portal offered the same functionality without use of an e-mail inbox, with messages exchanged more securely, as users had to enrol and go through a number of security checks, with the identity of the user known and verified when a query was submitted. The Head of Pensions (LGPS) added that another issue was security again emphasising the secure nature of the portal, being a Durham County Council server, and he added that there were dangers in terms of e-mails coming into an inbox and the possibility of them being intercepted. He noted that therefore it was proposed, to help address a potential vulnerability, that the e-mail inbox be removed, with scheme members being able to contact the Pension Team via letter, phone or through through the secure portal. It was added that the telephone hours of operation were presently 8.30am to 5.00pm.

The Chair asked if there was any impact upon flexitime for Team Members as a result of the telephone hours of operation. The Head of Pensions (LGPS) noted that there were not often calls 8.30am to 9.00am and suggested that the operating hours of the Helpline could be revised without causing disruption to scheme members and therefore, should the Board agree in principle, new arrangements could be reflected in the next review of the Fund's Communications Policy. The Chair asked as regards the process to sign up for the portal. The Head of Pensions (LGPS) noted it could be accessed from the Council's website, and a message could be placed on e-mails to redirect people to the portal. The Pensions Team Manager added that another advantage of users accessing and submitting queries via the portal was from a records management perspective, with all queries in the portal being "attached" to that Pensioner's record and stored securely, rather than within an e-mail inbox.

RESOLVED:

That the verbal update be noted and agreed for the next review of the Communications Policy to formalise the revised arrangements.

10 **Date of Next Meeting**

The next meeting would be held on 14 September 2023 at 2.00 p.m.

DURHAM COUNTY COUNCIL

At a Meeting of **Local Pension Board** held in **Committee Room 2, County Hall, Durham** on **Thursday 14 September 2023** at **2.00 pm**

Present:

Members of the Committee:
Councillor A Hopgood and N Hancock

1 Apologies for Absence

Apologies for absence were received from Councillors L Oliver, W Pattison and D Stoker.

In the absence of the Chair, it was agreed that Councillor A Hopgood would Chair the meeting.

Councillor A Hopgood in the Chair

2 Declarations of Interest

There were no Declarations of Interest.

3 The Minutes of the Meeting held on 15 June 2023

As no one was present from the last meeting to confirm the accuracy of the minutes, the minutes from the meeting held 15 June would be tabled for consideration at the next meeting of the Board.

4 Local Pension Board Membership - Verbal Update

The Head of Pensions (LGPS), Paul Cooper, noted the context in terms of the issues previously raised as regards Board Membership, and recruitment that had culminated in the current arrangements. He explained that it was proposed, as per the terms of reference for the Board, to go out to open recruitment on the Scheme Member and Scheme Employer sides. He noted consideration of extending the Membership, which could assist in avoiding issues arising in terms of quorum at Board meetings.

N Hancock noted that it would be important to emphasise within the recruitment that there was a need for the capacity to represent Scheme Members, and added he felt Unions were those that had capacity and ability in this regard. The Head of Pensions (LGPS) noted that it would be a factor within the recruitment process, noting encouraging interest in positions so far.

RESOLVED:

That the verbal update be noted.

Members agreed to take Item 11 – Pension Fund Annual Report and Accounts - Verbal Update as Item 5 and to reorder the items accordingly.

5 Pension Fund Annual Report and Accounts - Verbal Update

The Finance Manager, Jo McMahon gave a verbal update on the Pension Fund Annual Report and Accounts. She explained that the Council had met their statutory deadline in having the accounts prepared and signed off by the Corporate Director of Resources by 31 May 2023, one of only three Local Authorities in the North-East.

She added that, however, External Audit had indicated that they would not be able to meet their deadline of the end of September in terms of signing off the accounts. She explained it had been a national issue, and the Council's External Auditor had noted they would report back to the Council's Audit Committee at a Special meeting scheduled for 30 October 2023. The Finance Manager reiterated that the Council had met its statutory deadlines and that the deadline to publish for the Pension Fund would be 1 December, with an item on the Annual Report to be considered at the Annual Pension Fund meeting in November.

The Chair noted it was the first time she had heard as regards the issue with Audit Committee, however, it was good to note the Council was one of the three Local Authorities within the North-East had met deadlines.

RESOLVED:

That the verbal update be noted.

5 Observations and Feedback from Pension Fund Committee

The Head of Pensions (LGPS) noted no Members of the Board had attended Pension Fund Committee earlier in the day.

The Head of Pensions (LGPS) noted that, on one of the few occasions since asset pooling, there had been no asset management or decisions made regards pooling. He added that the pooling process was almost at the end of he first stage, in terms of all liquid assets having been pooled, and with property nearing pooling. He added that after property was pooled, the focus would change to other issues such as responsible investment, climate change and further enhancing training plans. He noted the most significant issue discussed at Committee had been the LGPS Consultation, as tabled later within the Board agenda.

The Chair asked as regards the implications of the decline of 'the High Street' as a shopping and office destination on investment opportunities. The Head of Pensions (LGPS) explained that the issue had been discussed by the Pension Fund Committee at their meeting in June and noted that property opportunities may exist in other areas reflecting changes in the economy, such as logistical hubs.

RESOLVED:

That the information given be noted.

6 Local Pension Board Training - Verbal Update

The Head of Pensions (LGPS) noted the issue had been touched upon when speaking as regards recruitment to the Board and had been an issue that the Board had supported at its June meeting, with training to mirror that for the Pension Fund Committee Members. He noted that there was an online system, similar to the Council's Durham Learning and Development System, called LOLA (LGPS Online Learning Academy). He noted that the system was considered the 'gold standard' for such training and noted that the Pension Fund Committee had agreed at its meeting earlier to proceed to sign up to the LOLA system. He added that it was a condition for Local Pension Board Members to undertake and demonstrate continued learning as part of their role on as Board Members. The Head of Pensions (LGPS) noted that the LOLA system enabled bite-sized learning, with reasonable timescales being able to be set for completion by Members. He explained an additional benefit was that the clear training record would prove useful in terms of proof of training completed as part of the Governance Compliance Statement within the Annual Accounts process.

RESOLVED:

(i) That the verbal update be noted
(ii) That the LOLA System be used for training of Local Pension Board Members.

7 Pension Administration Report

The Board considered a report from the Corporate Director of Resources regarding the Fund's pension administration and service provision to members, as well as providing an update on Key Performance information (for copy see file of Minutes).

The Head of Pensions (LGPS) noted that performance remained very good and noted that, as was best practise, the performance was shared with the Scheme Advisory Board (SAB) and the Department for Levelling Up, Housing and Communities (DLUHC). He explained the annual statements to scheme members were issued on time, by 31 August 2023, with the majority being issued online which amounted to a carbon saving of around 50 tonnes of CO_2. He explained that there would be challenges over the next year or two following the McCloud judgement, adding draft regulations having been issued. He explained that work was ongoing with the Council's software supplier and reminded the Board of the Regulator's requirement to issue accurate annual statements, with any adjustments as a result of McCloud required to be made and statements issued within deadlines.

N Hancock explained he had a number of people contact him, through Unison, noting they had been unable to access their annual statements. He asked if someone had not logged on for a while, whether there was a requirement to reset a password. The Head of Pensions (LGPS) noted that it was not impossible that a wrong password being used would 'lock out' the system, however, there was an option to request a new password. He noted the Team's available support and an inbox specifically for those queries. N Hancock noted many of the queries were from schools and suggested it may be an issue linked to the extranet. The Head of Pensions (LGPS) noted he would speak to ICT as regards any issues and noted that should there be any queries to pass them on to him and the Team.

The Chair noted that the letter accompanying the annual statement was very friendly and very clear and thanked the Team for their work in that regard.

RESOLVED:

That the information given be noted.

8 Regulatory Update

The Board considered a report from the Corporate Director of Resources which provided details on developments in matters that were both Local Government Pension Scheme (LGPS) specific, as well as providing an update on non-LGPS specific matters of interest (for copy see file of Minutes).

The Head of Pensions (LGPS) noted that the key changes were set out at Appendix 1 to the report. He reminded the Board that in terms of 'local investment' the Government were referring to UK investment. He reiterated that the McCloud judgement came into force from 1 October 2023, summarising that checks would be required to ensure no one would miss out in terms of the changes from final salary to career average for their pension. He noted that further guidance was expected in terms of prioritisation and the work would be a challenge, especially in terms of teachers' excess service.

The Head of Pensions (LGPS) noted the Annual Report's current format was somewhat cumbersome, with some other Pension Fund's documents being even larger, and the SAB recognised that fact and suggest work to try and rationalise and streamline the document. In relation to boycotts, he added that the Government had reiterated its position in that Pension Funds should not be setting foreign policy.

In respect of pensions scams, the Head of Pensions (LGPS) noted that warning letters were provided to scheme members. He noted the work of the Department for Work and Pensions (DWP) in creating a Pensions Dashboard, where all pensions information would be gathered in one spot, and that there were delays, back to 2026. He noted that he would keep the Board updated with information, though for the LGPS it was perhaps not as useful as our own local Pensions Portal, which was able to give bespoke requests for estimates amongst other online benefits.

The Chair asked, in relation to McCloud, what the likely liability would be for Durham. The Head of Pensions (LGPS) noted that it was nationally felt to be around 0.5 percent on average, however regardless of exact figures, the number of people impacted would be low. N Hancock noted some may be identified as gaining, with the Chair asking as regards the example of part-time worked. The Head of Pensions (LGPS) noted that in the CARE Scheme, those moving from part-time to full-time could see an increase in their CARE benefits in line with increases in real pay received. He reminded the Board that the CPI linkage for LGPS CARE benefits was very good and may further reduce McCloud beneficiaries.

RESOLVED:

That the information given be noted.

9 LGPS Consultation - Next Steps on Investments

The Board considered a report from the Corporate Director of Resources which provided details on the LGPS Consultation - Next Steps on Investments (for copy see file of Minutes).

The Head of Pensions (LGPS) reminded Members that Durham, along with 10 other Local Authorities, had come together to pool their Pension Funds within the Border to Coast Pension Partnership (BCPP). He noted that the Partnership have around £60 Billion worth of assets and pooling had helped in terms of savings of working at scale, as well as having provided capacity and opportunity for investment, noting it had been the right thing to do for the Durham Fund.

In respect of the rest of the UK, there were eight pension pools, with eight models of how to organise and invest. He noted that some pools, whilst having been set up, were very slow to pool, indeed with two Pension Funds having zero funds transferred to their pool, with one Fund threatening to leave their pool. The Head of Pensions (LGPS) noted that following those issues, Government had issued a consultation on pooling with a view to complete pooling by 31 March 2025. He explained that it was not an issue for Durham and BCPP as we had now moved most of the funds over to the pool. He noted that Government envisaged three stages, namely: 2025 deadline to pool; then greater collaboration between pools; and consolidation of pools, leading to fewer larger pools.

The Chair and N Hancock asked if there was anything that could be learned from the less progressed pools in terms of what not to do, or whether the issues they were experiencing were specific to those pools. The Head of Pensions (LGPS) noted that Government had seen the inertia elsewhere while many others, including Durham, have gotten on with the business of pooling, looking at ‘local investment’, and responsible investment. He noted that the 11 Local Authorities coming together in BCPP had been a challenge, and therefore could be an issue for consolidated pools, in terms of governance. He added that those Pension Funds that had not yet moved assets, may wait until the consolidation stage and whole pool merges or Funds moving to other pools may occur. He noted that BCPP may be looked at favourably by those Funds that had not yet pooled as a potential option.

The Head of Pensions (LGPS) reiterated that in respect of ‘levelling up’, Government meant UK investment when talking about ‘local investment’. He added that Durham was one of four Funds being cited as best practice for local investment for its North-East Investment Fund.

The Head of Pensions (LGPS) noted that it may be that local investment would work best outside of the pool and therefore Government would be asked for clarity on that matter in the Fund's response. He noted another area where clarity would be sought was in reference to 10 percent 'private equity', which was thought to in fact mean 'private markets', noting Durham was already at that 10 percent level in private markets. He noted that the BCPP Joint Committee would respond to the consultation on behalf of the 11 Pension Funds.

N Hancock noted that within BCPP, we met some of the Government requirements already, whilst some were perhaps 'ambitions'. He asked if there would be clarity on what would be requirements as opposed to ambitions. The Head of Pensions (LGPS) noted that pooling was reiterated as a requirement and that actions associated with levelling up were ambitions. N Hancock asked the Head of Pensions as regards the move of sovereignty from Pension Fund Committees to BCPP. He noted that Pension Fund Committees determined asset allocation, not Fund Managers, with BCPP picking Managers to meet the needs of Pension Fund Committee's assets. The Head of Pensions (LGPS) noted the consultation ended on 2 October, with the Chancellor wanting to be able to report back within his Autumn Statement.

RESOLVED:

That the information given be noted.

10 Scheme Advisory Board Report on 2022 Valuations

The Head of Pensions (LGPS) noted two papers for Board Members' information in respect of the SAB Triennial Valuation 2022 in the LGPS, noting funding levels were up, and the Report on the actuarial valuation for Durham at 31 March 2022. He noted that Durham had improved its position, having been 81 percent in the recent past, to now being 98 percent funded currently. He noted that the conflict in Ukraine and subsequent inflation had impacted funding levels, and that an area for future focus within both Pension Fund Committee and Local Pension Board agendas would be climate risk.

RESOLVED:

That the information given be noted.

12 Date of Next Meeting

The next meeting would be held on 7 December 2023 at 2.00 p.m.

13 Any Other Business

N Hancock asked as regards any representations in terms of aggregations and timescales. The Head of Pensions (LGPS) noted he had, and as it had issues in terms of McCloud too, it would be considered as part of the McCloud project.

Durham County Council Pension Fund

Debt Management and Write-Off Policy

Introduction

Durham County Council, in its role as Administering Authority to the Durham County Council Pension Fund is committed to providing a quality service to its customers in the most efficient and cost-effective way. A key aspect of this is the arrangements it has in place to manage the invoicing, collection and recovery of money owed to the Pension Fund.

Purpose

The purpose of this policy is to ensure compliance with regulatory and legislative requirements and to provide assurance to the Fund's Stakeholders that it has effective processes in place to aid the management of debt and provide a framework by which debt recovery processes will operate. It aims to:

- Provide assurance that the Fund manages debtors in a cost-effective manner and conducts fair recovery practises.
- Ensure that fair and equal consideration is given to individual circumstances and their ability to pay; to enable identification of those who will not pay, rather than those who cannot pay.
- Define the process of debt management within the Pension Fund.
- Define the process for the approval and management of write-offs.
- Ensure that all debts are managed in accordance with legislative provisions and best practise.

Scope

The policy applies to:

- All current and former scheme members
- Executors of the estates of deceased scheme members
- Beneficiaries of scheme members
- Scheme Employers and Admission Bodies
- Former Scheme Employers and Admission Bodies
- Pension Fund staff
- The Pensions Committee and Local Pensions Board

Types of Debt

This policy covers all debt and sums of monies owed to the Pension Fund, including, but not limited to:

- Overpayments of pension and lump sum benefits
- Overpayments arising due to the death of a scheme member
- Overpayment of dependant pensions
- Overpayments due to scheme employer error
- Overpayments due administration error
- Employee and Employer contributions
- Employer deficit contributions
- Pension Fund strain costs/capital costs
- Unfunded pension recharges
- Employer actuary fees and recharges

- Pension Fund miscellaneous debt

Approach

The Pension Fund will generally seek to recover all debt wherever possible, unless there are legal reasons and/or other circumstances which mean that the debt may not be recovered in whole, or in part. Each case will be assessed individually, and the Fund may take into consideration factors such as legally unrecoverable debt, reputational damage and potential to cause distress.

The type of recovery action taken will be dependent on the type of debt. Whichever action is taken, it is important that it is taken promptly before the debt can accrue. The larger the debt becomes, the more difficult it will be to recover or for the debtor to meet the payments required. The debtor is always encouraged to contact the Pension Fund as soon as they encounter any problem in making payment.

Overpayments of pension benefits and/or death benefits

Where an overpayment of pension or lump sum benefit occurs, the Fund will initially seek to recover any monies owed from future or further benefits due to the member, or deceased’s estate. This includes recovering pension overpaid to a deceased member from their survivor’s benefits, or from any death grant due.
If recovering from future pension payments, the Fund will always aim to recover over the shortest possible time period. Generally, the Pensions Team will always seek to recover any debt over £250.

The Limitation Act 1980
Under the Limitation Act 1980, if a claim for recovery is made more than 6 years after the date when the overpayment could, with reasonable diligence, first have been discovered, only overpayments made within the 6 years prior to the date the formal claim for recovery was made are recoverable.

However, case law in 2018 (Burgess and others v BIC UK) has shown that if a Fund attempts to recover an overpayment via a reduction to the member's future pension i.e., via “recoupment”, as opposed to requesting a lump sum repayment, the 6-year Limitation Act limit does not apply and Funds can reclaim all overpayments made.

Unauthorised Payments
Any overpayment of pension written off is deemed an unauthorised payment unless it falls within regulations 13 or 14 of the Registered Pension Schemes (Authorised Payments) Regulations 2009. We do not expect Regulation 14 to apply but it is expected that the conditions of Regulation 13 would apply in most cases i.e.:

- the payment was genuinely intended to represent the payment of a pension under the LGPS regulations
- the payer believed that the recipient was entitled to the payment, and
- the payer believed that the recipient was entitled to the incorrect amount.

Where the overpayment is a "genuine error" as described in HMRC's Tax Guide and the aggregate overpayment is less than £250, if this is waived by the Fund this is still classed as an unauthorised payment if relating to a period of more than 6 months following a pensioner's death, but does not have to be reported to HMRC, and HMRC will not seek to collect tax charges on it.

Where the overpayment is over £250, the Fund is able to write off any amount as long as the overpaid pension relates to a period of less than 6 months following the death. HMRC will not seek tax charges on these amounts.

Any overpayment which is written-off amounting to £250 or more and relating to a period of 6 months or more from the date of death, **is** classed as an unauthorised payment.

Where an overpayment is an unauthorised payment, both the individual member and the Fund will have to pay additional tax charges. These are as follows:

- The unauthorised payments charge - Where the unauthorised payment is made to or for a member, the member is responsible for paying the tax charge. If the payment is made after the member's death, the person who receives the payment is responsible for paying the tax. The rate of the unauthorised payments tax charge is 40% of the overpayment.
- The unauthorised payments surcharge - This is payable by the same person who is subject to the unauthorised payments charge. It is usually due when a member receives unauthorised payments of 25% or more of their pension value in a year. This is very unlikely to occur, but when it does the rate of the unauthorised payments surcharge is 15%. This means that with the unauthorised payments charge, the total tax rate payable on the overpayment would be 55%.
- The scheme sanction charge - The scheme administrator must pay the scheme sanction charge and this is at a rate of between 15 and 40% of the unauthorised payment and depends on whether or not the unauthorised payments charge has been paid by the member or their representatives.

Durham County Council Pension Fund will apply to be discharged from the tax charge where it would not be just and reasonable for them to pay the tax, e.g., where the administering authority has been misled or given incomplete information leading them to assume that the payment was an authorised payment.

Where the member could not reasonably have known of the overpayment, the Administering Authority may offer to pay the member tax charge on behalf of the member. The Administering Authority will require the member to provide written authorisation to do this. This will be set out clearly in any correspondence to the overpaid member.

Further details on unauthorised payments are available on Her Majesty's Revenue and Customs website:
https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm131000.

Monthly Contributions, Deficit Contributions, Strain Costs and Unfunded Pensions

The Pensions Act 1995 and Regulation 16 of the Occupational Pension Scheme Regulations 1996 stipulate that monthly contribution payments must be paid to, and received by, the Pension Fund no later than the 22nd day of the month following the payroll deduction (or 19th if paying by cheque) Pensions and Finance Officers closely monitor contribution payments to ensure all Scheme Employers adhere to these regulations. Failure to make payment of contributions may result in the Fund reporting the Scheme Employer to The Pensions Regulator, who may investigate and potentially issue a fine to the Scheme Employer.

Employer deficit contributions are invoiced annually and are payable by the end of the financial year in which they are due.
Unfunded pension recharges and employer strain costs are invoiced each month with a payment term of 30 days.
All of these types of debt will be chased within the usual debt recovery process. However, any unpaid amounts of this type will be reported in the next Fund Valuation and will have a negative impact on the Scheme Employer's funding position, resulting in a less favourable future employer contribution rate.

Recharges and Miscellaneous Debt

Where the Fund invoices a company who is not a participating employer, invoices will be raised with a payment term of 30 days. If payment is not made, the Council's full debt recovery process will be followed. If the process is exhausted and the debt remains unpaid then enforcement proceedings may be initiated.
These types of debt could include invoices to other Local Authorities for unfunded pension recharges and recharges of Actuary Fees.

If the debt is owed by an Admission Body, who received a guarantee from a participating Scheme Employer, the Fund may seek to recover the debt from the relevant Scheme Employer, if the Admission Body fails to make payment.

Prevention

The Fund has numerous processes in place to minimise the risk of overpayments occurring in the first instance.

- The Fund actively participates in the biannual National Fraud Initiative which conducts a comparison of the Fund's database with the Department for Work and Pension's database of deceased individuals.
- The Fund commissions a monthly mortality screening service which compares the Fund's database to a national register of deaths.
- Participation in the government's 'Tell Us Once' service, which allows bereaved families to report a death to most government organisations via the registrars' service.

All three of the above exercises are designed to eliminate or reduce overpayments occurring following the death of a scheme member.

Other preventative exercises include:

- The Fund conducts annual life certification with overseas pensioners in order to keep in touch and not lose contact with those living abroad. This ensures pensions are still being paid correctly and is particularly important due the restrictions on recovering debt from those living overseas.
- Pensions Staff perform monthly investigations into all returned communications and returned pension payments. Any future payments are immediately suspended until investigations are completed, or the Fund receives contact from the scheme member. This is to ensure the welfare of scheme members and to protect the Fund from possible overpayments.
- Annual payroll reconciliation between the pensions system and payroll system.
- Monthly reconciliations by Pension Fund Accounting Team who investigate all Pension Fund transactions.
- All pension calculations are processed through a task management system, with Pensions Officers checking and authorising calculations produced by Pensions Assistants. Subsequent payments are authorised by the Pension Team Leaders.

Write Off Policy

Aged debts will be monitored quarterly. This process will identify any debt which could be considered for write-off and will be reported to the Head of Pensions.

Enforcement proceedings will not normally be initiated as part of the standard procedure for any Pension Fund debt arising from an overpayment of pension to scheme members or deceased scheme members. Generally, only when recovery action has been attempted will the Fund consider writing-off debts and will take into consideration factors such as financial hardship, debtor vulnerability, reputational damage and distress.

If a debtor is traced following a write off, then consideration will be given to the debt being re-instated to enable recovery action to continue, if economically viable and within the statute of limitations.

Overpayments of pension benefits to current members

The Fund will only consider writing-off overpayments if there is a special circumstance. The usual approach will be to recover any amount of overpayment from future benefits.

Overpayments of pension benefits to deceased members

The Fund will not seek to recover any overpayment of pension to a deceased member, where there are no further death benefits due, and the amount of debt is less than £250.

If recovery action has failed in its attempts, the Fund may consider writing off amounts over £250 where the overpayment related to a period of less than 6 months following a member’s death (otherwise an unauthorised payment tax charge will be payable)

The Fund may also consider reducing the amount of the invoice by writing off the first 6 months of overpayment but may continue to pursue any amount of pension paid after this.

Only if its then deemed uneconomical will the Fund then consider writing off any pension relating to a period after 6 months from death. Such a write-off is likely to incur an unauthorised payment tax charge.

Scheme employer debts

Recovery action should be exhausted, however any debts remaining unpaid at the end of a valuation period may be considered for write-off if the debt will be included in the Scheme Employer's Fund valuation and will negatively impact the Employer's funding position and their employer contribution rate.

The same approach may be taken for debt owed by an admission body, where the Scheme Employer has provided a guarantee.

Unreasonable to pursue recovery

In certain situations, the Fund may decide that it is 'unreasonable' to pursue a debt. This could be instances where debt is caused by admin errors where the recipient could be deemed as being reasonably unaware of the mistake. The circumstance which caused the debt will be considered and approved by the Head of Pensions.

Unrecoverable Debt

Pension Staff will need to mindful that certain debts are unrecoverable, for example:-

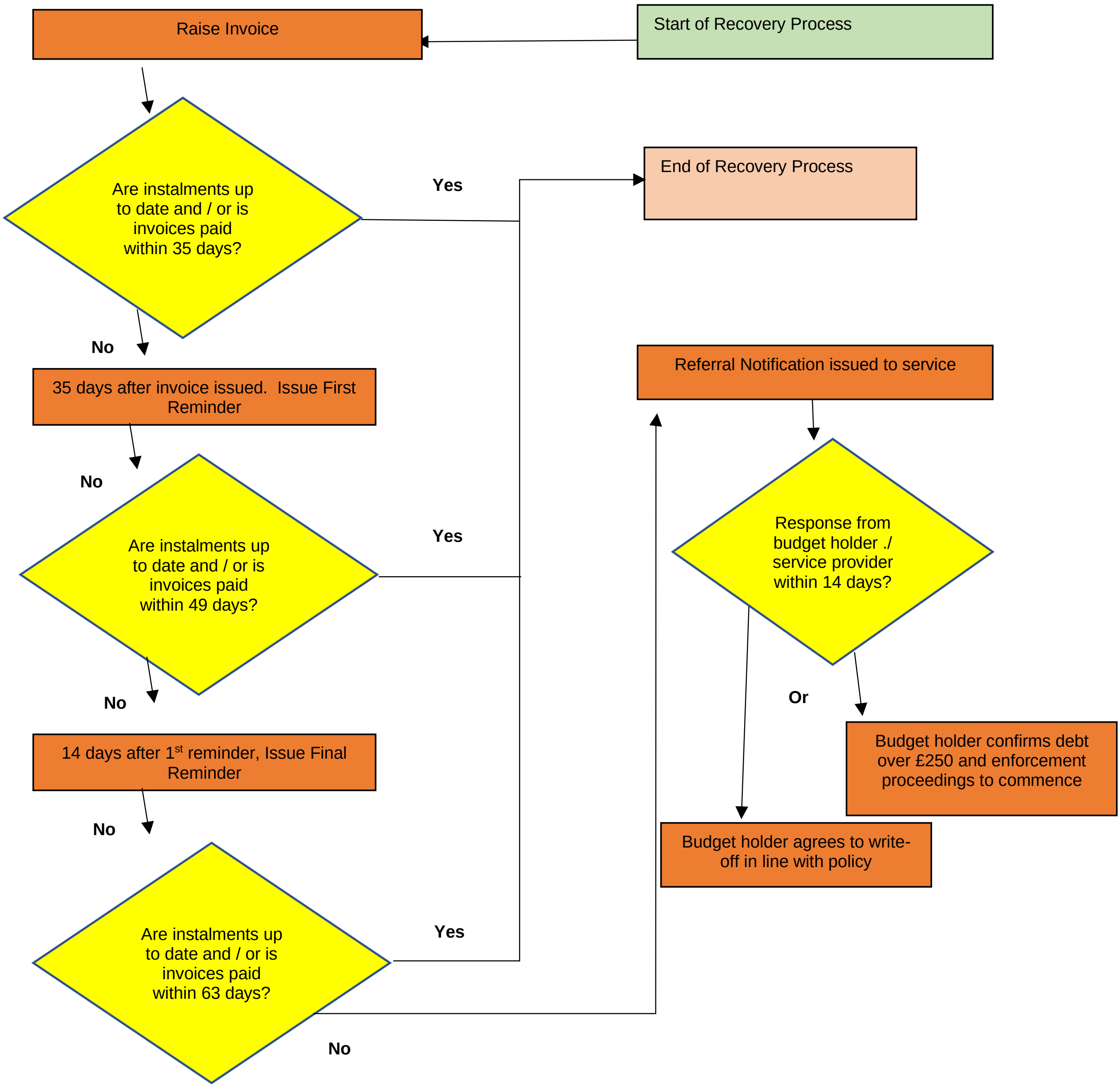
- Debt is over 6 years old – Statute barred (Limitations Act)
- Bankrupt – Bankruptcy order prevents action.
- Abroad – Recovery action is not possible for overseas debtors.
- Insolvent – Liquidation/Administrative/Receivership – company ceasing to trade.
- No trace – enforcement agents unable to trace debtor.
- Deceased – no funds or estate to clear debt.
- Uneconomical – enforcement proceedings will have no value.

Responsibility and Write-Off Approval

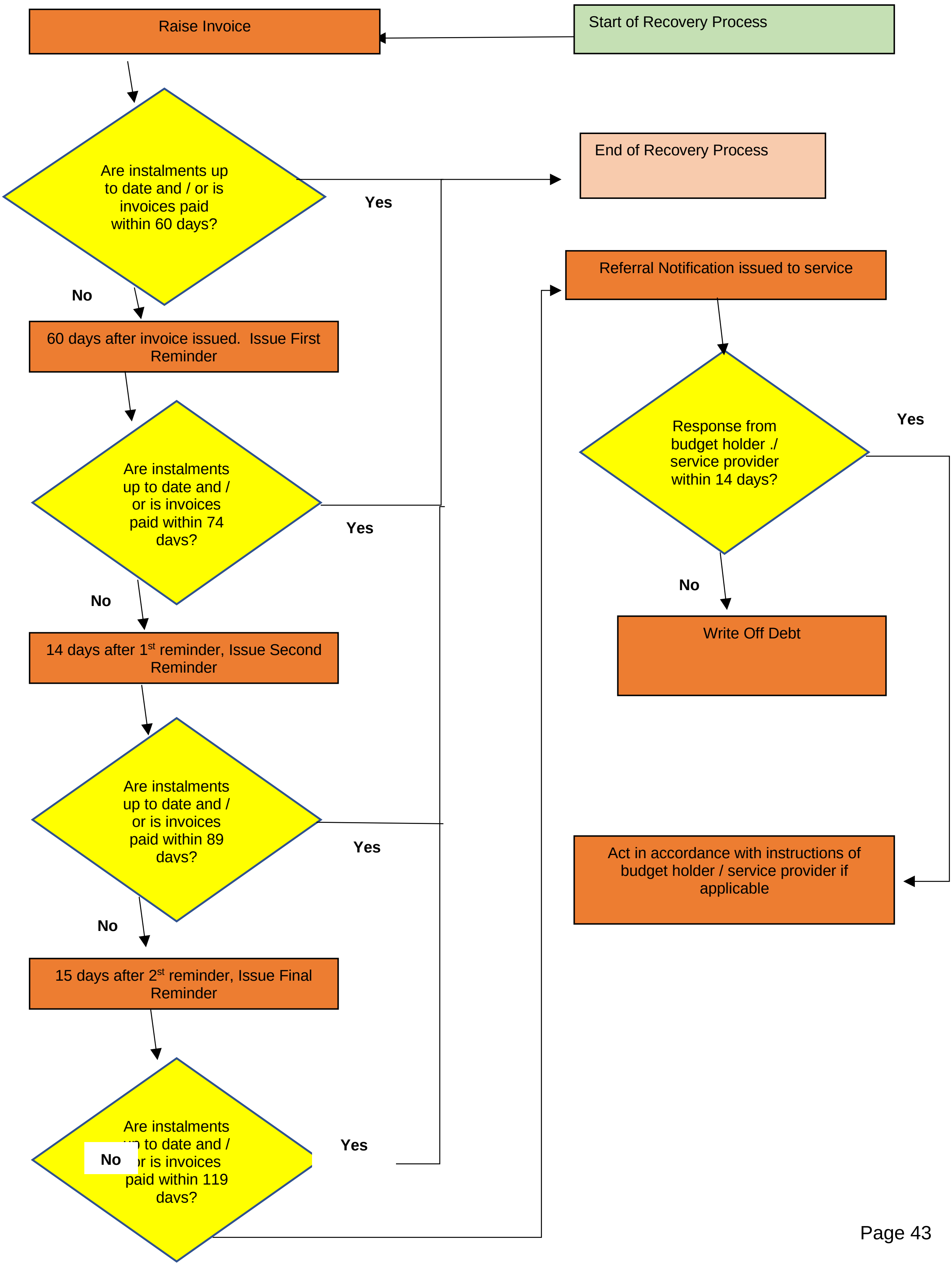
Within the Council's constitution the authority to write-off Pension Fund debts sits with the Corporate Director of Resources, who delegates this authority to the Head of Pensions (LGPS).

Amounts up to £250 following bereavement will automatically be written off where there are no further benefits due from the Fund. Amounts of Pension Fund debt under £2,500 can be authorised by the Pensions Team Leader, providing this does not result in an unauthorised payment tax charge. Any amounts greater than this, or, any debt write-off which results in a tax charge, must be authorised by the Head of Pensions.

Invoiced Pension Debtors Flow Chart (Company)



Invoiced Pension Debtors (Deceased) Flow Chart



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Local Pension Board

7 December 2023

Border to Coast Pensions Partnership Responsible Investment Policy

Report of Paul Darby, Corporate Director of Resources

Purpose of the Report

1 To provide the Board with an update on the approach to Responsible Investment at Border to Coast Pension Partnership (BCPP).

Executive summary

2 BCPP's Responsible Investment Policy and Corporate Governance & Voting Guidelines were originally developed in 2017 in conjunction with all eleven Partner Funds and are due to be reviewed annually.

3 The Pension Fund Committee has previously approved the Policies and is asked to approve the updated Policies which BCPP have reviewed with their voting and engagement partner Robeco and have been asked to approve the 2023 update.

Recommendation(s)

4 It is recommended that the Board note the Report.

Background

5 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended) require LGPS administering authorities to formulate and publish a statement of their investment strategy in accordance with guidance published by the Secretary of State. This must include details of how Environmental, Social and Governance (ESG) issues are incorporated into the investment decision-making process and a policy on investment stewardships - the exercise of rights (including voting rights) attaching to investments.

6 The Fund's Investment Strategy Statement, published on the Council's website, sets out the Fund's policy on ESG and stewardship (often referred to collectively as Responsible Investment or RI Policy).

7 Although the Pension Fund will still retain control over its own policy on responsible investment, as The Fund's assets are transferred to the pool, responsibility for implementing this policy will move to BCPP. In the same way that the Fund has previously relied on its external fund managers to take into account any relevant ESG issues when acquiring, retaining or realising investments, and in exercising any investment rights (including voting), the Fund will rely on BCPP to implement its RI Policy in respect of assets transitioned into the pool, which now covers the majority of the Fund's asset allocation.

8 The Durham Committee originally approved BCPP's Responsible Investment Policy back in 2017 and has subsequently approved an update to the Policy in the years following. The 11 Administering Authorities in BCPP and their Pension Funds are again being asked to approve the updated RI Policy that BCPP will operate. BCPP's Responsible Investment Policy, Corporate Governance and Voting Policy, and its Climate Change Policy are included at Appendix 2, 3 and 4 respectively. These documents were presented to BCPP's Joint Committee, constituted of each of the 11 Partner Fund Chairs, at its meeting on 28 November 2022.

9 The updated Policies have been reviewed by BCPP's voting and engagement partner Robeco using the International Corporate Governance Network Global Governance Principles. The policies have also been reviewed against best-in-class asset managers, and asset owners considered to be RI leaders to determine how best practice has developed. All seven other pools' climate change policies were also reviewed.

10 Fundamental to BCPP's RI approach is the belief that influence through ongoing engagement with companies, rather than divestment, drives positive outcomes. BCPP's approach is not to divest or exclude entire sectors, however there may be specific instances when BCPP will look

to sell or not invest in some industries based on investment criteria, the investment time horizon and the likelihood for success in influencing company strategy and behaviour. BCPP's Climate Change Policy however includes specific exclusions covering companies with >25% of revenue from thermal coal and oil sands (or 25% for Private Markets). BCPP will exclude public market companies in developed markets with >50% revenue derived from thermal coal power-generation and will apply a >70% threshold in emerging markets to support a just transition towards a low-carbon economy.

11 Last year it was highlighted that additional screening tools were available, and it was proposed to extend the exclusion policy to cover companies manufacturing cluster munition whole weapons systems and companies that manufacture components that were developed or are significantly modified for exclusive use in cluster munitions. The exclusion relating to controversial weapons has been extended to cover landmines, biological and chemical weapons.

12 The exclusions in place take into account material financial factors and are limited to areas where it is important to give explicit indications to the investment decision makers. The changes are not expected to lead to any significant changes to existing BCPP investment portfolios as these risks are already reflected in the investment decision making process.

13 BCPP's approach to Climate Change is outlined in its standalone Policy, included for reference in Appendix 4. The Policy has been reviewed by Robeco and against asset managers and asset owners to determine developments across the industry. As noted above, the revenue threshold for thermal coal and oil sands is reduced.

14 In terms of Engagement, BCPP previously reviewed their Engagement Themes using a newly developed framework in 2021. That was the first review of BCPP's priority themes, and the process followed is outlined in the RI Policy. The continuing Engagement Themes are Low-Carbon Transition, Waste and Water Management, Social Inclusion through Labour Management and Diversity of thought.

15 A summary of the key updates to the Policy and Voting Guidelines are included in Appendix 1. The approach BCPP will take in its RI Policy is consistent with the approach and investment beliefs the Pension Fund has set out in its Investment Strategy.

Contact: Paul Cooper Tel: 03000 269798

Appendix 1 – Summary of Key Changes

1 RI Policy – key changes

Section	Page	Type of Change	Rationale
2. What is responsible investment	3	Addition	RI approach potential to add value (reflecting our Chair's comments).
5. Integrating RI into investment decisions	4 4 4	Addition Addition Addition	Add just transition to the table under social issues. Additional text on human rights and engagement New text on biodiversity as an investment risk and how we engage.
5.1 Listed equities	5	Addition	More detail on integration process.
5.2 Private markets	5/6	Addition	Additional information on annual questionnaire and involvement in industry initiatives.
5.3 Fixed income	6	Amendment	Moved text on engagement.
5.4 Real estate	6/7	Amendment	Updated for progress made ahead of launch.
5.5 External manager selection	7	Addition	Update on engagement to support net zero; PRI assessment considered in selection and monitoring.
5.6 Climate change	7/8 8	Amendment Addition	Amendment to wording on a just transition and expectations of companies. Additional wording on Net Zero and stewardship.
6. Stewardship	8	Amendment	Inserted 'where appropriate' regarding litigation.
6.2 Engagement	11	Amendment	Engagement with wider industry to create stable environment.
6.2.2 Escalation	12	Addition	Extra tools as part of escalation.
6.2.3 Exclusions	12/13	Amendments and addition	Revenue thresholds reduced for thermal coal and oil sands. Controversial weapons exclusions broadened. New exclusion for thermal coal power generation.
9. Training and assistance	14	Addition	Included wider colleagues.

2 Voting Guidelines – key changes

Section	Page	Type of Change	Rationale
Diversity	5	Amendment Addition	Expectations of UK companies on board gender diversity. FTSE 250 on racial diversity and US companies.
Audit	9	Addition	Plans to retender.
Shareholder proposals	12	Addition	General stance on proposals aligned with Paris Agreement.
Climate change	13	Addition Addition Amendment Addition	5th CA100+ Net Zero Benchmark indicator added. Adding Urgewald Global Coal Exit List as industry benchmark tool. Caveat around TPI scoring and data. Stance on Say on Climate items not aligned with Paris Agreement.

3 Climate Change Policy – key changes

Section	Page	Type of Change	Rationale
2.2 Why climate change is important to us	3	Addition Amendment	Additional wording taken from the Climate Change Report – importance, our role, and opportunities. Revision to just transition wording.
3.1 Our ambition – Net zero	5/6	Addition	Inserted reference to our Net Zero targets – wording moved from 5.2
3.3 Division of roles and responsibilities	6	Addition	Wording in line with Climate Change Report.
4.1 How we identify climate-related risks	7	Revision	Wording in line with Climate Change Report.
4.2 How we assess climate-related risks and opportunities	8	Addition	Update on climate change scenario analysis. – in line with Climate Change Report.

5.1 Our approach to investing	8/9	Addition Amendment Addition	Additional wording on consideration when excluding. Revise exclusion threshold for thermal coal and oil sands. New exclusion on thermal coal power generation.
5.2 Acting within different asset classes	9	Amendment Addition	Paragraph moved to 3.1. Approach for Real Estate.
6.1 Our approach to engagement	10/11	Amendment Addition Amendment / addition	Inserted 'where considered to be appropriate' regarding litigation. Reference to engagement and targets. Focus areas including voting and engagement.
7. Disclosures and reporting	12	Amendment	Revised wording on transparency and reporting.

Responsible Investment Policy

Border to Coast Pensions Partnership

January 2024~~3~~

Responsible Investment Policy

This Responsible Investment Policy details the approach that Border to Coast Pensions Partnership follows in fulfilling its commitment to our Partner Funds in their delegation of the implementation of certain responsible investment (RI) and stewardship responsibilities.

1. Introduction

Border to Coast Pensions Partnership Ltd is an FCA-authorised investment fund manager (AIFM). It operates investment funds for its eleven shareholders which are Local Government Pension Scheme funds (Partner Funds). The purpose is to make a difference to the investment outcomes for our Partner Funds through pooling to create a stronger voice; working in partnership to deliver cost effective, innovative, and responsible investment now and into the future; thereby enabling great, sustainable performance.

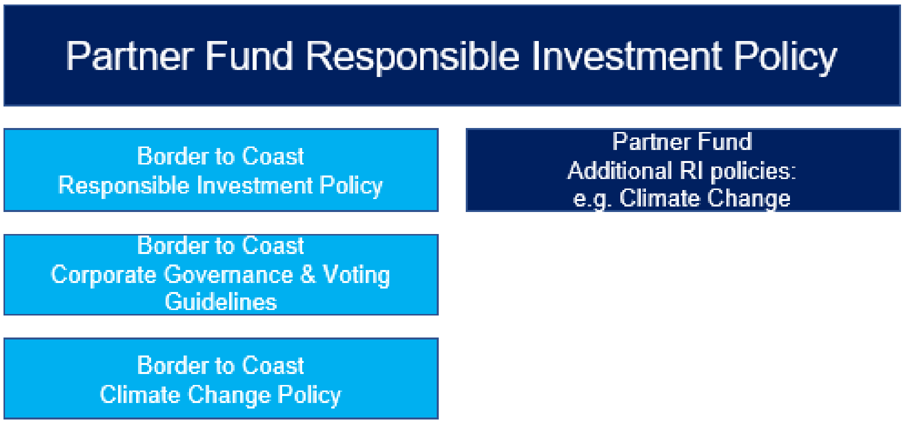
Border to Coast takes a long-term approach to investing and believes that businesses that are governed well, have a diverse board and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Diversity of thought and experience on boards is significant for good governance, reduces the risk of 'group think' leading to better decision making. Environmental, social and governance (ESG) issues can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore need to be considered across all asset classes in order to better manage risk and generate sustainable, long-term returns. Well-managed companies with strong governance are more likely to be successful long-term investments.

Border to Coast is an active owner and steward of its investments across all asset classes. This commitment is demonstrated through achieving signatory status to the Financial Reporting Council UK Stewardship Code. As a long-term investor and representative of asset owners, we hold companies and asset managers to account regarding environmental, societal and governance factors that have the potential to impact corporate value. We incorporate such factors into our investment analysis and decision making, enabling long-term sustainable investment performance for our Partner Funds. As a shareowner, Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It practices active ownership through voting, monitoring companies, engagement and litigation.

1.1. Policy framework

The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Stewardship day-to-day administration and implementation have been delegated to Border to Coast by the Partner Funds, on assets managed by Border to Coast, with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements. To leverage scale and for operational purposes, Border to Coast has, in conjunction with Partner Funds, developed this RI Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach on behalf of Partner Funds. This collaborative approach results in an RI policy framework illustrated below with the colours demonstrating ownership of the various aspects of the framework:

RI Policy Framework



2. What is responsible investment?

Responsible investment (RI) is the practice of incorporating ESG issues into the investment decision making process and practicing investment stewardship, to better manage risk and generate sustainable, long-term returns. Financial and ESG analysis together identify broader risks and the opportunities leading to better informed investment decisions and can improve performance as well as risk-adjusted returns.

Investment stewardship includes active ownership;~~,~~ using voting rights, engaging with investee companies, influencing regulators and policy makers, and collaborating with other investors to improve long-term performance. We believe that our responsible investment approach and associated activities help identify and manage non-financial risks and so should add value to our investment portfolios over the long-term.

3. Governance and Implementation

Border to Coast takes a holistic approach to the integration of sustainability and responsible investment, which are at the core of our corporate and investment thinking. Sustainability, which includes RI, is considered and overseen by the Board and Executive Committees. Specific policies and procedures are in place to demonstrate the commitment to RI, which include the Responsible Investment Policy and Corporate Governance & Voting Guidelines (available on the **website**). Border to Coast has dedicated staff resources for managing RI within the organisational structure.

The RI Policy is owned by Border to Coast and created after collaboration and engagement with our eleven Partner Funds. The Chief Investment Officer (CIO) is accountable for implementation of the policy. The policy is monitored with regular reports to the CIO, Investment Committee, Board, Joint Committee and Partner Funds. It is reviewed at least annually or whenever revisions are proposed, taking into account evolving best practice, and updated, as necessary.

4. Skills and competency

Border to Coast, where needed, takes proper advice in order to formulate and develop policy. The Board and staff maintain appropriate skills in responsible investment and stewardship through continuing professional development; where necessary expert advice is taken from suitable RI specialists to fulfil our responsibilities.

5. Integrating RI into investment decisions

Border to Coast considers material ESG factors when analysing potential investments. ESG factors tend to be longer term in nature and can create both risks and opportunities. It is therefore important that, as a long-term investor, we take them into account when analysing potential investments.

The factors considered are those which could cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. ESG issues are considered and monitored in relation to all asset classes. The CIO is accountable for the integration and implementation of ESG considerations. Issues considered include, but are not limited to:

Environmental	Social	Governance	Other
Climate change Resource & energy management Water stress Single use plastics Biodiversity	Human rights Child labour Supply chain Human capital Employment standards Pay conditions (e.g. living wage in UK) Just transition	Board independence Diversity of thought Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights	Business strategy Risk management Cyber security Data privacy Bribery & corruption Political lobbying

When considering human rights issues, we believe that all companies should abide by the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises. Companies should have processes in place to both identify and manage human rights risks across their business and supply chain. We engage with companies on human rights as part of our social priority engagement theme, engaging on modern slavery and labour practices and human rights due diligence where companies operate in high-risk areas. We have incorporated considerations into how we exercise our votes at company meetings.

Biodiversity loss is increasingly seen as posing a risk to financial markets. Over half of global GDP is dependent on nature-based services[1], and looking ten years out, six of the top ten global risks identified by the World Economic Forum are climate and environmental related. We currently address biodiversity issues through engagement with companies and governments on issues including deforestation, natural resource management and climate change.

Further detail on our voting approach is included in the Corporate Governance & Voting Guidelines.

[1] World Economic Forum

Whilst the specific aspects and form of ESG integration and stewardship vary across asset class, the overarching principles outlined in this policy are applied to all assets of Border to Coast. More information on specific approaches is outlined below.

5.1. Listed equities (Internally managed)

Border to Coast looks to understand and evaluate the ESG-related business risks and opportunities companies face. We consider the integration of ESG factors into the investment process as a necessary complement to the traditional financial evaluation of assets; this results in a more informed investment decision-making process. Rather than being used to preclude certain investments, it is used to provide an additional context for stock selection. It is an integral part of the research process and when considering portfolio construction, sector analysis and stock selection.

We use third-party ESG data and research from specialist providers ~~is used~~ alongside general stock and sector research. ~~; it is an integral part of the research process and when considering portfolio construction, sector analysis and stock selection.~~ ESG factors are incorporated into analysis and research templates as part of the decision-making process. We consider the financial materiality of ESG factors, which will vary depending on the geography, industry and individual company. For companies subject to very severe controversies as defined by our third-party data provider, UN Global Compact breaches, ~~or~~ with elevated ESG risk, or subject to securities litigation, a more detailed research and climate risk template is completed which is also used to inform engagement and voting. The RI team as subject matter experts support the portfolio managers, and t~~T~~he Head of RI works with colleagues to ensure they are knowledgeable and fully informed on ESG issues. Voting and engagement are also part of the investment process with information from engagement meetings shared with the team to increase and maintain knowledge, and portfolio managers involved in engagement meetings and the voting decision making process.~~should not be detached from the investment process with; therefore, information from engagement meetings is shared with the team to increase and maintain knowledge, and portfolio managers are involved engagement meetings and in the voting process~~.

5.2. Private markets

Border to Coast believes that ESG risk forms an integral part of the overall risk management framework for private market investment. An appropriate ESG strategy will improve downside protection and help create value in underlying portfolio companies. Border to Coast takes the following approach to integrating ESG into the private market investment process:

- The assessment of ESG issues is integrated into the investment process for all private market investments.
- A manager's ESG strategy is assessed through a specific ESG questionnaire agreed with the Head of RI and reviewed by the alternatives investment team with support from the ~~Head of~~ RI team as required.
- Managers are requested to complete an annual monitoring questionnaire which contains both binary and qualitative questions, enabling us to monitor several key

performance indicators, including RI policies, people, and processes, promoting RI, ~~and~~ RI-specific reporting and progress on measuring and reporting GHG emission~~.~~

- Managers are requested to report annually on the progress and outcomes of ESG related values and any potential risks.
- Ongoing monitoring includes identifying any possible ESG breaches and following up with the managers concerned.
- Work with managers to improve ESG policies and ensure the approach is in-line with developing industry best practice.
- We engage in a range of industry initiatives which seek to improve transparency and disclosure of ESG and carbon data within private markets.

5.3. Fixed income

ESG factors can have a material impact on the investment performance of bonds, both negatively and positively, at the issuer, sector and geographic levels. ESG analysis is therefore incorporated into the investment process for corporate and sovereign issuers to manage risk. The challenges of integrating ESG in practice are greater than for equities with the availability of data for some markets lacking.

~~The approach to engagement also differs as engagement with sovereigns is much more difficult than with companies.~~ Third-party ESG data is used along with information from sources including UN bodies, the World Bank and other similar organisations. This together with traditional credit analysis is used to determine a bond's credit quality. Information is shared between the equity and fixed income teams regarding issues which have the potential to impact corporates and sovereign bond performance.

The approach to engagement can also differ as engagement with sovereigns is much more difficult than with companies.

5.4. Real Estate

Border to Coast is preparing to launch funds to make Real Estate investments through both direct properties and indirect through investing in real estate funds. For real estate funds, a central component of the fund selection/screening process is~~will be~~ an assessment of the General Partner and Fund/Investment Manager's Responsible Investment and ESG approach and policies.

A Responsible Investment framework has been developed for Real Estate to ensure the integration of ESG factors throughout the investment process. This covers the stages of selection, appointment and monitoring and a feedback loop to report performance and review processes. It includes pre-investment, post-acquisition and post-investment phases. An ESG scorecard will be developed tailored to the direct or indirect property fund, monitoring k~~K~~ey performance indicators such as~~will include~~ energy performance measurement, flood risk and rating systems such as GRESB (formerly known as the Global Real Estate Sustainability Benchmark), and BREEAM (Building Research Establishment Environmental Assessment Method). ~~Our process will review the extent to which they are used in asset management strategies. We are in the process of developing our ESG and RI strategies for direct investment which includes procuring a third-party manager and working with them to develop our approach~~

~~to managing ESG risks.~~ For direct real estate, the RI Policy will be implemented through ESG strategies embedded into the asset management plans of individual ~~p~~properties; this is to ensure a perpetual cycle of review and improvement against measurable standards.

5.5. External manager selection

RI is incorporated into the external manager appointment process including the request for proposal (RFP) criteria and scoring and the investment management agreements. The RFP includes specific requirements relating to the integration of ESG by managers into the investment process which includes assessing and mitigating climate risk, and their approach to engagement. We expect to see evidence of how material ESG issues are considered in research analysis and investment decisions. Engagement needs to be structured with clear aims, objectives and milestones.

Voting is carried out by Border to Coast for both internally and externally managed equities where possible and we expect external managers to engage with companies in alignment with the Border to Coast RI Policy and to support our Net Zero commitment.

The monitoring of appointed managers also includes assessing stewardship and ESG integration in accordance with our policies. All external fund managers are expected to be signatories or comply with international standards applicable to their geographical location. We encourage managers to become signatories to the UN-supported Principles for Responsible Investment[2] ('PRI') and will consider the PRI assessment results in the selection and monitoring of managers. We also encourage managers to make a firm wide net zero commitment and to join the Net Zero Asset Manager initiative (NZAM) or an equivalent initiative. Managers are required to report to Border to Coast on their RI activities quarterly.

5.6. Climate change

The world is warming, the climate is changing, and the scientific consensus is that this is due to human activity, primarily the emissions of carbon dioxide (CO_2) from burning fossil fuels. We support this scientific consensus; recognising that the investments we make, in every asset class, will both impact climate change and be impacted by climate change. We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. We believe that we have the responsibility to contribute and support the transition to a low carbon economy in order to positively impact the world in which pension scheme beneficiaries live in.

Climate change is a systemic risk with potential financial impacts associated with the transition to a low-carbon economy and physical impacts that may manifest under different climate scenarios. Transition will affect some sectors more than others, notably energy, utilities and sectors highly reliant on energy. However, within sectors there are likely to be winners and losers which is why divesting from and excluding entire sectors may not be appropriate.

In addition, the transition to a low-carbon economy will undoubtedly affect the various stakeholders of the companies taking part in the energy transition. These stakeholders include the workforce, consumers, supply chains and the communities in which the companies' facilities are located. A just transition involves minimising and managing social risks, seeking

[2] The UN-supported Principles for Responsible Investment (PRI) is the world's leading advocate for responsible investment enabling investors to publicly demonstrate commitment to responsible investment with signatories committing to supporting the six principles for incorporating ESG issues into investment practice.

to maximis~~eing the~~ social opportunities, and a focus on the place based economic impacts~~opportunities and minimising and managing challenges of a net zero~~ of the transition to net zero. We expect companies to consider this social dimension in decarbonisation strategies and engage with companies, directly and through collaboration with other investors. ~~the potential stakeholder risks associated with decarbonisation~~.

We have committed to a net zero carbon emissions target by 2050, or sooner for our assets under management, in order to align with efforts to limit temperature increases to under 1.5ºC and have developed an implementation plan which sets out the four pillars of our approach.

Stewardship is an important element of meeting this goal and we engage with companies on climate-related risks and opportunities and use our voting rights to hold boards to account.

Detail on Border to Coast's approach to managing the risks and opportunities associated with climate change can be found in our Climate Change Policy on our website.

6. Stewardship

As a shareholder Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It practises active ownership through the full use of rights available including voting, monitoring companies, engagement and litigation, where appropriate. As a responsible shareholder, we are committed to being a signatory to the ~~2020~~ UK Stewardship Code[3] and were accepted as a signatory in March 2022. ~~I~~We are also a signatory to the PRI.

6.1. Voting

Voting rights are an asset and Border to Coast exercises its rights carefully to promote and support good corporate governance principles. It aims to vote in every market in which it invests where this is practicable. To leverage scale and for practical reasons, Border to Coast has developed a collaborative voting policy to be enacted on behalf of the Partner Funds which can be viewed on our **website**. Where possible the voting policies are also be applied to assets managed externally. Policies are reviewed annually in collaboration with the Partner Funds. There may be occasions when an individual fund may wish Border to Coast to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this. A Partner Fund wishing to diverge from this policy will provide clear rationale in order to meet the governance and control frameworks of both Border to Coast and, where relevant, the Partner Fund.

6.1.1. Use of proxy advisors

Border to Coast use a Voting and Engagement provider to implement the set of detailed voting guidelines and ensure votes are executed in accordance with policies. Details of the third-party Voting and Engagement provider and proxy voting advisor are included in Appendix A.

A proxy voting platform is used with proxy voting recommendations produced for all meetings voted managed by the Voting & Engagement provider. The proxy voting advisor provides voting recommendations based upon Border to Coast's Corporate Governance & Voting Guidelines ('the Voting Guidelines'). A team of dedicated voting analysts analyse the merit of

[3] The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. https://www.frc.org.uk/directors/corporate-governance-and-stewardship

each agenda item to ensure voting recommendations are aligned with the Voting Guidelines. Border to Coast's Investment Team receives notification of voting recommendations ahead of meetings which are assessed on a case-by-case basis by portfolio managers and responsible investment staff prior to votes being executed. A degree of flexibility is required when interpreting the Voting Guidelines to reflect specific company and meeting circumstances, allowing the override of voting recommendations from the proxy adviser.

The Voting and Engagement provider evaluates its proxy voting agent at least annually, on the quality of governance research and the alignment of customised voting recommendations and Border to Coast's Voting Guidelines. This review is part of the control framework and is externally assured. Border to Coast also monitors the services provided monthly, with a six monthly and full annual review.

Border to Coast has an active stock lending programme. Where stock lending is permissible, lenders of stock do not generally retain any voting rights on lent stock. Procedures are in place to enable stock to be recalled prior to a shareholder vote. Stock is recalled ahead of meetings, and lending can also be restricted, when any, or a combination of the following, occur:

- The resolution is contentious.
- The holding is of a size which could potentially influence the voting outcome.
- Border to Coast needs to register its full voting interest.
- Border to Coast has co-filed a shareholder resolution.
- A company is seeking approval for a merger or acquisition.
- Border to Coast deems it appropriate.

Proxy voting in some countries requires share blocking. This requires shareholders who want to vote their proxies to deposit their shares before the date of the meeting (usually one day after cut-off date) with a designated depositary until one day after meeting date.

During this blocking period, shares cannot be sold; the shares are then returned to the shareholders' custodian bank. We may decide that being able to trade the stock outweighs the value of exercising the vote during this period. Where we want to retain the ability to trade shares, we may refrain from voting those shares.

Where appropriate Border to Coast considers co-filing shareholder resolutions and notifies Partner Funds in advance. Consideration is given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

6.2. Engagement

The best way to influence companies is through engagement; therefore, Border to Coast will not divest from companies principally on social, ethical or environmental reasons. As responsible investors, the approach taken is to influence companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights.

The services of specialist providers may be used when necessary to identify issues of concern. Meeting and engaging with companies are an integral part of the investment process. As part of our stewardship duties, we monitor investee companies on an ongoing basis and take appropriate action if investment returns are at risk. Engagement takes place between portfolio managers and investee companies across all markets where possible.

Border to Coast has several approaches to engaging with investee holdings:

- Border to Coast and all eleven Partner Funds are members of the Local Authority Pension Fund Forum ('LAPFF'). Engagement takes place with companies on behalf of members of the Forum across a broad range of ESG themes.
- We seek to work collaboratively with other like-minded investors and bodies in order to maximise Border to Coast's influence on behalf of Partner Funds, particularly when deemed likely to be more effective than acting alone. This is achieved through actively supporting investor RI initiatives and collaborating with various other external groups e.g. LAPFF, the Institutional Investors Group on Climate Change, other LGPS pools and other investor coalitions.
- Due to the proportion of assets held in overseas markets it is imperative that Border to Coast is able to engage meaningfully with global companies. To enable this and complement other engagement approaches, Border to Coast use an external Voting and Engagement service provider. We provide input into new engagement themes which are considered to be materially financial, selected by the external engagement provider on an annual basis, and also participate in some of the engagements undertaken on our behalf.
- Engagement takes place with companies in the internally managed portfolios with portfolio managers and the Responsible Investment team engaging directly across various engagement streams; these cover environmental, social, and governance issues as well as UN Global Compact[4] breaches or OECD Guidelines[5] for Multinational Enterprises breaches.
- We expect external managers to engage with investee companies and bond issuers as part of their mandate on our behalf and in alignment with our RI policies.

Engagement conducted with investee holdings can be broadly split into two categories: engagement based on financially material ESG issues, or engagement based on (potential) violations of global standards such as the UN Global Compact or OECD Guidelines for Multinational Enterprises.

When engagement is based on financially material ESG issues, engagement themes and companies are selected in cooperation with our engagement service provider based on an analysis of financial materiality. Such companies are selected based on their exposure to the engagement topic, the size and relevance in terms of portfolio positions and related risk.

For engagement based on potential company misconduct, cases are selected through the screening of news flows to identify breaches of the UN Global Compact Principles or OECD Guidelines for Multinational Enterprises. Both sets of principles cover a broad variety of basic corporate behaviour norms around ESG topics. Portfolio holdings are screened on the validation of a potential breach, the severity of the breach and the degree ~~of~~ to which

[4] UN Global Compact is a shared framework covering 10 principles, recognised worldwide and applicable to all industry sectors, based on the international conventions in the areas of human rights, labour standards, environmental stewardship and anti-corruption.

[5] OECD Guidelines for Multinational Enterprises are recommendations providing principles and standards for responsible business conduct for multinational corporations operating in or from countries adhering to the OECD Declaration on International and Multinational Enterprises.

management can be held accountable for the issue. For all engagements, SMART[6] engagement objectives are defined.

In addition, internal portfolio managers and the Responsible Investment team monitor holdings which may lead to selecting companies where engagement may improve the investment case or can mitigate investment risk related to ESG issues. Members of the Investment Team have access to our engagement provider's thematic research and engagement records. This additional information feeds into the investment analysis and decision making process.

~~We engage with regulators, public policy makers, and other financial market participants as and when required.~~ We encourage companies to improve disclosure in relation to ESG and to report and disclose in line with the TCFD recommendations.

As a responsible investor we also engage with regulators, public policy makers, and other financial market participants on systemic risks to help create a stable environment to enhance long-term returns.

6.2.1. Engagement themes

Recognising that we are unable to engage on every issue, we focus our efforts on areas that are deemed to be the most material to our investments - our key engagement themes. These are used to highlight our priority areas for engagement which includes working with our Voting and Engagement provider and in considering collaborative initiatives to join. We do however engage more widely via the various channels including LAPFF and our external managers.

Key engagement themes are reviewed on a three yearly basis using our Engagement Theme Framework. There are three principles underpinning this framework:

- that progress in the themes is expected to have a material financial impact on our investment portfolios in the long-term;
- that the voice of our Partner Funds should be a part of the decision; and
- that ambitious, but achievable milestones can be set through which we can measure progress over the period.

When building a case and developing potential new themes we firstly assess the material ESG risks across our portfolios and the financial materiality. We also consider emerging ESG issues and consult with our portfolio managers and Partner Funds. The outcome is for the key themes to be relevant to the largest financially material risks; for engagement to have a positive impact on ESG and investment performance; to be able to demonstrate and measure progress; and for the themes to be aligned with our values and important to our Partner Funds.

The key engagement themes following the 2021 review are:

- Low Carbon Transition
- Diversity of thought

[6] SMART objectives are: specific, measurable, achievable, relevant and time bound.

- Waste and water management
- Social inclusion through labour management

6.2.2. Escalation

Border to Coast believe that engagement and constructive dialogue with the companies in which it invests is more effective than excluding companies from the investment universe. However, if engagement does not lead to the desired result escalation may be necessary. A lack of responsiveness by the company can be addressed by conducting collaborative engagement with other institutional shareholders, registering concern by voting on related agenda items at shareholder meetings, attending a shareholder meeting in person, making a public statement, publicly pre-declaring our voting intention, and filing/co-filing a shareholder resolution. If the investment case has been fundamentally weakened, the decision may be taken to sell the company's shares.

6.2.3 Exclusions

We believe that using our influence through ongoing engagement with companies, rather than divestment, drives positive outcomes. This is fundamental to our responsible investment approach. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon, and the likelihood for success in influencing company strategy and behaviour.

When considering whether a company is a candidate for exclusion, we do so based on the associated material financial risk of a company's business operations and whether we have concerns about its long-term viability. We initially assess the following key financial risks:

- regulatory risk
- litigation risk
- reputational risk
- social risk
- environmental risk

Thermal coal and oil sands:

Using these criteria,~~ and~~ due to the potential for stranded assets and the significant carbon emissions of certain fossil fuels, we will not invest in public market companies or illiquid assets with more than 25~~70~~% of revenues derived from thermal coal and oil sands, unless there are exceptional circumstances. We will continue to monitor companies with such revenues for increased potential for stranded assets and the associated investment risk which may lead to the revenue threshold decreasing over time. ~~For illiquid assets the threshold will be 25%. This is due to the long-term nature of the investments and less ability for investors to change requirements over time.~~

~~We will continue to monitor companies with such revenues for increased potential for stranded assets and the associated investment risk which may lead to the revenue threshold decreasing over time.~~

We will exclude public market companies in developed markets with >50% revenue derived from thermal coal power generation. For companies in emerging markets the revenue threshold is >70%, this is to reflect our support of a just transition towards a low-carbon economy which should be inclusive and acknowledge existing global disparities. We recognise that not all countries are at the same stage in their decarbonisation journey and need to consider the different transition timelines for emerging market economies. We will assess the implications of the exclusion policy and where we consider it appropriate, may operate exceptions.

~~We support a just transition towards a low-carbon economy which should be inclusive and acknowledge existing global disparities. We recognise that not all countries are at the same stage in their decarbonisation journey and need to consider the different transition timelines for emerging market economies. Therefore, in the interests of a just transition we will assess the implications of the exclusion policy and where we consider it appropriate, may operate exceptions.~~ Any public market companies excluded will be reviewed with business strategies and transition plans assessed for potential reinstatement.

~~For illiquid assets the threshold will be 25%. This is due to the long-term nature of the investments and less ability for investors to change requirements over time.~~

Controversial weapons~~Cluster munitions~~:

Certain weapons are considered to be unacceptable as they may~~unacceptable under international conventions as they may~~ have an indiscriminate and disproportional impact on civilians during and after military conflicts. Several ~~I~~International Conventions and Treaties have been developed intended to prohibit or limit their use. ~~n addition, we~~ We will therefore not invest in companies contravening the ~~-~~ Anti-Personnel Landmines Treaty (1997), Chemical Weapons Convention (1997), the Biological Weapons Convention (1975), and the Convention on Cluster Munitions (2008). It is illegal to use these weapons in many jurisdictions and~~-~~ in some countries legislation also prohibits the direct and indirect financing of these weapons. ~~many signatories to the Convention regard investing in the production of cluster munitions as a form of assistance that is prohibited by the convention.~~ Therefore, as a responsible investor we will not invest in the following, where companies are contravening the above treaties and conventions:

- Companies where there is evidence of manufacturing ~~cluster munition~~ such whole weapons systems.
- Companies manufacturing components that were developed or are significantly modified for exclusive use of such weapons~~in cluster munitions~~.

Companies that manufacture "dual-use" components, such as those that were not developed or modified for exclusive use in cluster munitions, will be assessed and excluded on a case-by-case basis.

Restrictions relate to the corporate entity only and not any affiliated companies.

Any companies excluded will be monitored and assessed for progress and potential reinstatement at least annually.

6.3. Due diligence and monitoring procedure

Internal procedures and controls for stewardship activities are reviewed by Border to Coast's external auditors as part of the audit assurance (AAF) control review. The external Voting and Engagement provider is also monitored and reviewed by Border to Coast on a regular basis to ensure that the service level agreement is met.

The Voting and Engagement provider also undertakes verification of its stewardship activities and the external auditor audits stewardship controls on an annual basis; this audit is part of the annual International Standard for Assurance Engagements control.

7. Litigation

Where Border to Coast holds securities, which are subject to individual or class action securities litigation, where appropriate, we participate in such litigation. There are various litigation routes available dependent upon where the company is registered. We use a case-by-case approach to determine whether or not to participate in a class action after having considered the risks and potential benefits. We work with industry professionals to facilitate this.

8. Communication and reporting

Border to Coast is transparent with regard to its RI activities and keeps beneficiaries and stakeholders informed. This is done by making publicly available RI and voting policies; publishing voting activity on our **website** quarterly; reporting on engagement and RI activities to the Partner Funds quarterly, and in our annual RI report.

We also report in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and provide an annual progress report on the implementation of our Net Zero Plan.

9. Training and assistance

Border to Coast offers the Partner Funds training on RI and ESG issues. Where requested, assistance is given on identifying ESG risks and opportunities in order to help develop individual fund policies and investment principles for inclusion in the Investment Strategy Statements.

The Investment Team receive training on RI and ESG issues with assistance and input from our Voting & Engagement Partner and other experts where required. Training is also provided to ~~the~~ Border to Coast colleagues, the Board and the Joint Committee as and when required.

10. Conflicts of interest

Border to Coast has a suite of policies which cover any potential conflicts of interest between itself and the Partner Funds which are applied to identify and manage any conflicts of interest, this includes potential conflicts in relation to stewardship.

Appendix A: Third-party Providers

Voting and Engagement provider	Robeco Institutional Asset Management BV	June 2018 - Present
Proxy advisor	Glass Lewis	June 2018 - Present

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Corporate Governance & Voting Guidelines

Border to Coast Pensions Partnership

January 2024~~3~~

1. Introduction

Border to Coast Pensions Partnership believes that companies operating to higher standards of corporate governance along with environmental and social best practice have greater potential to protect and enhance investment returns. As an active owner Border to Coast will engage with companies on environmental, social and governance (ESG) issues and exercise its voting rights at company meetings. When used together, voting and engagement can give greater results.

An investment in a company not only brings rights but also responsibilities. The shareholders' role includes appointing the directors and auditors and to be assured that appropriate governance structures are in place. Good governance is about ensuring that a company's policies and practices are robust and effective. It defines the extent to which a company operates responsibly in relation to its customers, shareholders, employees, and the wider community. Corporate governance goes hand-in-hand with responsible investment and stewardship. Border to Coast considers the UK Corporate Governance Code and other best practice global guidelines in formulating and delivering its policy and guidelines.

2. Voting procedure

These broad guidelines should be read in conjunction with the Responsible Investment Policy. They provide the framework within which the voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances. Voting decisions are reviewed with the portfolio managers. Where there are areas of contention the decision on voting will ultimately be made by the Chief Executive Officer. A specialist proxy voting advisor is employed to ensure that votes are executed in accordance with the policy.

Where a decision has been made not to support a resolution at a company meeting, Border to Coast will, where able, engage with the company prior to the vote being cast. In some instances, attendance at AGMs may be required.

Border to Coast discloses its voting activity on its website and to Partner Funds on a quarterly basis.

We will support incumbent management wherever possible but recognise that the neglect of corporate governance and corporate responsibility issues could lead to reduced shareholder returns.

We will vote **For**, **Abstain** or **Oppose** on the following basis:

- We will support management that acts in the long-term interests of all shareholders, where a resolution is aligned with these guidelines and considered to be in line with best practice.
- We will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.
- We will vote against a resolution where corporate behaviour falls short of best practice or these guidelines, or where the directors have failed to provide sufficient information to support the proposal.

3. Voting Guidelines

Company Boards

The composition and effectiveness of the board is crucial to determining corporate performance, as it oversees the running of a company by its managers and is accountable to shareholders. Company behaviour has implications for shareholders and other stakeholders. The structure and composition of the board may vary between different countries; however, we believe that the following main governance criteria are valid across the globe.

Composition and independence

The board should have a balance of executive and non-executive directors so that no individual or small group of individuals can control the board's decision making. They should possess a suitable range of skills, experience and knowledge to ensure the company can meet its objectives. Boards do not need to be of a standard size: different companies need different board structures, and no simple model can be adopted by all companies.

The board of companies, excluding the Chair, should consist of a majority of independent non-executive directors although local market practices shall be taken into account. Controlled companies should have a majority of independent non-executive directors, or at least one-third independent directors on the board. As non-executive directors have a fiduciary duty to represent and act in the best interests of shareholders and to be objective and impartial when considering company matters, the board must be able to demonstrate their independence. Non-executive directors who have been on the board for a significant length of time, from nine to twelve years (depending on market practice) have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors. We aspire for a maximum tenure of nine years but will review resolutions on a case-by-case basis where the local corporate governance code recommends a maximum tenure between nine and twelve years.

The nomination process of a company should therefore ensure that potential risks are restricted by having the right skills mix, competencies and independence at both the supervisory and executive board level. It is essential for boards to achieve an appropriate balance between tenure and experience, whilst not compromising the overall independence of the board. The re-nomination of board members with longer tenures should be balanced out by the nomination of members able to bring fresh perspectives. It is recognised that excessive length of tenure can be an issue in some markets, for example the US where it is common to have a retirement age limit in place rather than length of tenure. In such cases it is of even greater importance to have a process to robustly assess the independence of long tenured directors. Where it is believed an individual can make a valuable and independent contribution, tenure greater than nine years will be assessed on a case-by-case basis.

The company should, therefore, have a policy on tenure which is referenced in its annual report and accounts. There should also be sufficient disclosure of biographical details so that shareholders can make informed decisions. There are a number of factors which could affect independence, which includes but is not restricted to:

- Representing a significant shareholder.
- Serving on the board for over nine years.

- Having had a material business relationship with the company in the last three years.
- Having been a former employee within the last five years.
- Family relationships with directors, senior employees or advisors.
- Cross directorships with other board members.
- Having received or receiving additional remuneration from the company in addition to a director's fee, participating in the company's share option or performance-related pay schemes, or being a member of the company's pension scheme.

If the board has an average tenure of greater than 10 years and the board has had fewer than one new board nominee in the last five years, we will vote against the chair of the nomination committee.

Leadership

The role of the Chair is distinct from that of other board members and should be seen as such. The Chair should be independent upon appointment and should not have previously been the CEO. The Chair should also take the lead in communicating with shareholders and the media. However, the Chair should not be responsible for the day-to-day management of the business: that responsibility rests with the Chief Executive. The role of Chair and CEO should not be combined as different skills and experience are required. There should be a distinct separation of duties to ensure that no one director has unfettered decision making power.

However, Border to Coast recognises that in many markets it is still common to find these positions combined. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice advocates a separation of the roles. A senior independent non-executive director should be appointed, in-line with local corporate governance best practice, if roles are combined to provide shareholders and directors with a meaningful channel of communication, to provide a sounding board for the chair and to serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair’s performance. Where the Chair and CEO roles are combined and no senior independent non-executive director has been appointed, we will vote against the nominee holding the combined Chair/CEO role, taking into consideration market practice.

Non-executive Directors

The role of non-executive directors is to challenge and scrutinise the performance of management in relation to company strategy and performance. To do this effectively they need to be independent; free from connections and situations which could impact their judgement. They must commit sufficient time to their role to be able to carry out their responsibilities. A senior independent non-executive director should be appointed to act as liaison between the other non-executives, the Chair and other directors where necessary.

Diversity

Board members should be recruited from as broad a range of backgrounds and experiences as possible. A diversity of directors will improve the representation and accountability of boards, bringing new dimensions to board discussions and decision making. Companies should broaden the search to recruit non-executives to include open advertising and the process for board appointments should be transparent and formalised in a board nomination policy. Companies should have a diversity and inclusion policy which references gender, ethnicity, age, skills and experience and how this is considered in the formulation of the board. The policy should give insight into how diversity is being addressed not only at board level but throughout the company, it should reflect the demographic/ethnic makeup of the countries a company is active in and be disclosed in the Annual Report.

We support the government-backed ~~Davies report, Hampton Alexander~~ FTSE Women Leaders Review and Parker R~~r~~eview~~s,~~ which set goals for UK companies regarding the representation of women and ethnic minorities on boards, executive teams and in leadership positions.~~senior management.~~ The Financial Conduct Authority (FCA) has also set targets on diversity for certain companies for boards and senior board positions. Therefore, in the UK ~~developed markets without relevant legal requirements,~~ we expect boards to be composed of at least 40~~33~~% female directors. For developed markets without legal requirements the threshold will be 33%. Where relevant, this threshold will be rounded down to account for board size. Recognising varying market practices, we generally expect emerging market and Japanese companies to have at least one female on the board. We will vote against the chair of the nomination committee where this is not the case and there is no positive momentum or progress. On ethnic diversity, ~~we expect FTSE 100 companies to have met the Parker Review target and FTSE 250 companies to disclose the ethnic diversity of their board and have a credible plan to achieve the Parker Review targets by 2024.~~ w~~W~~e will vote against the C~~c~~hair of the nomination committee at FTSE 100 companies where the Board does not have at least one person from an ethnic minority background, and from 2024, we will also vote against the Chair of the nomination committee at FTSE 250 companies unless there are mitigating circumstances or plans to address this have been disclosed. In the US we will generally vote against the nomination committee chair at Russel 1000 companies that fail to disclose sufficient racial and ethnic board demographic information.

Succession planning

We expect the board to disclose its policy on succession planning, the factors considered and where decision-making responsibilities lie. A succession policy should form part of the terms of reference for a formal nomination committee. The committee should comprise of a majority of independent directors or comply with local standards and be headed by the Chair or Senior Independent Non-executive Director except when it is appointing the Chair's successor. External advisors may also be employed.

Directors' availability and attendance

It is important that directors have sufficient time to devote to the company's affairs; therefore, full time executives should not hold more than one non-executive position in a FTSE 100 company, or similar size company in other regions; nor the chairmanship of such a company. In the remaining instances, directors working as full-time executives should serve on a maximum of two publicly listed company boards.

With regard to non-executive directors, there can be no hard and fast rule on the number of positions that are acceptable: much depends upon the nature of the post and the capabilities of the individual. Shareholders need to be assured that no individual director has taken on too many positions. Full disclosure should be made in the annual report of directors' other commitments and attendance records at formal board and committee meetings. A director should attend a minimum of 75% of applicable board and committee meetings to ensure commitment to responsibilities at board level.

Re-election

For a board to be successful it needs to ensure that it is suitably diverse with a range of skills, experience and knowledge. There is a requirement for non-executive directors to be independent to appropriately challenge management. To achieve this, boards need to be regularly refreshed to deal with issues such as stagnant skill sets, lack of diversity and excessive tenure; therefore, all directors should be subject to re-election annually, or in-line with local best practice. As representatives of shareholders, directors should preferably be elected using a majority voting standard. In cases where an uncontested election uses the plurality[1] voting standard without a resignation policy, we will hold the relevant Governance Committee accountable by voting against the Chair of this committee.

Board evaluation

A requisite of good governance is that boards have effective processes in place to evaluate their performance and appraise directors at least once a year. The annual evaluation should consider its composition, diversity and how effectively members work together to achieve objectives. As part of the evaluation, boards should consider whether directors possess the necessary expertise to address and challenge management on key strategic topics. These strategic issues and important areas of expertise should be clearly outlined in reporting on the evaluation. The board should disclose the process for evaluation and, as far as reasonably possible, any material issues of relevance arising from the conclusions and any action taken as a consequence. Individual director evaluation should demonstrate the effective contribution of each director. An internal evaluation should take place annually with an external evaluation required at least every three years.

Stakeholder engagement

Companies need to develop and maintain relationships with key stakeholders to be successful in the long-term. The board therefore should take into account the interests of and feedback from stakeholders which includes the workforce. Considering the differences in best practice across markets, companies should report how key stakeholder views and interests have been considered and impacted on board decisions. Companies should also have an appropriate system in place to engage with employees.

Engagement and dialogue with shareholders and wider stakeholders on a regular basis are key for companies; being a way to discuss governance, strategy, and other significant issues. Companies should engage with shareholders ahead of the AGM in order that high votes against resolutions can be avoided where possible.

[11] A plurality vote means that the winning candidate only needs to get more votes than a competing candidate. If a director runs unopposed, he or she only needs one vote to be elected.

Where a company with a single share class structure has received 20% votes against a proposal at a previous AGM, a comprehensive shareholder and stakeholder consultation should be initiated. A case-by-case approach will be taken for companies with a dual class structure where a significant vote against has been received. Engagement efforts and findings, as well as company responses, should be clearly reported on and lead to tangible improvement. Where companies fail to do so, the relevant board committees or members will be held to account.

Directors' remuneration

Shareholders at UK companies have two votes in relation to pay; the annual advisory vote on remuneration implementation which is non-binding, and the triennial vote on forward-looking pay policy which is binding. If a company does not receive a majority of shareholder support for the pay policy, it is required to table a resolution with a revised policy at the next annual meeting.

It must be noted that remuneration structures are varied, with not one model being suitable for all companies; however, there are concerns over excessive remuneration and the overall quantum of pay. Research shows that high executive pay does not systematically lead to better company performance. Excessive rewards for poor performance are not in the best interests of a company or its shareholders. Remuneration levels should be sufficient to attract, motivate and retain quality management but should not be excessive compared to salary levels within the organisation and with peer group companies. There is a clear conflict of interest when directors set their own remuneration in terms of their duty to the company, accountability to shareholders and their own self-interest. It is therefore essential that the remuneration committee is comprised solely of non-executive directors and complies with the market independence requirement.

Remuneration has serious implications for corporate performance in terms of providing the right incentives to senior management, in setting performance targets, and its effect on the morale and motivation of employees. Corporate reputation is also at risk. Remuneration policy should be sensitive to pay and employee conditions elsewhere in the company, especially when determining annual salary increases.

Where companies are potentially subject to high levels of environmental and societal risk as part of its business, the remuneration committee should also consider linking relevant metrics and targets to remuneration to focus management on these issues. The selection of these metrics should be based on a materiality assessment that also guides the company's overall sustainability strategy. If environmental or social topics are incorporated in variable pay plans, the targets should set stretch goals for improved ESG performance, address achievements under management's control, and avoid rewarding management for basic expected behaviour. Where relevant, minimum ESG standards should instead be incorporated as underpins or gateways for incentive pay. If the remuneration committee determines that the inclusion of environmental or social metrics would not be appropriate, a clear rationale for this decision should be provided in the remuneration report.

The compensation provided to non-executive directors should reflect the role and responsibility. It should be structured in a manner that does not compromise independence, enhancing objectivity and alignment with shareholders' interests. Non-executive directors should, therefore, not be granted performance-based pay. Although we would not expect participation in Long-term Incentive Plans (LTIPs), we are conscious that in some exceptional instances non-executives may be awarded stock, however the proportion of pay granted in stock should be minimal to avoid conflicts of interest.

To ensure accountability there should be a full and transparent disclosure of directors' remuneration with the policy published in the annual report and accounts. The valuation of benefits received during the year, including share options, other conditional awards and pension benefits, should be provided. Companies should also be transparent about the ratio of their CEO's pay compared to the median, lower and upper quartiles of their employees.

- **Annual bonus**

  Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious and linked to delivering the strategy of the business and performance over the longer-term. Bonuses should be set at an appropriate level of base salary and should be capped. Provisions should be in place to reduce or forfeit the annual bonus where the company has experienced a significant negative event. For large cap issuers, we expect the annual bonus to include deferral of a portion of short-term payments into long-term equity scheme or equivalent. We will also encourage other companies to take this approach.

- **Long-term incentives**

  Remuneration policies have over time become more and more complex making them difficult for shareholders to adequately assess. Border to Coast therefore encourages companies to simplify remuneration policies.

  Performance-related remuneration schemes should be created in such a way to reward performance that has made a significant contribution to shareholder value. Poorly structured schemes can result in senior management receiving unmerited rewards for substandard performance. This is unacceptable and could adversely affect the motivation of other employees.

  Incentives are linked to performance over the longer-term in order to create shareholder value. If restricted stock units are awarded under the plan, the vesting period should be at least three years to ensure that the interests of both management and shareholders are aligned in the long-term. Executives' incentive plans should include both financial and non-financial metrics and targets that are sufficiently ambitious and challenging. Remuneration should be specifically linked to stated business objectives and performance indicators should be fully disclosed in the annual report.

  The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets. We expect clawback or malus provisions to be in place for all components of variable compensation, taking into account local market standards. We encourage Executive Directors to build a significant shareholding in the company to ensure alignment with the objectives of shareholders. These shares should be held for at least two years post exit.

  The introduction of incentive schemes to all employees within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value.

Directors' contracts

Directors' service contracts are also a fundamental part of corporate governance considerations. Therefore, all executive directors are expected to have contracts that are based upon no more than twelve months' salary. Retirement benefit policies of directors should be aligned with those of the majority of the workforce, and no element of variable pay should be pensionable. The main terms of the directors' contracts including notice periods on both sides, and any loans or third-party contractual arrangements such as the provision of housing or removal expenses, should be declared within the annual report. Termination benefits should be aligned with market best practice.

Corporate reporting

Companies are expected to report regularly to shareholders in an integrated manner that allows them to understand the company's strategic objectives. Companies should be as transparent as possible in disclosures within the report and accounts. As well as reporting financial performance, business strategy and the key risks facing the business, companies should provide additional information on ESG issues that also reflect the directors' stewardship of the company. These could include, for example, information on a company's human capital management policies, its charitable and community initiatives and on its impact on the environment in which it operates.

Every annual report should include an environmental section, which identifies key quantitative data relating to energy and water consumption, emissions and waste etc., explains any contentious issues and outlines reporting and evaluation criteria. It is important that the risk areas reported upon should not be limited to financial risks.

We will encourage companies to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and the Workforce Disclosure Initiative in relation to human capital reporting.

Audit

The audit process must be objective, rigorous and independent if it is to provide assurance to users of accounts and maintain the confidence of the capital markets. To ensure that the audit committee can fulfil its fiduciary role, it should be established as an appropriate committee composition with at least three members who are all independent non-executive directors and have at least one director with a relevant audit or financial background. Any material links between the audit firm and the client need to be highlighted, with the audit committee report being the most appropriate place for such disclosures. Audited financial statements should be published in a timely manner ahead of votes being cast at annual general meetings.

FTSE 350 companies should tender the external audit contract at least every ten years. Reappointment of the same firm with rotation of the audit partner, will not be considered as sufficient. If an auditor has been in place for more than ten fiscal years, their appointment will not be supported unless there are plans in place to address this.

~~.~~ For the wider market, the external audit contract should be put out to tender at least every ten years. Where an auditor has resigned, an explanation should be given. If the accounts have been qualified or there has been non-compliance with legal or regulatory requirements, this should be drawn to shareholders' attention in the main body of the annual report. If the appropriate disclosures are not made, the re-appointment of the audit firm will not be supported.

Non-Audit Fees

There is concern over the potential conflict of interest between audit and non-audit work when conducted by the same firm for a client. Companies must therefore make a full disclosure where such a conflict arises. There can be legitimate reasons for employing the same firm to do both types of work, but these need to be identified. As a rule, the re-appointment of auditors will not be supported where non-audit fees are considerably in excess of audit fees in the year under review, and on a three-year aggregate basis, unless sufficient explanation is given in the accounts.

Political donations

There are concerns over the reputational risks and democratic implications of companies becoming involved in funding political processes, both at home and abroad. Companies should disclose all political donations, demonstrate where they intend to spend the money and that it is the interest of the company and shareholders. Where these conditions are not met, or there is insufficient disclosure that the money is not being used for political party donations, political donations will be opposed. Any proposals concerning political donations will be opposed.

Lobbying

A company should be transparent and publicly disclose direct lobbying, and any indirect lobbying through its membership of trade associations. We will assess shareholder proposals regarding lobbying on a case-by-case basis; however, we will generally support resolutions requesting greater disclosure of trade association and industry body memberships, any payments and contributions made, and requiring alignment of company and trade association values. This includes expectations of companies to be transparent regarding lobbying activities in relation to climate change and to assess whether a company's climate change policy is aligned with the industry association(s) it belongs to.

Shareholder rights

As a shareowner, Border to Coast is entitled to certain shareholder rights in the companies in which it invests (Companies Act 2006). Boards are expected to protect such ownership rights.

- **Dividends**

  Shareholders should have the chance to approve a company's dividend policy and this is considered best practice. The resolution should be separate from the resolution to receive the report and accounts. Failure to seek approval would elicit opposition to other resolutions as appropriate unless there is a clearly disclosed capital management and allocation strategy in public reporting.

- **Voting rights**

  Voting at company meetings is the main way in which shareholders can influence a company's governance arrangements and its behaviour. Shareholders should have voting rights in equal proportion to their economic interest in a company (one share, one vote). Dual share structures which have differential voting rights are disadvantageous to many shareholders and should be abolished. We will not support measures or proposals which will dilute or restrict our rights.

- **Authority to issue shares**

  Companies have the right to issue new shares in order to raise capital but are required by law to seek shareholders' authority. Such issuances should be limited to what is necessary to sustain the company and not be in excess of relevant market norms.

- **Disapplication of Pre-emption Rights**

  Border to Coast supports the pre-emption rights principle and considers it acceptable that directors have authority to allot shares on this basis. Resolutions seeking the authority to issue shares with and without pre-emption rights should be separate and should specify the amounts involved, the time periods covered and whether there is any intention to utilise the authority.

Share Repurchases

Border to Coast does not necessarily oppose a company re-purchasing its own shares but it recognises the effect such buy backs might have on incentive schemes where earnings per share measures are a condition of the scheme. The impact of such measures should be reported on. It is important that the directors provide a full justification to demonstrate that a share repurchase is the best use of company resources, including setting out the criteria for calculating the buyback price to ensure that it benefits long-term shareholders.

Memorandum and Articles of Association

Proposals to change a company's memorandum and articles of association should be supported if they are in the interests of Border to Coast, presented as separate resolutions for each change, and the reasons for each change provided.

If proposals to adopt new articles or amend existing articles might result in shareholders' interests being adversely affected, we will oppose the changes.

Mergers and acquisitions

Border to Coast will normally support management if the terms of the deal will create rather than destroy shareholder value and makes sense strategically. Each individual case will be considered on its merits. Seldom will compliance with corporate governance best practice be the sole determinant when evaluating the merits of merger and acquisition activity, but full information must be provided to shareholders on governance issues when they are asked to approve such transactions. Recommendations regarding takeovers should be approved by the full board.

Articles of Association and adopting the report and accounts

It is unlikely that Border to Coast will oppose a vote to adopt the report and accounts simply because it objects to them per se; however, there may be occasions when we might vote against them to lodge dissatisfaction with other points raised within this policy statement.

Although it is a blunt tool to use, it can be an effective one especially if the appropriate Chair or senior director is not standing for election.

Virtual Shareholder General Meetings

Many companies are considering using electronic means to reach a greater number of their shareholders. An example of this is via a virtual annual general meeting of shareholders where a meeting takes place exclusively using online technology, without a corresponding in-person meeting. There are some advantages to virtual only meetings as they can increase shareholder accessibility and participation; however, they can also remove the one opportunity shareholders have to meet face to face with the Board to ensure they are held to account. We would expect an electronic meeting to be held in tandem with a physical meeting. If extraordinary circumstances rule out a physical meeting, we expect the company to clearly outline how shareholders' rights to participate by asking questions and voting during the meeting are protected. Any amendment to a company's Articles to allow virtual only meetings without these safeguards will not be supported.

Shareholder Proposals

We will assess shareholder proposals on a case-by-case basis. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

Shareholder proposals are an important tool to improve transparency. Therefore, we will, when considered appropriate, support resolutions requesting additional reporting or reasonable action that is in shareholders' best interests on material business risk, ESG topics, climate risk and lobbying.

We will generally vote in favour of shareholder resolutions that are aligned with the objectives of the Paris climate agreement, taking a 'comply or explain' approach, publicly disclosing our rationale if we vote against.

Human rights

When considering human rights issues, we believe that all companies should abide by the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises. We expect companies exposed to human rights issues to have adequate due diligence processes in place to identify risks across their business and supply chain, in line with the UN Guiding Principles on Business and Human Rights. Where a company is involved in significant social controversies and at the same time is assessed as having poor human rights due diligence, we will vote against the most accountable board member or the report and accounts.

Climate change

Climate change is a systemic risk which poses significant investment risks, but also opportunities, with the potential to impact long-term shareholder value. We believe it is vital we fully understand how companies are dealing with this challenge, and feel it is our duty to hold the boards of our investee companies to account.

Our primary objective from climate related voting and engagement is to encourage companies to adapt their business strategy in order to align with a low carbon economy and reach net zero by 2050 or sooner. The areas we consider include climate governance; strategy and Paris alignment; command of the climate subject; board oversight and incentivisation; TCFD disclosures and scenario planning; scope 3 emissions and the supply chain; capital allocation alignment, climate accounting, a just transition and exposure to climate-stressed regions.

For companies in high emitting sectors that do not sufficiently address the impact of climate change on their businesses, we will oppose the agenda item most appropriate for that issue. To that end, the nomination of the accountable board member takes precedence. Companies that are not making sufficient progress in mitigating climate risk are identified using recognised industry benchmarks including the Transition Pathway Initiative (TPI), ~~and~~ the Climate Action 100+ (CA100+) Net Zero Benchmark and the Urgewald Global Coal Exit List. We use TPI scores and~~We~~ will vote against the Chair (or relevant agenda item) where companies are scored 2 or lower ~~by the TPI~~, and~~. In addition, we will vote against the Chair~~ for Oil and Gas companies scoring 3 or lower unless more up to date information is available.~~.~~ Where a company covered by CA100+ Net Zero Benchmark fails indicators of the Benchmark, which includes a net zero by 2050 (or sooner) ambition, ~~and~~ short, medium and long-term emission reduction targets, and decarbonisation strategy, we will also vote against the Chair of the Board.

Additionally, an internally developed framework is used to identify companies with insufficient progress on climate change and not covered by the industry benchmarks.

Where management put forward a 'Say on Climate' resolution, we will vote against the agenda item if, following our analysis, we believe it is not aligned with the Paris Agreement.

Banks will play a pivotal role in the transition to a low carbon economy, and we will therefore be including the sector when voting on climate-related issues. We will assess banks using the IIGCC/TPI framework and will vote against the Chair of the Sustainability Committee, or the agenda item most appropriate, in the case where we have significant concerns regarding the bank's transition plans to net zero. ~~where a company materially fails the first four indicators of the framework.~~

We support a just transition towards a low-carbon economy which should be inclusive and acknowledge existing global disparities. We recognise that not all countries are at the same stage in their decarbonisation journey and need to consider the different transition timelines for emerging market economies. Therefore, in the interests of a just transition we will assess the implications when considering our voting decisions on a case-by-case basis.

Investment trusts

Border to Coast acknowledges that issues faced by the boards of investment companies are often different to those of other listed companies. The same corporate governance guidelines do not necessarily apply to them; for example, investment companies can operate with smaller boards. However, the conventions applying to audit, board composition and director independence do apply.

The election of any representative of an incumbent investment manager onto the board of a trust managed or advised by that manager will not be supported. Independence of the board from the investment manager is key, therefore management contracts should not exceed one year and should be reviewed every year. In broad terms, the same requirements for independence, diversity and competence apply to boards of investment trusts as they do to any other quoted companies.

We may oppose the adoption of the report and accounts of an investment trust where there is no commitment that the trust exercises its own votes, and there is no explanation of the voting policy.

PLY59-I-B
Climate Change Policy

Border to Coast Pensions Partnership

Policy Owner: The Chief Investment Officer
Live from: January ~~2023~~2024

Climate Change Policy

This Climate Change Policy details the approach that Border to Coast Pensions Partnership will follow in fulfilling its commitment to managing the risks and opportunities associated with climate change across the assets managed on behalf of our Partner Funds.

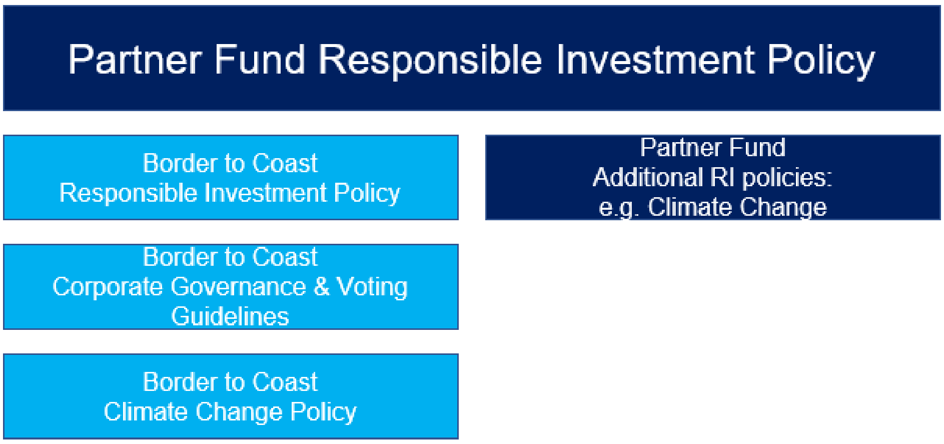
1 Introduction

Border to Coast Pensions Partnership Ltd is an FCA regulated and authorised investment fund manager (AIFM), operating investment funds for its eleven shareholders which are Local Government Pension Scheme funds (Partner Funds). As a customer-owned, customer-focused organisation, our purpose is to make a sustainable and positive difference to investment outcomes for our Partner Funds. Pooling gives us a stronger voice and, working in partnership with our Partner Funds and across the asset owner and asset management industry, we aim to deliver cost effective, innovative and responsible investment thereby enabling sustainable, risk-adjusted performance over the long-term.

1.1 Policy framework

Border to Coast has developed this Climate Change Policy in collaboration with our Partner Funds. It sits alongside the Responsible Investment Policy and other associated policies, developed to ensure clarity of approach and to meet our Partner Funds' fiduciary duty and fulfil their stewardship requirements. This collaborative approach resulted in the RI policy framework illustrated below with the colours demonstrating ownership of the various aspects of the framework:

RI Policy Framework



2 Policy overview

2.1 Our views and beliefs on climate change

The world is warming, the climate is changing, and the scientific consensus is that this is due to human activity, primarily the emissions of carbon dioxide (CO_2) from burning fossil fuels. Our planet has warmed by over 1ºC relative to the pre-industrial average temperature, and we are starting to experience the significant effects of this warming. This changes the world in which we live, but also the world in which we invest.

Atmospheric CO_2 is at unprecedented levels in human history. Further warming will occur, and so adaptation will be required. The extent of this further warming is for humankind to collectively decide, and the next decade is critical in determining the course. If the present course is not changed and societal emissions of CO_2 and other greenhouse gases (GHG) are not reduced to mitigate global warming, scientists have suggested that global society will be catastrophically disrupted beyond its capability to adapt, with material capital market implications.

Recognising the existential threat to society that unmitigated climate change represents, in 2015, the nations of the world came together in Paris and agreed to limit global warming to 2ºC and to pursue efforts to limit the temperature increase to 1.5ºC. A key part of the Paris Agreement was an objective to make finance flows consistent with a pathway towards low GHG emissions and climate resilience. This recognises the critical role asset owners and managers play, reinforcing the need for us and our peers to drive and support the pace and scale of change required.

In 2018, the Intergovernmental Panel on Climate Change (IPCC) published a special report, “Global warming of 1.5ºC”[1], which starkly illustrated how critical successful adaptation to limit global warming to 1.5ºC is. The report found that limiting global warming to 1.5°C would require “rapid and far-reaching” transitions in land, energy, industry, buildings, transport, and cities. This includes a need for emissions of carbon dioxide to fall by approximately 45 percent from 2010 levels by 2030, and reach ‘net zero’ around 2050. We support this scientific consensus; recognising that the investments we make, in every asset class, will both impact climate change and be impacted by climate change. Urgent collaborative action is needed to reach net zero greenhouse gas emissions globally by 2050, and everyone has a part to play in ensuring the goal is met.

2.2 Why climate change is important to us

The purpose of embedding sustainability into our actions is twofold: we believe that considering sustainable measures in our investment decisions will increase returns for our Partner Funds, in addition to positively impacting the world beneficiaries live in.

As a long-term and responsible investor, we have a duty to ensure our investments are well-positioned to manage the physical climate risks, regulations, and policies that are developed to promote a Net Zero economy. Being an active investor, we have the skills and capabilities to deliver investments that will support the necessary transition to Net Zero. Representing our asset owners, we have a role to play in influencing those companies and organisations in which we invest to take into account climate change; this includes providing better climate-related financial disclosures, which assist us in making better-informed investment decisions.

While climate change creates risks to investors, there are also investment opportunities related to the transition to a lower carbon economy. The transition to a Net Zero economy will require new business models, new companies and new infrastructure. These represent potentially profitable investments that will help our Partner Funds look after beneficiaries for decades to come.

Our exposure to climate change comes predominantly from the investments that we manage on behalf of our Partner Funds. We develop and operate a variety of internally and externally managed investments across a range of asset classes both in public and private markets for our Partner Funds to invest in.

We try to mitigate these exposures by taking a long-term approach to investing as we believe that businesses that are governed well and managed in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Climate change can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore needs to be considered across all asset classes in order to better manage risk and generate sustainable, long-term returns.

Climate change is a systemic risk which poses significant investment risks, but also opportunities, with the potential to impact long-term shareholder value. There are two types of risks that investors are exposed to, the physical risk of climate change impacts and the transitional risk of decarbonising economies, both can also impact society resulting in social risks.

[1] https://www.ipcc.ch/sr15/

Transition to a low carbon economy will affect some sectors more than others, and within sectors there are likely to be winners and losers, which is why divesting from and excluding entire sectors may not be appropriate. We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. We believe that we have the responsibility to contribute and support the transition to a low carbon economy in order to positively impact the world in which pension scheme beneficiaries live in.

In addition, the transition to a low-carbon economy will undoubtedly affect the various stakeholders of the companies taking part in the energy transition. A just transition refers to the integration of the social dimension into ~~the~~ net zero transition strategies and is part of the Paris Agreement, the guidelines adopted by United Nations' International Labour Organization (ILO) in 2015, and the European Green Deal. These stakeholders include the workforce, ~~and the~~ communities in which the companies~~' facilities are located~~ operate, supply chains, and customers. ~~We~~Whilst our specific expectations differ depending upon the sector and market, we expect all companies to consider the potential stakeholder risks and opportunities associated with decarbonisation.

Our climate change strategy is split into four pillars**: Identification and Assessment, Investment Strategy, Engagement and Advocacy, and Disclosures and Reporting.** We ~~will~~ continue to monitor scientific research in this space; evolving and adapting our strategy in order to best respond to the impacts of climate change.

2.3 How we execute our climate change strategy

We integrate climate change risks within our wider risk management framework and have robust processes in place for the identification and ongoing assessment of climate risks.

We consider climate change risks and opportunities within our investment decision making process.

Border to Coast, as a large investor, aims to influence companies to adapt and articulate their climate change strategy, to enable them to be well prepared for the transition to a low carbon economy. This in turn will improve investment outcomes.

We are committed to transparency regarding our climate change issues and activities.

2.4 Roadmap

The roadmap demonstrates the future reporting and monitoring timeline for implementing our Net Zero plan.

3 Climate change strategy and governance

3.1 Our ambition – Net Zero

Our climate change strategy recognises that there are financially material investment risks and opportunities associated with climate change which we need to manage across our investment portfolios. We have therefore committed to a net zero carbon emissions target by 2050 at the latest for our assets under management, in order to align with efforts to limit temperature increases to under 1.5ºC.

We recognise that assessing and monitoring climate risk is under constant development, and that tools and underlying data are developing rapidly. There is a risk of just focusing on carbon emissions, a backwards looking metric, and it is important to ensure that metrics we use reflect the expected future state and transition plans that companies have in place or under development. We~~ will~~ continue to assess the metrics and targets used as data and industry standards develop.

As a supporter of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we continue to embed climate change into our investment process and risk management systems, reporting annually on our progress in the Climate Change~~TCFD~~ report.

To demonstrate our Net Zero commitment, we joined the Net Zero Asset Manager initiative (NZAM) pledging to decarbonise investment portfolios by 2050 or sooner.

We are using the Net Zero Investment Framework (NZIF) to support us in implementing our strategy to being Net Zero by 2050.We have developed an implementation plan which sets out the four pillars of our approach: governance and strategy, targets and objectives, asset class alignment, and stewardship and engagement. We believe success across these four elements will best enable us to implement the change needed. ~~The Net Zero Implementation Plan can be found on our website.~~

To meet our commitment to reach net zero carbon emissions by 2050 or sooner, we have developed targets for our investments in line with NZIF. We have set targets at two levels: portfolio level, which refers to our combined total investments in the asset classes covered by this plan, and asset class level, which refers to our investments split by investment type (i.e. listed equity, corporate fixed income etc). This covers approximately 57% of our AUM (at 31/03/2023) and we will look to increase coverage across the rest of our investments when appropriate.

We have set short and medium-term reduction targets for carbon emissions, targeting a 53% reduction in financed emissions (normalised by AUM) by 2025 and a 66% reduction by 2030 in order to reach 100% emission reductions by 2050 or sooner. We have ~~also~~ also set Net Zero alignment targets for our portfolios based on specific assessment criteria with the aim of reaching 100% Net Zero alignment by 2040 and~~.~~ asset class level engagement targets with 80% of finance emissions to be under engagement by 2025, reaching 100% coverage by 2030.

More detail can be found in the~~The~~ Net Zero Implementation Plan ~~can be found~~ on our website.

3.2 Governance and implementation

We take a holistic approach to the integration of sustainability and responsible investment; it is at the core of our corporate and investment thinking. Sustainability, which includes RI is considered and overseen by the Board and Executive Committee. We have defined policies and procedures that demonstrate our commitment to managing climate change risk, including this Climate Change Policy, our Responsible Investment Policy and Corporate Governance & Voting Guidelines which can be found on our website.

3.3 Division of roles and responsibilities

The Board determines the Company's overall strategy for climate change and with support from the Board Risk Committee, more broadly oversees the identification and management of risk and opportunities. The Board is responsible for the overarching oversight of climate related considerations as part of its remit with respect to Border to Coast's management of investments. The Board approves the Responsible Investment strategy and policies, which includes the Climate Change Policy. Updates on Responsible Investment are presented to the Board at regular intervals, this includes activities related to climate change. The Board reviews and approves the Climate Change~~TCFD~~ report prior to publication.

The Climate Change Policy is owned by Border to Coast and created after collaboration and engagement with our Partner Funds. We will, where needed, take appropriate advice in order to further develop and implement the policy.

The Chief Investment Officer (CIO) is responsible for the implementation and management of the Climate Change Policy, with oversight from the Investment Committee, which is chaired by the Chief Executive Officer. The remit of the Investment Committee includes overseeing progress and reporting against our Net Zero targets. Each year the CIO reviews the implementation of the policy and reports any findings to the Board. The policy is reviewed annually, taking into account evolving best practice, and updated as needed.

The Investment Team, which includes a dedicated Responsible Investment Team, works to identify and manage environmental, social and governance (ESG) issues including climate change, with support and oversight from the Risk and Compliance function.~~.~~ Climate change is one of our responsible investment priorities and sits at the core of our sustainability dialogue. We are on the front foot with UK, European and Global climate change regulation, horizon scanning for future regulation and actively participate in discussions around future climate policy and legislation through our membership of industry bodies.

3.4 Training

Border to Coast's Board and colleagues maintain appropriate skills in responsible investment, including climate change, maintaining and increasing knowledge and understanding of climate change risks, available risk measurement tools, and policy and regulation. Where necessary expert advice is taken from suitable climate change specialists to fulfil our responsibilities. We also offer our Partner Funds training on climate change related issues.

3.5 Regulatory change management

Regulatory change horizon scanning is a key task undertaken by the Compliance function, which regularly scans for applicable regulatory change. This includes FCA, associated UK financial services regulations, and wider regulation impacting financial services including Responsible Investment, and climate change. The relevant heads of functions and departments, as subject matter experts, also support the process and a tracker is maintained to ensure applicable changes are appropriately implemented.

4 Identification and assessment

4.1 How we identify climate-related risks

The Identification and Assessment pillar is a key element of our climate change strategy. Our investment processes and approach towards engagement and advocacy reflect our desire to culturally embed climate change risk within our organisation and drive change in the industry.

The risk relating to climate change is integrated into the wider Border to Coast risk management framework and considered within the related components of our Risk Appetite Framework, such as strategy, customer outcomes and stewardship. The Company operates a risk management framework consistent with the principles of the 'three lines of defence' model. Primary responsibility for risk management lies with the Investment and Operations teams. Second line of defence is provided by the Risk and Compliance functions, which report to the Board Risk Committee, and the third line of defence is provided by Internal Audit, which reports to the Audit Committee and provides risk-based assurance over the Company's governance, risk and control framework.

We consider both the transition and physical risks of climate change. The former relates to the risks (and opportunities) from the realignment of our economic system towards low-carbon, climate-resilient and carbon-positive solutions (e.g. via regulations). The latter relates to the physical impacts of climate change (e.g. rising temperatures, changing precipitation patterns, increased risk arising from rising sea levels and increased frequency and severity of extreme weather events).

4.2 How we assess climate-related risks and opportunities

We currently use a number of different tools and metrics to measure and monitor climate risk across portfolios. We acknowledge that this is a rapidly evolving area, and we are developing our analytical capabilities to support our ambition. Carbon data is not available for all equities as not all companies disclose, therefore there is a reliance on estimates. Data is even more unreliable for fixed income and is only just being developed for Private Markets. We will work with our managers and the industry to improve data disclosure and transparency in this area.

We utilise third party carbon portfolio analytics to conduct carbon footprints across equity and fixed income portfolios, analysing carbon emissions, carbon intensity and weighted carbon intensity and fossil fuel exposure when assessing carbon-related risk, on a quarterly basis. The Transition Pathway Initiative (TPI)[2] tool and Climate Action 100+ Net Zero Company Benchmark analysis is used to support portfolio managers in decision making with respect to net zero assessments. We use research from our partners and specific climate research, along with information and data from initiatives and industry associations we support.

We continue to develop climate risk assessments for our listed equity investments that combines several factors to assess overall whether a company is aligned with the Paris Agreement (to limit global warming to 2ºC), so that we can both engage appropriately with the company on their direction of travel and also track our progress. This is an iterative process, recognising that data, tools and methodologies are developing rapidly.

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[2] The Transition Pathway Initiative ('TPI') is a global initiative led by asset owners and supported by asset managers. Aimed at investors, it is a free-to-use tool that assesses how prepared companies are for the low carbon transition.

We understand that scenario analysis can be~~is~~ useful for understanding the potential risks and opportunities attached to investment portfolios and strategies due to climate change. We note that scenario analysis is still developing, with services and products evolving as data quality and disclosure from companies continues to improve and are aware of the current limitations of the models and associated risks of using this information to make informed investment decisions. ~~During 2022 we will be evaluating our third-party scenario analysis tools and conducting analysis using a number of different scenarios.~~We have used the Climate Financial Risk Forum's selection framework to consider climate scenario options and based on this framework will use the Regional Model of Investment and Development ("REMIND") model scenarios which come from the Network for Greening the Financial System ("NGFS"), a group of central banks and supervisors in the financial system. We will be considering a 1.5°C disorderly scenario, 2.0°C scenarios (orderly and disorderly) and the 3.0°C 'Hot House World' scenario. We will initially conduct scenario analysis on our listed equity and investment grade credit funds.

5 Investment strategy

5.1 Our approach to investing

We believe that climate change should be systematically integrated into our investment decision-making process to identify related risks and opportunities. This is critical to our long-term objective of improving investment outcomes for our Partner Funds.

Border to Coast offers Partner Funds a variety of internally and externally managed investment funds covering a wide-ranging set of asset classes with different risk-return profiles. Partner Funds then choose the funds which support their strategic asset allocation.

Partner Funds retain responsibility for strategic asset allocation and setting their investment strategy, and ultimately their strategic exposure to climate risk. Our implementation supports Partner Funds to deliver on their fiduciary duty of acting in the best interests of beneficiaries.

We consider climate change risks and opportunities in the process of constructing and developing investment funds. Engaging with our investee companies and fund managers is~~will be~~ a key lever we will use to reach our Net Zero goals, but we also recognise the role of screening, adjusting portfolio weights, and tilted benchmarks in decarbonising our investments.

Climate change is also considered during the external manager selection and appointment process. We monitor and challenge our internal and external managers on their portfolio holdings, analysis, and investment rationale in relation to climate-related risks.

We monitor a variety of carbon metrics, managing climate risk in portfolios through active voting and engagement, whilst also looking to take advantage of the long-term climate-related investment opportunities.

We believe in engagement rather than divestment and that by doing so can effect change at companies. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon and if there is limited scope for successful engagement. When considering whether a company is a candidate for exclusion, we do so based on the associated material financial risk of a company's business operations and whether we have concerns about its long-term viability. Using these criteria,~~ and~~ due to the potential for stranded assets, and the significant carbon emissions of certain fossil fuels~~-~~ we will not ~~longer~~ invest in~~interpret this to cover~~ public market companies or illiquid assets with >25% of revenue derived from thermal coal and oil sands, unless there are exceptional circumstances.~~ and will therefore not invest in these companies~~. ~~For illiquid assets a revenue threshold of 25% is in place, this is due to the long-term nature of these investments.~~

We will exclude public market companies in developed markets with >50% revenue derived from thermal coal power generation. For companies in emerging markets the revenue threshold is >70%, this is to reflect our support of a just transition towards a low-carbon economy which should be inclusive and acknowledge existing global disparities. We recognise that not all countries are at the same stage in their decarbonisation journey and need to consider the different transition timelines for emerging market economies. We will assess the implications of the exclusion policy and where we consider it appropriate, may operate exceptions.

~~For illiquid assets a revenue threshold of 25% is in place, this is due to the long-term nature of these investments.~~ Any public market companies excluded will be reviewed ~~monitored~~ with business strategies and transition plans assessed for potential reinstatement.

5.2 Acting within different asset classes

We integrate climate change risks and opportunities into our investment decisions within each asset class. The approach we take for each asset class is tailored to the nature of the risk and our investment process for that asset class. The timeframe for the impact of climate change can vary, leading to differing risk implications depending on the sector, asset class and region. These variations are considered at the portfolio level. This policy gives our overall approach and more detail on the processes and analysis can be found in our annual Climate Change Report~~TCFD report~~.

Climate risks and opportunities are incorporated into the stock analysis and decision-making process for **listed equities** and **fixed income**. Third-party ESG and carbon data are used to assess individual holdings. We also use forward looking metrics including the TPI ratings, Climate Action 100+ (‘CA100+) Net Zero Company Benchmark and the Science Based Targets initiative (SBTi) to assess companies’ transition progress. Internal, sell-side and climate specific research, and engagement information are also utilised. Carbon footprints are conducted relative to the benchmark. Climate scenario analysis is also conducted for listed equity and fixed income portfolios using third-party data.

For our **alternative funds**, ESG risks, which includes climate change, are incorporated into the due diligence process including ongoing monitoring. Across both funds and co-investments, we consider the impact of carbon emissions and climate change when determining our asset allocation across geographies and industries. We assess and monitor if our GPs track portfolio metrics in line with TCFD recommendations. Climate change presents real financial risks to portfolios but also provides opportunities with significant amounts of private capital required to achieve a low-carbon transition. We have therefore launched a Climate Opportunities offering and will be facilitating increased investment in climate transition solutions taking into account Partner Fund asset allocation decisions.

ESG risks, including climate change, are an integral part of the due diligence process, including ongoing monitoring for our **Real Estate** funds. For all funds, we consider the impact of carbon emissions and climate change when determining our asset allocation across geographies, sectors and assets. We will look to assess and monitor all the funds against portfolio metrics in line with TCFD recommendations. For UK real estate, there is a blueprint and roadmap for Net-Zero Carbon, prepared by the selected third-party Investment Manager (TPIM) working with an external expert (Verco) to understand (I) current carbon baselines (II) carbon reductions and costs to reduce global warming to 1.5 degrees (III) high risk assets within their client portfolios. This will be of significant benefit to Border to Coast and the real estate funds as they evolve.

~~To meet our commitment to reach net zero carbon emissions by 2050 or sooner, we have developed targets for our investments in line with the Net Zero Investment Framework (NZIF). We have set targets at two levels: portfolio level, which refers to our combined total investments in the asset classes covered by this plan, and asset class level, which refers to our investments split by investment type (i.e. listed equity, corporate fixed income etc). This covers 60% of our AUM (at 31/03/2022) and we will look to increase coverage across the rest of our investments when appropriate.~~

5.3 Working with External Managers

Assessing climate risk is an integral part of the External Manager selection and appointment process. It also forms part of the quarterly screening and monitoring of portfolios and the annual manager reviews. We monitor and review our fund managers on their climate change approach and policies. Where high emitting companies are held as part of a strategy managers are challenged and expected to provide strong investment rationale to substantiate the holding. We expect managers to engage with companies in line with our Responsible Investment Policy and to support collaborative initiatives on climate, and to report in line with the TCFD recommendations. In addition, we encourage managers to make a firm wide net zero commitment. We ~~will~~ work with External Managers to implement specific decarbonisation parameters for their mandate. We ~~will~~ monitor our managers' carbon profiles and progress against targets on a quarterly basis and as part of our annual reviews. We ~~will~~ also consider the suitability of those targets on an annual basis. Where carbon profiles are above target, this ~~will~~ acts as a prompt for discussion with the manager to understand why this has occurred, any appropriate actions to be taken to bring them back to target, and the timescales for any corrective action.

6 Engagement and advocacy

As a shareholder, we have the responsibility for effective stewardship of all companies or entities in which we invest, whether directly or indirectly. We take the responsibilities of this role seriously, and we believe that effective stewardship is key to the success for our climate ambition. As well as engaging with our investee companies it is important that we engage on systemic risks, including climate change, with policymakers, regulators and standard setters to help create a stable environment to enhance long-term investment returns.

6.1 Our approach to engagement

As a long-term investor and representative of asset owners, we ~~will~~ hold companies and asset managers to account regarding environmental, social and governance issues, including climate change factors, that have the potential to impact corporate value. We support engagement over divestment as we believe that constructive dialogue with companies in which we invest is more effective than excluding companies from the investment universe, particularly with regard to promoting decarbonisation in the real world. If engagement does not lead to the desired results, we have an escalation process which forms part of our RI Policy, this includes ~~adverse~~ voting ~~instructions~~ against management on related AGM voting items, amongst other steps. We practice active ownership through ~~voting,~~ monitoring companies, engagement, voting and litigation where considered to be appropriate. Through meetings with company directors, we seek to work with and influence investee companies to encourage positive change. Climate is one of our key engagement themes. We believe it is vital we fully understand how companies are dealing with this challenge, and feel it is our duty to hold the boards of our investee companies to account.

Our primary objective from climate related engagement is to encourage companies to adapt their business strategy in order to align with a low carbon economy and reach net zero by 2050 or sooner. The areas we consider in our engagement activities include climate governance; strategy and Paris alignment; command of the climate subject; board oversight and incentivisation; TCFD disclosures and scenario planning; scope 3 emissions and the supply chain; capital allocation alignment, a just transition and exposure to climate-stressed regions.

Engagement is the primary mechanism for driving alignment to Net Zero in our portfolio companies and thereby meeting our Net Zero targets, both at asset class and portfolio level, as well as for driving real-world decarbonisation. We have therefore set asset class level engagement targets with 80% of financed emissions to be under engagement by 2025-, reaching 100% coverage by 2030.

In order to increase our influence with corporates and policy makers we work collaboratively with other like-minded investors and organisations. This is achieved through actively supporting investor RI initiatives and collaborating with various other external groups on climate related issues, including the Institutional Investors Group on Climate Change (IIGCC), CA100+, the UN-supported Principles for Responsible Investment, the Local Authority Pension Fund Forum and the TPI.

In particular, we are currently focusing on the following actions:

- When exercising our voting rights for companies in high emitting sectors that do not sufficiently address the impact of climate change on their businesses, we will oppose the agenda item most appropriate for that issue. To that end, the nomination of the accountable board member takes precedence. Companies that are not making sufficient progress in mitigating climate risk are identified using recognised industry benchmarks including the TPI, ~~and~~ CA 100+ Net Zero Company Benchmark and the Urgewald Global Coal Exit List. Additionally, an internally developed framework is used to identify companies with insufficient progress on climate change. Our voting principles are outlined in our Corporate Governance & Voting Guidelines. We are also transparent with all our voting activity and publish our quarterly voting records on our website.
- ~~Support climate-related resolutions at company meetings which we consider reflect our Climate Change Policy~~We will generally vote in favour of shareholder resolutions that are aligned with the objectives of the Paris climate agreement, taking a 'comply or explain' approach, publicly disclosing our rationale if we vote against.
- We will vote against management 'Say on Climate' resolutions that are not aligned with the Paris climate agreement.
- We will co-file shareholder resolutions at company AGMs on climate risk disclosure, emission reduction targets, transition plans, and lobbying, after conducting due diligence, that we consider to be of institutional quality and consistent with our Climate Change Policy.
- Engage with companies in relation to business sustainability, ~~and~~ disclosure of climate risk and ~~-~~ to publish greenhouse gas emissions reduction targets in line with the TCFD recommendations.
- ~~Encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions.~~ Engage with the largest emitters across our portfolios on transition plans and science aligned capital expenditure plans.
- Engage with the banking sector as it plays a pivotal role in the transition to a low-carbon economy.
- Engage with our largest portfolio emitters and all fossil fuel companies and banks subject to votes against management due to failure to meet our climate policies.
- Support a Just Transition through collaboration with other investors and consider in our engagement and voting.
- Work collaboratively with other asset owners in order to strengthen our voice and make a more lasting impact for positive change. Engagement is conducted directly, through our engagement partner and through our support of collaborations. We also expect our external asset managers to engage with companies on climate-related issues.
- Implementing~~Use the~~ our net zero stewardship strategy developed using IIGCC's Net Zero Stewardship Toolkit ~~to develop our net zero stewardship strategy~~.
- Use carbon footprints, the TPI toolkit, CA100+ Net Zero Company Benchmark, ~~and~~ SBTi along with other data sources to assess companies and inform our engagement and voting activity. This will enable us to prioritise shareholder engagement, set timeframes and monitor progress against our goals.
- Engage collaboratively alongside other institutional investors with policy makers through membership of organisations such as the IIGCC. We will engage with regulators and peer groups to advocate for improved climate related disclosures and management in the pensions industry and wider global economy.

7 Disclosures and reporting

~~Transparency~~Border to Coast is transparent with regard to its RI activities and keeps beneficiaries and stakeholders informed ~~is one of our key organisational values.~~ We disclose our RI activity on our website, publishing quarterly stewardship and voting reports, annual RI & Stewardship reports and our TCFD report. We are committed to improving transparency and reporting in relation to our RI activities, which include climate change related activities.

We ~~will~~ keep our Partner Funds and our stakeholders informed on our progress of implementing the Climate Change Policy and Net Zero commitment, as well as our exposure to the risks and opportunities of climate change. This ~~will~~ includes:

- Reviewing annually how we are implementing this policy with findings reported to our Board and Partner Funds. R~~r~~eport in line with the TCFD recommendations on an annual basis, including reporting on the actions undertaken with regards to implementation of this policy and progress against our Net Zero commitment.
- We ~~will~~ disclose our voting activity and report on engagement and RI activities, including climate change, to the Partner Funds quarterly and in our annual RI & Stewardship report.
- Disclose climate metrics and targets that help to analyse the overall exposure of our portfolios to the risks and opportunities presented by climate mitigation and adaption.

Local Pension Board

7 December 2023

Regulatory Update

Report of Paul Darby, Corporate Director of Resources

Purpose of the Report

1 This report briefs the Local Pension Board on developments in matters that are both Local Government Pension Scheme (LGPS) specific, as well as providing an update on non-LGPS specific matters which are of interest.

Executive summary

2 There are a number of developments that will potentially impact the requirements placed upon the Fund, both specific to the LGPS and more generally. This report seeks to keep the Board updated with those developments

Recommendation(s)

3 The Local Pension Board is asked to note the report.

Background

4 This report provides an update to the Board on important pensions administration and governance matters that are currently relevant. The report is split into 2 main sections:

(a) LGPS specific matters, and;

(b) Non-LGPS specific matters that are of interest to the Board.

LGPS Specific Matters

DLUHC Consultation – LGPS: Fair Deal – Strengthening Pension Protection

5 In January 2019, The Department for Levelling Up Housing and Communities (DLUHC), formerly MHCLG, launched a consultation that would strengthen the pensions protections that apply when an employee of an LGPS employer is compulsorily transferred to the employment of a service provider. If the proposed amendments are introduced, the option for staff to be granted access to a Government Actuary's Department (GAD) certified broadly comparable scheme will be removed.

6 DLUHC are currently considering the responses received, with a consultation response expected in due course. The Chair of the LGPS Scheme Advisory Board (SAB), has written to DLUHC to request an update on the Fair Deal policy. The Ministry was asked whether the policy was under active consideration and how the SAB could contribute to the process. On 17 October 2023, the SAB Chair wrote to DLUHC for an update with progress with the implementation of New Fair Deal in LGPS. Officers will continue to monitor the position.

DLUHC consultation – LGPS: Changes to the Local Valuation Cycle and the Management of Employer Risk

7 In May 2019 DLUHC consulted on a number of changes to the LGPS, encompassing the following areas:

- amendments to the local fund valuations from the current 3-year (triennial) to a 4-year (quadrennial) cycle
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle
- proposals for flexibility on exit payments

- proposals for further policy changes to exit credits
- proposals for changes to the employers required to offer local government pension scheme membership

8 On 27 February DLUHC published a partial response to the consultation, covering proposals on exit credits only. DLUHC confirmed their intention to amend the Regulations providing greater discretion to Administering Authorities over the amount of any exit credit. The Local Government Pension Scheme (Amendment) Regulations 2020 were subsequently laid before parliament, coming into force on 20 March 2020 with backdated effect to 18 May 2018. The Fund has published its policy in relation to Exit Credits, which will be reviewed in light of a recent High Court judgement that provided further direction to LGPS Funds.

9 DLUHC has also published a partial response in respect of employer contributions and flexibility on exit payments. The Fund has finalised its policy approach to Employer Flexibilities following consultation with participating employers – the Pension Fund Committee have been asked to approve the consolidation of the Fund's policies on Employer Flexibilities and Employer Exits.

Ongoing Consultation – Guaranteed Minimum Pensions (GMP)

10 In February 2017 the Treasury consulted on options for how the Guaranteed Minimum Pension (GMP) element of pensions paid to those members who will reach state pension age on or after 6th December 2018 should be indexed.

11 In January 2018 the Treasury published its response to this consultation, acknowledging that it is a complex area with more time required to identify a long-term solution. As a result, the existing interim solution was extended, covering those members of public service schemes reaching state pension age between 6th April 2016 and 5th December 2018 to those that reach state pension age on or before 5th April 2021.

12 On 23 March 2021 Her Majesty's Treasury (HMT) discounted conversion (of GMP into main scheme benefits) as their long-term policy solution and instead will make full GMP indexation the permanent solution for public service pension schemes. Currently members covered by the interim solution have their GMP pensions fully uprated by their scheme in line with CPI. The new policy will extend this to members whose State Pension Age (SPA) is on or after 6 April 2021.

13 Additionally, the Fund has gone through a significant exercise to reconcile the GMP data it holds. Individual GMP values can often misalign with the values held by HMRC with discrepancies occurring both in terms of membership periods for which GMP accrued, and the GMP value itself. Following the conclusion of the reconciliation exercise, the Fund has commenced implementation of its approach to GMP Rectification, with a separate report previously presented to both the Committee and Board.

14 This work was brought to a conclusion in October 2023, with the Fund communicating with affected pensioners ahead of October pensions payroll. As previously highlighted to the Board and Committee in March 2023, individual overpayments would be exacerbated by the April 2023 pensions increase of 10.10%. However, around 550 pensions in payment were adjusted and despite this higher than usual rate of inflationary increase, 83% of pensions changed by no more than £10 per month.

15 The total amount of arrears paid to underpaid pensioners was c£41k whilst the total amount of overpayments written-off by the Fund was c£171k. Both the value of arrears and value of write offs compare favourably with initial modelling. The number of pensions in payment requiring rectification were lower than initially anticipated at the beginning of the project, and less than amounts experienced by similarly sized LGPS Funds who have completed their rectification. This is at least in part, due to accurate historic record keeping.

16 The Pensions Team have received a very low volume of telephone queries from impacted pensioners, and a single letter of complaint.

Levelling Up White Paper – LGPS Local Investment Plans

17 In February 2022 the government published its Levelling Up whitepaper which includes references to LGPS funds having plans for up to 5% of assets to be allocated to projects which support local areas. The whitepaper indicates government intention to “work with Local Government Pension Funds to publish plans for increasing local investment, including setting an ambition of up to 5% of assets invested in projects which support local areas”.

18 The Fund recently finalised an impact investment in the North-East which will support SME finance in the region, which is understood to meet the definitions set out in the whitepaper. Meanwhile, as part of their strategic plan, BCPP are progressing development of impact investing capabilities which will consider opportunities to support local investment decisions.

19 The LGPS Scheme Advisory Board have indicated that in the context of ‘local’ the whitepaper refers to UK rather than local to a particular LGPS fund. The Board have also advised that their understanding is that there will be no mandatory requirement beyond the requirement to have a plan. Further details will emerge over the period up to an expected consultation which is expected to also include statutory pooling guidance.

20 Separately, On 9 December 2022, the Chancellor of the Exchequer announced a set of reforms (previously shared with the Board) intended to drive growth and competitiveness in the financial services sector. It has been confirmed that the Government will be consulting on issuing new guidance on Local Government Pension Scheme asset pooling. The government will also consult on requiring LGPS funds to ensure they are considering investment opportunities in illiquid assets such as venture and growth capital, as part of a diversified investment strategy.

DLUHC Consultation – LGPS: Next Steps on Investments

21 A detailed briefing was considered by both the Pension Fund Committee and Local Pension Board in September 2023, following the launch of DLHC’s consultation ‘LGPS: Next Steps on Investments’.

22 Since 2025, the Pension Fund has worked in collaboration with 10 local authority partners to pool its c£3.5bn assets through its chosen pooling company, Border to Coast Pension Partnership. As of summer 2023, the Fund has pooled all of the liquid assets in its investment strategy. The Fund has benefitted from the availability of a Private Markets programme through the pool, extensive Responsible Investment resource, and has generated cost savings which are reported annually in the Fund’s Annual Report and Accounts.

23 More widely however, progress on pooling has stalled across much of England and Wales. Despite a clear policy intention to deliver pooling, in the absence of guidance or regulation, many Administering Authorities have chosen to retain their assets outside of their respective pool.

24 In light of the lack of progress, DLUHC consulted on pooling consolidation, setting Administering Authorities a deadline of 2025 to pool liquid assets and introducing enhanced reporting requirements on pooling progress. The consultation proposed that a smaller number of larger pools would provide greater economies of scale, and that greater collaboration should be pursued. In a wide-ranging consultation, the government also proposed directing LGPS Funds in

the way in which they invest. In particular, targets were proposed for allocations to investments which support UK Levelling Up and allocations to Private Markets more generally.

25 Following consultation with the Committee and Board, the Fund responded to the consultation and separately, worked with its pooling partners to formulate a collective response.

26 Subsequently, on 22 November, DLUHC responded to the consultation. The Fund is considering the consultation response individually, and collectively with its pooling Partners. A detailed update will be provided in due course. A copy of the consultation response is included in Appendix 2.

Mandatory TCFD Reporting

27 The Board have previously been informed that, using powers granted under the Pension Schemes Bill, the Department for Works and Pensions (DWP) consulted on draft regulations requiring occupational pension schemes to meet climate governance requirements, publish a Taskforce on Climate-related Financial Disclosures (TCFD) report and include a link to the report in their annual report and accounts.

28 Whilst the regulations will not apply to the LGPS it was always expected that DLUHC would bring forward similar proposals requiring TCFD disclosures in the LGPS.

29 The Fund's pooling partner, Border to Coast Pensions Partnership (BCPP) are supporters of the Task Force on Climate-related Financial Disclosures (TCFD) and have just published their second TCFD report aligned with the recommendations. This covers the approach to climate change across the four thematic areas of Governance, Strategy, Risk Management, and Metrics and Targets. The report demonstrates the improvements and developments made across the four key areas. The report can be found online at the following link https://www.bordertocoast.org.uk/sustainability/.

30 BCPP will support Partner Funds ahead of any mandatory reporting requirements through the Officers Operation Group RI workshops, delivering training, and by providing reporting. BCPP have held discussions to understand all Partner Funds' requirements on carbon reporting on assets, including those that are currently not held in the pool.

31 A BCPP procurement for carbon data, including forward-looking metrics (scenario analysis), will take into account the reporting requirements of Partner Funds for equity and fixed income portfolios. Obtaining carbon data for Private Markets is more challenging and

BCPP are looking into solutions for these portfolios held in the pool. Additionally, Officers are working with the Fund actuary to consider how to reflect climate scenario analysis in 2022 valuation reporting.

32 On 1 September DLUHC launched its consultation regarding governance and reporting of climate change risks. The consultation seeks views on proposals to require LGPS administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

33 The consultation proposes that LGPS administering authorities would calculate the ‘carbon footprint’ of their assets and assess how the value of each fund’s assets or liabilities would be affected by different temperature rise scenarios, including the ambition to limit the global average temperature rise to below 2 degrees set out in the Paris Agreement. The consultation (previously shared with the Board) closed on 24 November 2022. As discussed with the Committee previously, Officers prepared a response in consultation with the Chair and Vice Chair of the Committee. A copy of the response has previously been shared with the Committee and Board.

34 An overview of TCFD was included in training for members of the Committee last year. A more detailed report will be shared with the Committee and Board on the details of the TCFD expectations, as well as the availability of data through BCPP, and scenario analysis commissioned through the Fund actuary. It is currently expected that the first LGPS TCFD reporting will become due in late 2025.

Cost Control Mechanism & Review

35 The Board has been informed previously of the Cost Control Mechanism in the LGPS and other public sector schemes which sets both a cost ‘ceiling’ and ‘floor’ in respect of the ongoing affordability of public sector pensions. This creates a “cost corridor” designed to keep schemes within 2% of target costs.

36 Before the impact of McCloud, provisional cost management assessments indicated floor breaches in most public sector schemes, that may have resulted in an improvement to benefits or reduction in member contributions. At the request of HMT, GAD carried out a review of the Cost Control Mechanism across the public sector.

37 Members were informed previously that it had not previously been possible to assess the value of the public service pensions arrangements with any certainty due to the anticipated implications of the Court of Appeal judgements in McCloud and Sargeant.

38 The Fund's own position on McCloud has also been discussed previously, with the Actuary outlining in detail how the issue was to be reflected in the 2019 Valuation. The approach taken added an additional 0.9% to the employer contribution rate for all employers at the 2019 valuation.

39 In July 2021 however, it was confirmed that the impact of McCloud would be classed as "member costs" for the purpose of the 2016 cost control review, with the pause on the review lifted. This was confirmed by HMT Directions in October 2021. Subsequently, SAB found that the LGPS showed only a slight reduction in costs. Despite this slight reduction, SAB confirmed that they are no longer recommending any LGPS benefit structure changes. SAB has however reaffirmed its commitment to revisiting both Tier 3 ill health and contribution rates for the lowest paid members.

40 Whilst it appears that the 2016 Cost Review is coming to a conclusion, it should be noted that the Fire Brigade Union has been granted permission to appeal against the High Court's judgement to allow the inclusion of the McCloud remedy as a "member cost". Whilst the High Court previously dismissed the case, the Court of Appeal has granted permission to appeal the ruling. If successful, the 2016 review may be reopened.

41 When the Cost Cap Mechanism was first introduced in 2016 across the public sector it was anticipated that the mechanism would be triggered only by "extraordinary" event. As noted above however, the initial assessment of public sector schemes showed cost floor breaches leading to HMT's request for a review of the mechanism.

42 Following a review by GAD, the government have taken forward three main principles to adjust the mechanism for the 2020 review, so that the new Cost Control Mechanism will:

(a) Be based on the reformed scheme only, ie. in the LGPS the mechanism will assess post 2014 costs only

(b) Adjust the cost floor and ceiling from +/-2% to +/- 3%

(c) Introduce an economic check linked to GDP

43 On 19 September 2023, HM Treasury issued a written ministerial statement detailing reforms to their cost control mechanism. Reforms have been made to address concerns that the cost control mechanism did not meeting its original objectives, following a review by the Government Actuary and a public consultation.

44 The mechanism now only assesses costs associated with the post-2015 reformed schemes, increases the margin by which costs need to vary from the target in order for benefit, or member contribution, changes to be required from 2% to 3% of pensionable pay, and includes an ‘economic check’ such that changes will only happen if the costs would still be outside the same margin had the impact of changes in long-term economic assumptions been included.

45 HM Treasury’s valuation cycle is currently underway, and the outcome of the valuations are expected to be confirmed later this year via the publication of each scheme’s valuation report. Any changes to benefits required to bring a scheme back to target cost would apply retrospectively from 1 April 2023. The SAB is currently in the process setting its own cost control mechanism and the assumptions on which this process is based are currently being agreed.

McCloud

46 The Board has been kept up to date with the impact and issues surrounding the McCloud judgement itself. To recap briefly, when the Government reformed public service pension schemes in 2014 and 2015 they introduced protections for older members. In December 2018, the Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes have been discriminated against because the protections do not apply to them. The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS, to remove this age discrimination.

47 In July 2021, the Public Service Pensions and Judicial Offices Bill was laid before Parliament. This Bill seeks to amend the Public Service Pensions Act 2013 by making provision to rectify the unlawful discrimination by the 2014 Scheme. Now made law, the Bill established the overarching framework for the retrospective changes required for the McCloud. Additionally, however, LGPS Amendment Regulations are required to make the necessary changes to the Scheme Regulations.

48 The estimated cost across the whole of the LGPS is £1.8bn. As noted above, the Fund made an estimated provision for the impact at local level at the last Valuation. In terms of scheme member impact, HMRC have recently announced a range of measures intended to protect members from annual and lifetime allowance impacts.

49 Following its 2020 consultation, on 30 May 2023 DLUHC launched a consultation seeking views on issues relating to the McCloud remedy,

and the draft scheme regulations which would implement the remedy. A summary is set out in Appendix 3.

50 Officers of the Fund are actively working with Participating Employers to ensure all of the necessary data is collected to be able to properly implement the anticipated remedy. Additionally, Officers continue to work with the Fund’s software suppliers to ensure solutions are as effective as possible. Note that, DLUHC are also working directly with the LGPS software suppliers to discuss the implementation of the McCloud remedy. The LGA’s Communications Working Group meanwhile is working on member communications, and the Fund’s software supplier have established a McCloud Project Board – the Durham Fund is represented on both groups. Resources are expected to be published by the LGA on 1 October.

51 Additionally, as part of the McCloud remedy for the Teachers’ Pensions Scheme (TPS), Chapter 1 Part 1 of the Public Service Pensions and Judicial Offices Act 2022 means that some teachers may be retrospectively eligible for the LGPS for the period from 1 April 2015 to 31 March 2022. This exercise will be administratively challenging for both the TPS and individual LGPS Funds. The LGA is currently working with DfE to identify how to identify affected members.

52 Officers of the Fund continue to work in readiness for resolution of the issues McCloud presents, with the remedy coming into force next month. Whilst software solutions are in place to ensure that the ‘underpin’ I correctly provided for some categories of members, manual intervention will be required for others. The Fund continues to work with its software supplier in consideration of future Annual Benefit Statements, with the Pensions Regulator outlining that whilst accurate Benefit Statements are still expected to be issued accurately and on time and that failure to do so would be a reportable breach, a risk-based approach will be taken in response to any such breach.

53 The McCloud factsheet for the LGPS is included in Appendix 4, whilst the Pensions Regulator’s statement on Annual Benefit Statements has been shared with the Board previously.

DLUHC Consultation on Change to the LGPS Revaluation Date

54 Following a short consultation, DLUHC has implemented changes to the in-scheme revaluation date from 1 to 6 April, with effect from 1 April 2023. The change has the effect of removing the impact of high inflation (10.10% for 2023 revaluation) on the Annual Allowance and will reduce the number of members incurring a consequent tax

charge. The Fund is working with its software supplier to ensure processes are in place to reflect the change in Annual Statements and Pension Savings Statements.

LGPS Scheme Advisory Board (SAB)

SAB Review – Academies

55 In 2017 SAB instigated a review of the participation of existing academies and commissioned Price Waterhouse Coopers to investigate issues of academy participation in the LGPS and prepare a report for the Board. The report made no recommendations but set out three broad types of approach or mechanisms to try and resolve these issues. These are:

- non-regulatory measures within the LGPS
- regulatory measures within the scheme, and
- measures outside of the LGPS, including through primary legislation.

56 The SAB review had been split between a funding working group and an administration working group. Work on the administration working group was put on hold due to competing work pressures and the project is no longer part of SAB's current projects. In the meantime, SAB has produced guidance for converting Academies intended to provide information and common nomenclature for common actuarial approaches adopted by LGPS funds on a local authority (LA) school's conversion to academy status. The Fund will consider how best to utilise the guide to support converting schools.

57 Separately, the DfE guarantee for Academy participation in the LGPS has been increased to £20m. A copy of the Secretary of State's statement has previously been shared with the Committee.

58 Government has previously indicated plans for every school to be in, or in the process of joining, an academy trust. This has potential impact on the make-up of scheme membership, and admissions to the Fund. Officers will continue to monitor the position and keep the Board informed.

SAB Review – Tier 3 Employers

59 In addition to the review of Academy participation, above, SAB also commissioned work in respect of 'Tier 3' employers participating in the LGPS. Broadly, Tier 3 employers are those employers which:

(i) have no tax raising powers,

(ii) are not backed by an employer with tax raising powers;

(iii) are not an academy.

60 Examples of Tier 3 employers include universities, further education colleges, housing associations and charities.

61 SAB had established a small working group to review concerns expressed by Tier 3 employers and the ways in which they may be resolved. The working group had been tasked with reporting back to the SAB with a set of recommendations for further consideration.

62 Whilst the third Tier Employer review is no longer part of SAB's current projects, an Office for National Statistics (ONS) review of the Further Education sector may change the classification of Colleges within the LGPS.

63 It is proposed that Colleges are reclassified as 'public sector', with the possibility of tighter restrictions on debt / borrowing. Additionally, the Department for Education (DfE) is considering putting in place a guarantee, similar to the one already provided for academies which would provide greater protection to LGPS Funds.

64 The DfE is collating relevant data directly from LGPS actuaries to better understand Colleges' funding requirements and consider the merits of providing the additional covenant assurances. Officers will continue to monitor the position, to ensure that the correct level of prudence is taken in finalising rates for Colleges in the Fund's triennial valuation. The Fund will initially maintain the rates for Colleges in line with the 2019 valuation, but will reconsider the position after the outcome of the College reclassification.

SAB Review – Good Governance in the LGPS

65 SAB is currently examining the effectiveness of current LGPS governance models with a focus on standards, consistency, representation, conflict management, clarity of roles and cost. SAB's work will likely result in new statutory guidance on Governance Compliance, with consideration in particular likely to be given to:

(a) changes to the scheme's regulatory provisions on Governance Compliance Statements,

(b) revised statutory guidance on Governance Compliance Statements,

(c) independent assessment of Governance Compliance Statements, and;

(d) establishing a set of Key Performance Indicators (KPIs)

66 SAB have completed their report on Good Governance and submitted an Action Plan to DLUHC to take the recommendations of the project forward. It is expected that the next stage is for DLUHC to take the recommendations forward for implementation through legislation and / or Statutory Guidance. A more detailed update to both the Committee and Local Pension Board, and overview of the recommendations proposed to DLUHC will be provided in due course.

SAB Review – Responsible Investment Guidance

67 In November 2019, SAB drafted guidance for Responsible Investment in the LGPS, to clarify the parameters within which investment decisions can be made with regard to the integration of ESG factors. Following feedback, SAB has decided to take stock until more is known about the government's position on the proposed climate change provisions in the Pension Schemes Bill and the implications of the Supreme Court's judgement involving the Palestine Solidarity Campaign. The Board will be updated as the matter progresses.

68 Notwithstanding this decision, SAB have progressed with further work in respect of Responsible Investment (RI), including the production of an RI A-Z Guide. It is intended that the A-Z Guide will provide LGPS stakeholders a "one stop shop for information, links and case studies in this fast growing and complex arena". The guide will evolve over time, as new entries are added. The A-Z Guide can be found online at the following link https://ri.lgpsboard.org/items.

69 The Board has also established an RI Advisory Group (RIAG). The main role of the group will be to advise SAB on all matters relating to RI. It will also be responsible for assisting the Board in maintaining the online A-Z Guide. The Group will also assist SAB in developing recommendations to DLUHC on how the Taskforce on Climate-Related Financial Disclosures (TCFD) reporting should be applied to the LGPS.

SAB Correspondence – LGPS Audit

70 In August 2022 the SAB Chair, Cllr Roger Phillips, wrote to DLUHC proposing a separation of pension fund accounts from main local authority accounts, due to each having the potential to delay the other. On 15 February the Minister for Local Government, Lee Rowley MP, responded (previously shared with the Board) to the SAB welcoming the Board's advice and recommendation to consider the separation of main authority accounts and the pension fund accounts.

The Minister has asked his officials to consider the scope for developing this further. The Board will be kept informed as the matter progresses.

SAB – Preparing the Annual Report

71 The SAB has convened a working group to review the 2019 CIPFA 'Preparing the Annual Report' guidance and has identified several areas within the current guidance which now require updating and clarification. A priority has been to streamline the guidance and reduce duplication wherever possible with other reporting obligations – SAB report that this direction has the support of DLUHC.

72 A key area includes how funds sould report the asset classes in which it invests. New guidance will suggest funds follow a 'worked example' template provided by the SAB which aims to improve consistency and better scheme-level reporting of asset allocation by SAB. Using standard data to report asset classes also aims to make the annual report process simpler for funds and more consistent for readers. From an administrative perspective, Key Performance Indicators are being reviewed with an aim to better define them and allow for standardised reporting. The new guidance aims to be in place ready for the 2023/24 reporting period – Officers will keep both the Board and Committee updated of the emergent requirements.

SAB – Sharia Compliance

73 The SAB has received legal advice suggesting that it should instruct an expert in Islamic finance to provide evidence on Sharia Compliance in the LGPS. Consequently, the Board has commissioned an expert in the field of Sharia finance and will subsequently instruct counsel upon receipt of the evidential findings. The Committee will be updated as further information emerges.

Non- LGPS Specific Matters

Public Sector Exit Payments Caps

74 The Small Business, Enterprise and Employment Act 2015 introduced the concept of a 'public sector exit payments cap'. The legislation provides that exit payments to be paid to a person are not to exceed £95,000. The 2015 Act provided the overarching principles of how the exit cap was to operate, but the detail was to be prescribed in regulations that were expected to soon follow.

75 After a period of delay the Treasury launched a new consultation on this matter in April 2019. Included in the consultation were draft regulations called ‘The Restriction of Public Sector Exit Payment Regulations 2019’ which provided detail on how the exit cap should operate from an employer’s perspective.

76 Under the Regulations, the cap was to remain at £95,000 and include:

- redundancy payment(s);
- any payment to offset an actuarial reduction to a pension arising by virtue of early retirement (know as ‘strain on the fund’ or ‘early release’ cost);
- any payment made pursuant to an award of compensation under the ACAS arbitration scheme or a settlement or conciliation agreement;
- any severance payment or ex gratia payment;
- any payment in the form of shares or share options;
- any payment on voluntary exit;
- any payment in lieu of notice due under a contract of employment;
- any payment made to extinguish any liability under a fixed term contract;
- any other payment made, whether under a contract of employment or otherwise, in consequence of termination of employment of loss of office.

77 Most significantly for the LGPS, was the inclusion of the ‘strain on the fund’ costs being included towards the cap. These costs of allowing unreduced access to pension benefits for members over 55 can exceed £95,000 for scheme members with long periods of membership.

78 Separately to the Exit Payment Regulations, DLUHC consulted on further reforms to the LGPS Regulations that would accommodate the Exit Cap within the Scheme. As DLUHC’s proposed changes were not implemented concurrently with the Exit Payment Regulations, there was legal uncertainty for both LGPS Administering Authorities and participating employers due to the conflicting legislation.

79 On 12 February however the Exit Cap was unexpectedly disapplied, after the Treasury issued the 'Exit Payment Cap Directions 2021'. The Treasury will bring forward at pace revised proposals in respect of public sector exits. The Board will be updated as further details emerge.

UK Stewardship Code 2020

80 The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. The Fund has previously signed up the Code, and BCPP also publish a UK Stewardship Code compliance statement.

81 Due to the significant changes in the Investment Market since the introduction of the first Code, The UK Stewardship Code 2020 is now being introduced. This new Code expands on the previous requirements and compromises a set of 12 Principles which require reporting and disclosure on an 'apply and explain' basis.

82 The LGPS (Management and Investment of Funds) 2016 Regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Stewardship, day-to-day administration and implementation have been delegated to Border to Coast by the Partner Funds, on assets managed by Border to Coast, with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements. To leverage scale and for operational purposes, Border to Coast has, in conjunction with Partner Funds, developed a Responsible Investment Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach on behalf of Partner Funds.

83 Together with peers at BCPP Partner Funds, Officers are working to consider the new Code and how to ensure compliance. A more detailed report will be provided to the Pension Fund Committee in due course.

Increasing the UK Minimum Pension Age

84 The Board have previously been informed of the intention to raise the Normal Minimum Pension Age (NMPA) in the UK and members will recall that a consultation entitled 'Increasing the normal minimum pension age: consultation on implementation' was launched on 11th February and ran until 22nd April 2021.

85 The consultation proposed that, due to increases in longevity and changing expectations of how long individuals will remain in work and in retirement, the minimum pension age would increase from 55 to 57

in 2028. When the policy was first announced, it was intended that the NMPA would be 10 years earlier that the State Pension Age. The minimum age a scheme member can currently retire voluntarily in the LGPS is 55.

86 The Finance Act gained Royal Assent on 24 February, which will increase the minimum retirement age in the UK from 55 to 57 from April 2028. The Act provides for protected pension ages for members who meet entitlement conditions. The government will need to change the LGPS rules to align with the NMPA at some point on or before 6 April 2028. It will also need to consider whether LGPS members who qualify for protection will be allowed to receive payment before 57.

87 The LGA have advised that the change is not material, such that scheme members must be immediately informed of the change. Nonetheless, the Fund informed its active and deferred members of the proposed change within Annual Benefit Statements.

TPR Code of Practice

88 The Pensions Regulator (TPR) has consulted on a single Code of Practice to cover all regulated schemes. Presently, the Regulator has a specific Code for Public Service Pensions. Whilst the new Code does not extend TPR’s powers in the LGPS beyond its existing remit on governance and administration, there are some concerns over how the provisions of the Code fit with the LGPS. SAB have responded on behalf of the LGPS.

89 The Regulator plans to carry out a full review of the comments received through the consultation which it will consider carefully. TPR do not currently have a firm final publication date for the new code. The Local Pension Board’s existing Workplan addressing the existing ‘Public Service Pension Code of Practice’ has been rolled forward until the revised Code emerges.

Boycotts, Divestment and Sanctions

90 The government’s legislative programme was laid out in May 2021. The programme included a Boycotts, Divestment and Sanctions (BDS) Bill the purpose of which was to be to stop public bodies from taking a different approach to UK Government sanctions and foreign relations covering purchasing, procurement, and investment decisions.

91 In advance of the BDS Bill an amendment to the Public Services Pensions Bill passed, which proposed conferring powers to the Secretary of State to make guidance in respect of BDS. The clause would enable the Secretary of State to issue guidance to LGPS administering authorities that they may not make investment decisions that conflict with the UK's foreign and defence policy. The Public Services Pensions Bill gained royal assent, but this does not place any immediate duty on Funds.

92 The government intends however to implement the commitment to prevent public bodies pursuing boycotts, divestments and sanctions campaigns (BDS) against foreign countries or territories, unless in line with the UK's official foreign policy, through the Foreign Affairs (Economic Activity of Public Bodies) Bill, introduced in June .For the position to change for the LGPS, a full 12 week consultation would be required. SAB Guidance on the matter was previously shared with the Board and Committee.

93 Some concerns have been raised about the technical detail of the Bill which may inadvertently stifle appropriate discussion at Committee Meetings. The LGA will continue to lobby on this legislation, hoping that the concerns already raised will be considered in future drafts.

Pension Scams and new Restrictions on Transfers

94 From 30 November 2021 new regulations ('the Occupational and Personal Pension Schemes Conditions for Transfers Regulations 2021') place greater restrictions on transferring out of the Pension Fund. The new Regulations require the Fund to carry out greater due diligence to protect scheme members from falling foul of Pension Scams.

95 The Fund will be required to notify members seeking to transfer out, that the transfer can only proceed if there are no due diligence red flags, or, if the transfer is to a public service scheme, master trust or collective money purchase scheme.

96 The Fund already provides warnings to its scheme members of the risks of pension scams through the Pensions Regulator's 'Scams warning' – a copy of which has previously been provided to the Local Pension Board. The Fund has also worked with the Regulator to provide a bespoke warning through the Online Portal. In light of the new Regulations however, Officers have amended the Fund's transfer process to reflect the new requirements. Scheme Members were again warned against scams in 2022 Annual Benefit Statements.

97 Following a major data breach at third-party pensions administrator, Capita, the Pensions Regulator has reminded pension funds of the importance of warning members about scams. A reminder will be provided to all active and deferred scheme members in their Annual Benefit Statements. A copy of the Pensions Regulator's statement on the Capita Breach has previously been shared with the Board.

98 On 10 August 2023, the Money and Pensions Service (MaPS) published its evidence review into pension scams in the U K. The key findings are:

• there remain significant challenges to estimate the scale of the problem

• the types of scams and tactics are very similar to investment scams

• the financial and emotional cost to individuals is high, going beyond financial loss and impacting on health and relationships

• scams can happen to anyone

• once an individual has been targeted, there is a high risk of retargeting

• government bodies, administrators and other organisations have at their disposal a range of touchpoints to provide strong protection against scams.

Stronger Nudge

99 The government has introduced legislation to ensure that individuals are made aware of 'Pension Wise' guidance as part of the process for taking or transferring Defined Contribution (DC) pension savings. Whilst the LGPS is not a DC Scheme, the legislation is applicable to the Scheme's AVC provision.

100 The 'Stronger Nudge' requirement is introduced by the Occupational and Personal Pension Schemes (Disclosure of Information) (Requirements to Refer Members to Guidance etc) (Amendment) Regulations 2022 (SI 2022/30). These 'Nudge' Regulations require the Fund to refer scheme members who are seeking to take or transfer their AVCs to the Pension Wise service.

101 The requirement applies to all applications received on or after 1 June 2022 in respect of retirees taking payment of their AVCs, and those aged over 50 seeking to transfer their AVCs to another DC Scheme. The Fund has amended its processes and paperwork to ensure compliance with the Nudge Regulations. The Fund will offer to

book a Pension Wise appointment at a date and time suitable for the scheme member where required. It should be noted that scheme members retain the right to opt out of receiving Pension Wise guidance. Further detail of the Fund's compliance has been provided to the Local Pension Board.

Dashboard

102 The Board have previously been briefed on pensions dashboards — apps, websites or other tools — which savers will be able to use to see their pension information in one place. It is the government's intention to create a national Pensions Dashboard that will enable savers to see all their pensions information in one place online, including on their State Pension. It is hoped that through the Dashboard savers will be able to make better informed decisions about their retirement, as well as find lost and forgotten pots.

103 Like all large pension schemes, the LGPS will be required to connect and supply data to the government's national Pensions Dashboard. It was expected that pensions schemes would start to connect to the Dashboard from August 2023, with the LGPS expected to connect in Autumn 2024. However, the Pensions Minister, Laura Trott MP, made a statement on 2 March announcing the intention to amend the staging timetable to allow more time for the technological system enabling dashboards to be delivered. As a result all schemes' deadlines will be changing.

104 Subsequently, DWP confirmed that The Pensions Dashboards Programme (PDP) is currently in reset, as part of refreshing its delivery plan for a new connection deadline of 31 October 2026. The process aims to allow DWP the opportunity to review the programme and reset the plan. It also provides the time to ensure required resources are in place to complete the delivery of the technical solution and documentation to support connection. The Board will be kept informed.

Changes to Pension Taxation

105 In the Spring Budget, the Chancellor announced changes to pension taxation. The Annual Allowance (which is the maximum amount of pensions savings an individual can make each year before incurring a tax charge) was increased from £40,000 to £60,000 from 6 April 2023. Changes have also been made to the Lifetime Allowance, the charge for which will be reduced to zero from 6 April 2023, before being fully abolishing entirely in a future Finance Bill.

106 Officers will ensure that scheme members are appropriately advised of the implications through Annual Statements, and Pensions Savings Statements. All participating employers were made aware of the changes, enabling them to alert their employees who are most likely to be affected.

Author(s)

Paul Cooper Tel: 03000 269798

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Appendix 1 – Summary of Key Changes

Paragraph	Notes
6 – Fair Deal	SAB Chair writes to DLUHC for update.
14-16 GMP Rectification	Detail of conclusion of GMP Rectification.
21-26 Investment Consultation	Summary of consultation previously presented to the Board on ‘LGPS: The Future of Investments’. Confirmation of DLUHC response.
43-45 Cost Control Mechanism	Update on Cost Control processes.
56 – Academy Conversions	Detail of SAB’s guide for schools converting to academy status.
93 - Boycotts, Divestment and Sanctions	Outlines concerns raised over drafting of legislation.

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Department for Levelling Up, Housing & Communities

Consultation outcome

Local Government Pension Scheme (England and Wales): Next steps on investments - government response

Updated 22 November 2023

Contents

This publication is available at https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments/outcome/local-government-pension-scheme-england-and-wales-next-steps-on-investments-government-response

Summary

1. The UK has the largest pension market in Europe, worth over £2.5 trillion. It plays a critical role in providing safe retirement income as part of the social contract between generations. At the Chancellor's Mansion House speech on 10 July 2023, the government announced a series of measures to reform the pensions landscape, increase investment in UK businesses and improve UK capital market competitiveness.

2. Alongside the Local Government Pension Scheme England and Wales (LGPS) consultation, government announcements include: an industry-led Mansion House Compact to drive greater investment into high growth companies from Defined Contribution schemes; a consultations on small pots and decumulation; a consultation response on a new Value for Money Framework for Defined Contribution schemes; and the issuance of two calls for evidence on productive investment by Defined Benefit funds and the role of the Pension Protection Fund and on pension trustee skills, capability and culture.

3. Following extensive engagement with external stakeholders, at Autumn Statement the government is announcing a comprehensive package of pension market reform that will provide better saver outcomes, drive a more consolidated pensions market and enable pension funds to invest in a diverse portfolio. The decisions set out in this response to the LGPS consultation form part of this wider package.

4. On the LGPS specifically, the key aims are realising the benefits of scale and seeking opportunities for returns in the United Kingdom with secondary beneficial effects. In our consultation we sought views on proposals in five areas:

- First, the government set out proposals to accelerate and expand pooling, with administering authorities setting out how they are investing their funds and why. We also proposed a deadline for asset transition to the pools by March 2025 and set out a direction of travel towards pools of at least £50 billion in assets to maximise benefits of scale.
- Second, the government proposed to require funds to have a plan to invest up to 5% of assets to support levelling up in the UK, as announced in the Levelling Up White Paper (LUWP) (https://www.gov.uk/government/publications/levelling-up-the-united-kingdom) while providing good returns to the scheme.
- Third, the government proposed an ambition to increase investment into high growth companies via private equity, including venture capital and growth equity. The government believes there are real opportunities in this area for institutional investors with a long-term outlook, such as the LGPS.
- Fourth, the government sought views about proposed amendments to regulations to implement requirements on pension funds that use investment consultants.

- Finally, the government proposed to make a technical change to the definition of investments in LGPS regulations.

5. We received 152 responses from across the sector and have carefully considered all responses. We are grateful for all the time and thought of respondents in commenting on our proposals.

6. The consultation received a broad range of responses; it is clear that across the sector there is a collective commitment to making pooling work well and realising the benefits of greater scale and expertise. In addition, it is clear that LGPS investors are willing to seek out and invest in projects which have benefits for local communities where they make sense for the pension fund, and that this is in practice already taking place. It is also clear that there is an appetite to invest in high-growth sectors to the extent that this supports a fund's investment objectives. Proposals to increase the training requirements for the pension committees of LGPS funds, and to improve reporting and transparency of the scheme received wide support.

7. There were some proposals on which many or most responses expressed concern, notably the transition deadline of March 2025, aspects of the preferred model of pooling, and the 10% ambition for private equity allocation. The government's view is that setting clear and up to date expectations in guidance on these matters is essential to securing a step change in progress on pooling and associated benefits of scale, and does not cut across the fiduciary duties of funds. Guidance will not mandate investment in any particular assets, and the government's strong preference for progress on a voluntary basis, embracing the benefits of scale and striving to deliver returns.

8. The government also views the LGPS as being in a favourable position to make a greater contribution to UK growth. Scheme members are protected as their benefits are guaranteed in law and do not depend on investment returns. Many LGPS funds are in surplus, and the LGPS has over 2 million active members and remains open to new members. As a result, the LGPS has the freedom to invest for growth over the long term, unlike many private sector comparators. We encourage funds to consider what this should mean for their risk appetite and investment strategy, and to review the investment opportunities, particularly in private markets, which are available to them. We look to successes in Canada and Australia, where good pension outcomes have aligned with societal and economic benefits.

9. After having considered the responses, the government will now implement the proposals that we set out in the consultation to accelerate and expand pooling, and increase investment in levelling up and in private equity. We will:

- set out in revised investment strategy statement guidance that funds should transfer all assets to their pool by 31 March 2025, and set out in their ISS assets which are pooled, under pool management and not pooled and the rationale, value for money and date for review if not pooled.

- revise pooling guidance to set out a preferred model of pooling including delegation of manager selection and strategy implementation.
- implement a requirement in guidance for administering authorities to set a training policy for pensions committee members and to report against the policy.
- revise guidance on annual reports to include a standard asset allocation, proportion of assets pooled, a comparison between actual and strategic asset allocation, net savings from pooling and net returns for each asset class against their chosen benchmark.
- make changes to LGPS official statistics to include a standard asset allocation and the proportion of assets pooled and the net savings of pooling.
- amend regulations to require funds to set a plan to invest up to 5% of assets in levelling up the UK, and to report annually on progress against the plan.
- revise ISS guidance to require funds to consider investments to meet the government's ambition of a 10% allocation to private equity.

10. We will also amend regulations to require funds to set objectives for investment consultants and correct the definition of investment in the 2016 investment regulations. As proposed in the consultation, the Scheme Advisory Board (SAB) plans to expand their Scheme Annual Report to provide a report on the progress on pooling and on asset allocation across the LGPS. We will work closely with the SAB and relevant committees of the SAB to develop changes to regulations and revised guidance on investment strategy statements, pooling, governance, and annual reports.

11. More widely, we intend to monitor progress over the current valuation period (to 31 March 2025), based on fund annual reports, LGPS statistics, the Scheme Annual Report and other evidence. This monitoring will include progress on transition, governance and reporting and how effective these are in delivering improvements in efficiency, cost, and performance.

Chapter 1: Introduction

12. On 11 July 2023, as part of a package of measures to reform the pensions landscape, the government launched a consultation on proposals relating to the next steps for investments in the LGPS. The LGPS scheme is one of the world's largest funded pension schemes and a key player in global markets, investing around £359 billion worldwide. Its scale enables it to have a significant impact through its investments and gives it the potential to lead the market in innovation and transparency.

13. The government believes that whilst long term stable returns in order to pay pensions for its members are the primary purpose of the investments, there is scope at the same time to deliver substantial benefits to the UK as a whole.

14. The consultation focussed on five key areas which could have the greatest impact on the scheme and enable the LGPS to deliver these significant national benefits. The five areas were asset pooling, levelling up, opportunities in private equity, investment consultancy services and the definition of investments. The consultation also covered increased scale, governance and decision making, as well as transparency and accountability.

15. The consultation closed on 2 October 2023 and we received 152 responses, including responses from 82 administering authorities, 14 individuals, 13 asset managers, 12 union responses, 9 advisors, 8 industry bodies, 8 asset pools, 4 campaign groups, 1 local authority which is not an administering authority and 1 law firm.

16. We are grateful for the helpful, detailed and informed responses from across the sector which have greatly assisted government in analysing our proposals and, going forward, will be valuable for informing the next steps for implementation. There were a wide range of views expressed around our proposals and further details of the responses to each question are set out in the document below.

17. The consultation responses were carefully considered, and this response summarises the comments received on each topic and outlines how we intend to proceed.

Chapter 2: Asset pooling in the LGPS

18. The government's view is that accelerating consolidation of assets in the LGPS is crucial for ensuring the scheme is delivering value for money in the interests of scheme members, employers and local taxpayers. Stronger pools can also ensure the LGPS effectively uses its scale to deliver on responsible investment, management of climate risks, investment in levelling up, and investment in unlisted equities in support of UK growth. The government wishes to see existing pools build scale as quickly as possible by accelerating the pace of transition of liquid assets from the funds into the pools, building on and expanding on successes so far. We set out in the consultation proposals to drive greater scale, improve governance and decision making and deliver better transparency and accountability.

Driving greater scale through fewer pools

19. In question 1, the government asked for views on alternative approaches to pooling in the LGPS to that set out in the consultation. The proposed approach

included setting a long-term direction towards fewer pools to deliver scale of at least £50 billion of assets under management.

Summary of responses

20. There were 140 responses to this question. Many respondents commented positively about the broad direction of travel of the consultation and recognised that the scheme needed to evolve to meet new challenges and opportunities. Respondents noted the importance of a well-funded, well managed and sustainable scheme, to which excellent value for money and net performance were critical. Respondents further noted achieving improved delivery and efficiencies create tangible benefits for scheme employers, and for taxpayers.

21. Some respondents felt that it was too soon to consider moving to fewer pools given their relatively short history, and they should be given longer to demonstrate their worth to the sector. A small number of respondents also questioned the transparency of decision making and the level of local accountability and scrutiny of pools, particularly larger pools. Other responses proposed that government should focus on supporting those organisations that had yet to make significant progress.

22. A number of respondents commented that reducing the number of pools could potentially have a negative impact. Particular concerns were raised around potential further transition costs and administrative burdens involved in a further merger of pools. A number of respondents said that greater collaboration between pools to provide suitable investment mandates, and the specialisation of some pools in specific areas of investment, should be seen as an alternative to amalgamation.

23. Respondents also said that pools will need to demonstrate value for money not only in relation to investment management fees but also in relation to the quality of the service they provide in areas such as reporting, responses to queries and other day-to-day work with funds. Respondents also said that funds themselves will also need to have adequate capability and resources with good governance, training and resourcing being key.

24. There were mixed views regarding the case for increasing pool scale. Some supported the drive to greater scale as a means of reducing costs, with several referring to the CEM research (https://hub.cembenchmarking.com/hubfs/PDFs/Research%20Downloads/R-36-A%20Case%20For%20Scale%20February%202022%20Final.pdf) (PDF, 1,722 KB) paper "A Case for Scale: How the world's largest institutional investors leverage scale to deliver real outperformance" showing that lower fees were achieved at greater scale. Several responses argued that the case for scale was more effective where pools operate in-house management, referring to successes achieved by RailPen and the Universities Superannuation Scheme (USS), and

to the academic research (https://www.benefitscanada.com/wp-content/uploads/sites/7/2023/08/Scale-Economies-Bargaining-Power-and-Investment-Performance-Evidence-from-Pension-Plans.pdf) (PDF, 6.9 MB) paper ”Scale Economies, Bargaining Power, and Investment Performance: Evidence from Pension Plans” (Devries, Kalfa, Timmermann and Wermers, 2023). Others pointed to the increased cost associated with internal management. There was a broad consensus that quality of governance was more important than scale at both the pool and fund level.

25. A small number of responses suggested that different models should be considered. This included a view by some respondents that imposing fund mergers would rapidly increase scale and decrease complexity. These responses pointed to the fact that each administering authority has its own administrator, advisors (legal, actuarial, investment, etc) and Local Pensions Board, which adds cost.

Our response

26. The government welcomes the detailed and wide-ranging responses to this question. A wide range of views were expressed with the majority of views supporting a strengthening of the current pooling model, rather than moving to a significantly different approach. We welcome the emphasis placed on the capability and resources of pools and funds and intend to strengthen the framework of guidance.

27. We understand the concerns expressed on moving to fewer pools and underline that there is no intention to take steps to mandate a move to fewer pools in the immediate term. The government’s view is that the focus in the short term should remain on accelerating transition of assets, improving governance and ensuring greater transparency and accountability. But in the long term the government considers that transition of assets alone will not deliver the full benefits of pooling, as the benefits of scale are present in the £50-75 billion range and improve as far as £100 billion.

28. The Government Actuary’s Department estimate that the LGPS could reach around £950 billion in assets in 2040. We should therefore look towards a smaller number of pools with assets under management averaging £200 billion in the future and government will work with funds and pools over the medium to long term to consider the pathway. In the meantime, we would like to see the pools move towards greater collaboration where this makes sense, and to consider specialisation, building on existing strengths in particular areas of investment, in order to deliver further benefits of scale and limit unnecessary duplication.

A timetable for transition

29. In question 2, the government sought views on the setting of a deadline in Investment Strategy Statement (ISS) guidance for funds to transition all listed assets, as a minimum, to their pool within a reasonable timeframe. We considered that a reasonable timeframe for liquid assets to be transferred was by 31 March 2025, which is the end of the current local fund valuation period. We also proposed that transition of all assets should be targeted by this date, as pooling of illiquid investments may offer the greatest opportunities for reducing savings combined with higher returns.

30. Under the proposals, funds would work with their pool to ensure that they fully considered all the opportunities available through the pool for their assets. A detailed rationale for each asset remaining outside the pool including value for money considerations would need to be provided in the ISS if the asset would not be pooled by March 2025.

Summary of responses

31. There were 141 responses to this question, of which 18% were supportive, 26% were broadly in favour but said the March 2025 deadline was too soon, 40% were opposed and 16% were neutral.

32. Among those who were supportive there were a range of comments. Some said this proposal would create momentum to deliver the benefits of pooling including professionalism. Others suggested we could go further, for example by mandating or closely monitoring progress. One suggested pooling could be achieved in months, not years. Many suggested that focus should be on funds who were failing to take advantage of opportunity, rather than punishing those who had put in place adequate plans. Some argued that low expertise among some pension committees, overreliance on external investment consultants, and organisational inertia were holding the LGPS back from realising the potential gains from pooling.

33. Those who were broadly in favour but felt that March 2025 was too soon made a range of comments. Firstly, several responses pointed out that the next actuarial valuation will take place with an effective date of 31 March 2025, and normally an investment strategy review would take place following the valuation. Their view was that requiring changes to be made by March 2025 would mean making changes within the life of the existing ISS. Some said that the pools themselves may not have capacity or sub-funds to properly absorb the additional assets. Others suggested that an unrealistic timing could have a detrimental impact on funds, as the need to meet the deadline would force suboptimal decisions to be made. A small number pointed out that if all funds

are competing for similar investments at the same time the competition could have a market impact, increasing prices.

34. There were other constructive comments from those who were broadly supportive of the proposal. These included a request for clarity on the definition of listed assets and the government's expectations with respect to unlisted assets. Several suggested "as soon as practically possible" was a more suitable wording given the different obstacles faced by funds, and others suggested that banning appointment of new listed asset managers would be more effective. Others pointed out there may be more benefits to focussing on unlisted assets, and that by prioritising listed assets the government is missing an opportunity. Many responses said that jointly procured passive funds were already managed with low fees, and as such would not benefit from transition.

35. Those who were altogether opposed had a broad range of views. Some responses argued that a fund's fiduciary duty means they should already be seeking the best opportunities which are available to them, and that it was inappropriate for government to be influencing their decision making. They argued that the government's attention should be more focussed on what funds felt was not provided by their pool, and that government should not assume that funds are reluctant. Many respondents said that the right investments were not always readily available in their pool and that upfront transition costs could outweigh any long-term benefits of pooling. Others challenged the case for scale and argued that the guidance should be based on a more strongly evidenced case.

36. Some respondents felt that funds should be permitted to invest a small proportion, not normally more than 5%, of a fund's assets outside the pool in local initiatives within the geographical area of the pool member or in products tailored to particular liabilities specific to that pool member. These responses argued that these investments should not be subject to any guidance requiring transition by 2025. We comment on this in our answer to Question 9.

Our response

37. Having carefully considered responses, the government will draft guidance to implement the proposal. The proposals set out in the consultation were to have a requirement in Investment Strategy Statement (ISS) guidance to either transition assets by March 2025, or to set out a detailed rationale for each asset remaining outside the pool including value for money considerations. This is effectively a "comply or explain" regime, which does not mandate particular investment choices.

38. The government accepts that a March 2025 deadline will be a significant challenge for some pools and funds to achieve but our view is that a step change is necessary to deliver the benefits that greater scale will deliver. A

delay to March 2026, as proposed by some respondents, would risk pushing significant action on transition into the next valuation period.

39. The government also accepts that for certain assets transition will difficult or undesirable by March 2025. This may include jointly procured passive funds. In those cases, a detailed rationale for each asset remaining outside the pool including value for money considerations would need to be provided in the ISS in line with existing guidance if the asset is not intended to be pooled by March 2025. The rationale should include why it is not appropriate to pool the asset by March 2025, and the plan with regard to pooling that asset. We would also expect the rationale to set out when the decision will be reviewed on each asset and what the plan is to transition by a later date.

Governance and decision making

40. In question 3, the government sought views on revising guidance on pooling to ensure all funds participate in a strong partnership with their pool and with other partner funds, and delegate effectively to their pool. The government's view is that delegation of strategy implementation and manager selection will allow the pool to deliver the benefits of scale. We do not propose any change to the responsibility of funds for setting investment strategies.

41. We proposed revised guidance on pooling to confirm and strengthen the existing guidance on delegation of manager selection and strategy implementation. It would also provide revised guidance on governance, including member representation, transition of assets and new investments outside the pool. We also proposed that guidance should set out a model of pooling including a number of aspects which we consider key to progress. The summary below covers the responses to the question and the comments on each characteristic.

Summary of responses

42. There were 140 responses to this question. There were several parts to the proposal with varying levels of support, but on the broad question of whether guidance should recommend a model of pooling 62% were opposed, 17% supportive and 21% neutral. Many supported the proposal to issue revised guidance regarding pool and fund interaction. Many referred to the model we proposed as a fiduciary management model, and some respondents suggested that while fiduciary management could be appropriate and successful for some funds it was not appropriate for all. Several responses said that guidance was not a legally enforceable means of delivering the government's objectives.

Others felt that the proposals were unbalanced, largely targeting administering authorities, rather than pools.

43. There were a wide range of views on the aspects of the proposed model of pooling, set out below for each aspect.

> “ Pools should operate as a single entity which acts on behalf of and in the sole interests of the partner funds. For this reason, we do not see inter-pool competition as a desirable progression. This does not preclude the potential for inter-pool collaboration, which is encouraged by government.”

44. This characteristic was broadly supported by most respondents. Most respondents agreed that pools should act in the sole interests of their partner funds, and some noted that this was an important prerequisite for exemption from the requirement to run a public procurement under the Public Contracts Regulations 2015. A minority were concerned that other considerations such as responsible investment would be excluded from pool decision making. Some respondents viewed inter-pool competition as desirable, arguing that funds would benefit from cross pool investment, and that inter-pool competition might help to reduce the number of pools in the long run. Some responses interpreted “single entity” as implying a specific model of pooling centred on a pool company owned by the participating funds which they did not support.

> “ Pools should be actively advising funds regarding investment decisions, including investment strategies.”

45. A majority of responses were opposed to this proposal. Some suggested that it would be improper for pools to advise as they would have a conflict of interest, or that pools would have difficulty in advising appropriately. Some suggested that it was important to use a broad range of advisors. Several argued that a fund’s right to seek its own sources of advice was part of its fiduciary duty. Some said that not all pools had the requisite Financial Conduct Authority permissions to provide advice. Some were concerned that the Competition and Markets Authority (CMA) would raise questions on the lack of a public procurement process to ensure competitive provision.

> “ Pools should be equipped to implement an investment strategy as instructed by their partner fund. An investment strategy should be interpreted to mean a broad instruction regarding asset classes and level of risk. It should not include an excessive number of classes, or choice of specific assets.”

46. Responses were divided in relation to this point. Many welcomed the clarity that strategic decision making should remain the responsibility of administering authorities, and that the pools should be capable of implementing the required investment strategy. Some said that we should be more specific that manager selection should be left to pools. However, some suggested that the distinction between strategic decision making by funds and implementation by pools was

not clear cut, and that administering authorities might respond by setting more detailed strategies.

> “ Pools should expect funds to invest via their existing sub-funds where possible. This avoids an unfavourable scenario whereby an excessive number of similar sub-funds undermine the purposes and benefits of pooling.”

47. A broadly even number of responses supported and opposed this characteristic. Many were sympathetic to increasing efficiencies by encouraging a smaller number of sub-funds. However, some argued that pools may not always offer suitable choices, that transaction costs would outweigh the savings, or that a bias in favour of existing sub-funds would lead to suboptimal decisions. One pool argued that reducing the number of external investment managers, not the number of sub-funds, created efficiencies. Others suggested this point would run counter to the statutory requirement to invest in a diverse portfolio of assets.

> “ Pool governance structures should be equipped to take quick decisions as opportunities present themselves, within the delegated remit of the fund.”

48. There were few comments on this point. Several sought clarity that such decisions should only be made by the pool within the delegated remit of the administering authority and in respect of investments within pool vehicles. Several respondents argued that such decisions should not be delegated to pools.

Our response

49. Having considered responses carefully, the government has decided to revise guidance on pooling as proposed. This will set a clear direction for all funds to move towards delegation of strategy implementation and manager selection, in order to deliver the benefits of scale for all. We recognise there are several current models of pooling, and that all have some benefits, but the government’s view is that in the medium and longer term certain key characteristics are essential for progress, although there may be transitional costs for some pools. Progress towards this model will be monitored and reviewed.

50. The revised guidance will therefore include a preferred model of pooling which we will expect pools to adopt over time. This model will be based on characteristics and outcomes rather than prescribing particular structures and will make clear that inter-pool collaboration is encouraged to deliver further benefits of scale. The partner funds will remain in control of their pool, and this will be important in ensuring that it delivers the products and services which the

funds wish to have, and the financial and non-financial benefits of scale for all. The requirement to act in the best interests of funds will not prevent pools from adopting policies for example on responsible investment where at least a majority of partner funds agree. Progress towards this model will be monitored with ministers taking a role in reviewing change and engaging pools as necessary.

51. The government does not consider that it would be a conflict of interest for the pool companies owned by LGPS funds to provide advice on investments, or that a public procurement is required, as they controlled by their partner funds, exist to provide services to the funds and do not benefit financially if funds take their advice. Where there is an external pool operator, pools may procure investment advice through a separate contractor to avoid a conflict of interest.

Improving training for pensions committee members

52. In question 4, the government sought views on proposals to set out in guidance that administering authorities should have a training policy for pensions committee members and report against it. The government's aim is to help authorities ensure that pension committee members have appropriate knowledge and skills to make decisions and to make good use of professional advisors.

Summary of responses

53. There were 136 responses to this question of which 91% were supportive of the proposal with many respondents commenting that the proposals would be welcomed across the scheme. Respondents commented that increasing training amongst pension committee members would be of benefit to committees, enhance scrutiny, better inform decision making, and build confidence with scheme members. Some responses pointed out that under the existing statutory guidance for annual reports (issued by CIPFA in 2019) funds should already be reporting the training undertaken by pensions committee members.

54. Many funds stated that they already have well established training plans in place and have made training mandatory for committee members, but that this is not universal. A number of respondents reported issues around recruitment, retention and high turnover of members which could risk the effective administration and oversight roles of committees.

55. A number of respondents commented that any proposed guidance should refer to existing requirements and best practice, including the CIPFA

Knowledge and Skills Framework and Guidance, MiFID II requirements, and the requirements for local pension board members. The Scheme Advisory Board encouraged the government to set out a timetable for the implementation of its recommendations on training and pensions expertise, and many other respondents endorsed this approach.

Our response

56. We will revise guidance on annual reports and on governance to require all funds to publish formal training policies for pension committee members, to report on training undertaken, and to align expectations for pension committee members with those for local pension board members. Given the role and responsibilities of committees, including setting the investment and funding strategies for funds, it is essential that members of committees should have the appropriate training, knowledge and skills to undertake their role.

Transparency and accountability

57. In question 5, we sought views on increasing transparency of asset allocation, pooling, returns and savings, in order to provide transparency on progress of pooling by fund, by pool and across the scheme. The proposals also aimed to provide the consistency needed to support an overall view of asset allocation across the scheme and to minimise the burden of reporting on funds.

Annual reports and LGPS statistics

58. This consultation sought views on proposals to revise guidance on annual reports to require greater clarity on progress of pooling including a summary asset allocation, a comparison between actual and strategic asset allocation, a report of the net savings from pooling, through a standardised data return. We sought views on whether to require funds to report the returns achieved by each asset class against a benchmark across funds.

59. We also proposed to introduce a requirement to include commentary in the annual report on the progress of asset transfer against implementation plans and the approach to pooling set out in the ISS, in order to ensure funds are transparent and accountable on the progress of asset transition.

Summary of responses

60. There were 136 responses to this question and most were supportive of the proposals. On the proposal that funds should report basic asset classes in a consistent way there was broad support, with 81% supportive and 12% expressing opposition. Most agreed it would be helpful to have consistent reporting between funds to promote transparency and to enable the collation of a scheme-wide report. Some said the template should be drafted with the help of fund practitioners and the Scheme Advisory Board. Others said it would be important to ensure that the categories are not ambiguous to help ensure consistency and ease of completion. Some suggested using the same categories as private Defined Contribution and Defined Benefit schemes, as external fund managers are already familiar with these reporting regimes. We identified no objections to the proposal to require compare actual and strategic asset allocations.

61. On the proposal that funds should report the assets pooled, there was broad support, with 67% supportive and 19% expressing opposition. Several expressed concern that funds with a low proportion pooled would be considered to be under-performing, even if there were valid reasons not to pool. A frequent example was jointly procured passive arrangements, where management fees are already very low and there would be little to be gained by transferring to an asset pool. Others suggested that the categories “pooled”, “under pool management” and “not pooled” were not clear. Some suggested other categorisations, such as dividing assets between discretionary and advisory mandates.

62. With regards to the proposal that funds should report savings from pooling there was also broad support, with 63% supportive and 17% expressing opposition. However, many respondents felt that savings should be calculated by comparing costs against those achievable in the current market, rather than a historic baseline. Several respondents referred to the work of the SAB Cost Transparency Initiative as a good example of best practice. Several felt that there was already too much focus on the cost savings generated by pools, where there should be more focus on pool performance in a broader sense including returns.

63. Some respondents expressed concerns over the additional reporting burden. However, others pointed out that funds are largely already reporting this data in their annual reports and other data provided to the government.

64. The second part of the question sought views on whether funds should report on asset returns against an appropriate and consistent benchmark. There was a consensus that such an approach would be highly difficult to implement fairly, and 55% of respondents were opposed compared to 32% supportive. The primary reason for the opposition was that a consistent benchmark would not take account of the different objectives of different investment strategies. Some suggested that benchmarking could influence

decision making in an unhelpful way by incentivising strategies to closely track the benchmark. Others pointed out that even a fair benchmark for each asset class would be an incomplete measure of good performance as it would not capture the suitability of the strategy, only the performance against the strategy. For this reason, some suggested that a more appropriate benchmark would be the actuarial return required by their funding strategy applied to the whole fund return, as this would encapsulate the overall performance of the fund at macro level including the strategy. There was no clear consensus on an alternative approach.

65. Others felt we could go further on promoting good practice and transparency. Several suggested that transparency should focus on two key questions, the suitability of the strategy and the ability of the fund to implement the strategy. Several suggested there should be a means of showing pool performance, including a dashboard approach centred on the value for money delivered by the pool.

Our response

66. We will revise guidance to implement the proposed changes working with the Scheme Advisory Board. We believe that these measures will ensure that data and commentary on the progress of pooling and on asset allocation is available earlier, is consistent across the scheme and between LGPS statistics and annual reports. We recognise there may be increased costs arising from a change to the asset classes reported, but these can be met from the fund, and costs should be reduced by having a single standard set of data. We consider some additional costs can be justified to ensure better public accountability. The government will collaborate with the Scheme Advisory Board to consider the design of the annual return, noting the preference for consistency with other defined benefit and defined contribution schemes. This will include consideration of reporting on exposure to UK and global markets.

67. Where passively managed funds are held by funds outside the pool, we will expect funds to set out in their investment strategies, the nature of the arrangement, the value for money case for retaining outside the pool, and the date when the arrangement will be reviewed. If there is oversight by the pool, funds should set out how that oversight is exercised. Funds should report assets held in passive arrangements with pool oversight as under pool management.

68. We also asked for views on whether to require funds to report returns achieved by each asset class against a consistent benchmark and on how this could be implemented. In the light of responses highlighting the difficulties of setting benchmarks across the scheme, we intend to require funds to report performance for each asset class against the benchmark of their choice in their annual reports but not to seek to establish consistent benchmarks.

Scheme Annual Report

69. In question 6, the government sought views on our proposals for the Scheme Advisory Board (SAB) to expand their Scheme Annual Report to provide a report on the progress of pooling and on asset allocation across the LGPS. The SAB produces a Scheme Annual Report which aggregates information from fund annual reports to provide a single source of information for members, employers and other stakeholders.

Summary of responses

70. There were 130 responses to this question, of which 79% supported the proposals and 4% were opposed. Respondents responded positively to the proposal to expand the Scheme Annual Report to provide a report on the progress on pooling and on asset allocation across the LGPS. Respondents also commented that consistent reporting across all funds will make the production of Scheme Annual Reports easier and will provide a helpful picture of LGPS-wide asset allocation. A number of respondents said that it would be important to ensure that the SAB is sufficiently resourced to undertake the work.

Our response

71. We welcome the comments received in response to this question. We believe that expanding the content of the Scheme Annual Report to include an update on pooling will be useful for stakeholders and that the single standard set of data discussed above support this.

72. We have agreed with the SAB that they will incorporate this change into the Scheme Annual Report in future years by including a table which divides assets by category as well as by pooling status (pooled, not pooled or under pool management).

Chapter 3: LGPS investments and levelling up

73. In the Levelling Up White Paper (LUWP) (https://www.gov.uk/government/publications/levelling-up-the-united-kingdom) the

government set out its aim to level up the UK by spreading opportunity more equally across the country and bring left behind communities up to the level of more prosperous areas. One way in which this can be achieved is by ensuring that some of the funds managed by institutional investors such as the LGPS flow into projects that help deliver levelling up projects while also offering attractive returns.

74. The government has set an ambition in the LUWP for LGPS funds to invest up to 5% of their assets under management (AUM) in projects which support local areas. To implement this ambition, the government is asking LGPS funds to work with LGPS asset pools to publish plans for increasing their local investment.

Definition of levelling up investments

75. In question 7, we asked for views on a proposed definition of levelling up investments. The definition was intended to help LGPS funds and pools in considering how they could invest in a way that promotes growth, supports levelling up, and supports them to pay pensions.

76. The proposed definition was that an investment would meet the levelling up requirement if:

- it makes a measurable contribution to one of the levelling up missions set out in the LUWP; and
- it supports any local area within the United Kingdom.

Summary of responses

77. There were 138 responses to this question, and 64% were supportive of the definition. Supportive comments welcomed the broad definition as it includes investments across a wide range of asset classes, within diverse investment strategies. Others welcomed the aim of levelling up in the UK by spreading opportunities more equally across the country and bringing communities left behind up to the level of more prosperous areas through boosting productivity, growing the economy and raising living standards across the UK.

78. However, several respondents felt that the definition was too vague, open to interpretation and inconsistencies in its application, in particular by external fund managers. These responses asked for clarity by defining what constitutes a “measurable contribution” and what the term ‘local’ means, and whether deprived areas should be prioritised. Some said that we should say explicitly

that investments which support the transition to renewable energy would qualify. A number of respondents noted that many levelling up investments would be too small scale for pool investments and suggested that they should be made outside the pool.

79. Some respondents referred to the idea of “levelling up bonds,” a suggestion made by the Scheme Advisory Board to stimulate investment by replicating the green gilts model. Green gilts are issued by the UK Debt Management Office to help fund projects to tackle climate change, rebuild natural ecosystems and support jobs in green sectors, and raised £9.9 billion in 2022-23. Respondents argued that the success of this model could be replicated with a levelling up focus.

Our response

80. The government welcomes the broadly positive response on the definition of levelling up. We note the requests for additional clarity and will ensure to address this in guidance. However, we will also maintain the principle that a broad definition allows administering authorities to seek out opportunities which they feel will have beneficial impacts. We note the comment that the definition is not one that investment managers are currently working with. Government’s view is that the definition is sufficiently broad to allow administering authorities to work with fund managers and agree mandates which suit them. Some responses suggested the creation of “levelling-up bonds” but we do not consider that a new financial instrument is necessary. The government’s aim is principally to increase investment in levelling up projects which are more difficult to fund through listed markets.

81. We recognise that some levelling up investments in local projects may be below the necessary scale to attract pool investment, and so some funds may wish to continue to invest outside the pool. However, pools also may be able to conduct due diligence with the benefits of scale and may help funds to manage any potential conflicts of interest arising from investing locally. We therefore encourage funds to consider investing in projects which support levelling up through their pool.

82. We will work with the Scheme Advisory Board to develop draft guidance for further consultation.

Enabling investment to support levelling up

83. In question 8, the government asked for views on whether funds should be able to invest through their own pool in another pool's investment vehicle. Some pools do not currently have internal asset management capacity, or the range of investment vehicles required to meet the needs of their partner funds. To increase the range of options available to funds to deliver investment in levelling up, we proposed that funds should be able to invest through their own pool in investment vehicles provided by other pools.

Summary of responses

84. There were 144 responses to this question, of which 65% supported the proposal. Respondents cited the benefit of having access to an increased number of investment products, in addition to a wider range of specialist investment expertise. Similarly, respondents were supportive of increased collaboration between pools and thought that this would support an increase in the rate of assets being pooled. Many responses said that pools cannot be experts in all areas in a way which is cost effective, so allowing cross-pool investment in this way would support specialisation and efficiency.

85. A number of responses were supportive of the principle of investing in another pool but would prefer to allow direct investment in another pool's fund in order to reduce layers of fees and complexity.

86. Some respondents raised concerns around the potential for conflicts of interest to arise for pools, between serving their partner funds and attracting business from other pools. Some respondents suggested that there should be a focus on developing the expertise and range of products available within current pools, and only when there is no other option should a fund invest in another pool.

Our response

87. We will revise guidance on pooling to set out the circumstances in which it would be appropriate for LGPS funds to invest through their pool in another pool's investment vehicle. We note that some respondents expressed a preference to invest in a different pool directly, but the government's view is that investment in other pools should be made only through a fund's own pool in order to prevent potentially wasteful and costly competition between pools. Allowing investment in pools other than their own by without going through their pool could also undermine the relationship between pools and their partner funds and reduce pools' incentive to act in the interests of their partner funds.

Requirement to publish plans for increasing local investment

88. In question 9, the government asked for views on the proposed requirements for the plan to invest up to 5% of assets under management in projects that support levelling up across the UK. This would be published by LGPS funds under proposals set out in the Levelling Up White Paper (LUWP) (https://www.gov.uk/government/publications/levelling-up-the-united-kingdom).

89. We proposed that the plan should take account of the fund's investment and funding strategy statements and be reviewed at least every three years in line with the local valuation cycle. We also proposed that the plan should include:

- the fund's current level of investment in levelling up investments
- a plan to increase levelling up investments to deliver an allocation of up to 5% of AUM including the timeline to delivery
- the fund's approach to working with their pool to reach their chosen allocation

Summary of responses

90. There were 138 responses to this question, of which 53% were opposed and 25% were in favour. Many responses were on the principle of setting an expectation for funds on investing in levelling up. Many responses said that levelling up investments could form part of a diversified portfolio and that social impact was already an important consideration for funds.

91. Some argued that appropriate investments were already permissible and indeed being made but considered that any requirement to invest in levelling up could cut across funds' fiduciary duties. Some respondents were concerned that setting an expectation on investing in levelling up could result in lower quality investment or investment at higher prices unless the supply of investable opportunities could be increased to meet the demand.

92. Most responses on the proposed requirements for the plan preferred the suggestion that the Levelling Up plan could be part of the Investment Strategy Statement (ISS) rather than a standalone document. Some responses questioned whether funds could adopt a target either lower or higher than 5% in their plans.

93. Many pointed out that levelling up assets can come from a number of different asset classes including property, infrastructure, private equity and private credit. They said that such assets should be considered for investment on the same criteria as other assets within the same class. Some respondents

said that levelling up assets did not share similar characteristics in the same way as an asset class and could not form part of an investment strategy as a result.

Our response

94. We will revise guidance on investment strategy statements to require funds to have a plan to invest up to 5% in levelling up projects. These investments are generally expected to provide good returns but may include investments with lower returns made under existing guidance on non-financial factors in investment. The government considers that public markets investments in providers such as housebuilders, construction, utilities companies would generally not eligible.

95. The 5% is not intended to be a maximum, and funds may invest more than 5% if they consider it appropriate within a diversified strategy. They may invest less than 5% if they do not consider there are sufficient opportunities for good returns. The purpose of the expectation is to act as a guide and encourage funds to consider for themselves what an appropriate allocation would be.

96. We have considered the concerns raised on fiduciary duty, but the government's view is that the requirement to set a plan to invest in levelling up does not mandate investment and does not cut across fiduciary duty. We agree with respondents that levelling up is not an asset class, and different types of investment could support the goals of levelling up. Funds should consider the suitability of levelling up assets in the same way they consider other assets of the relevant asset class.

Reporting requirements on levelling up investments

97. In question 10, the government asked for views on the proposed reporting requirements on levelling up investments. These were to require funds to report annually on their progress against their plan in their annual report, to provide transparency and accountability on investments made by funds. The section of the annual report on levelling up would be expected to include:

- the percentage of AUM invested in levelling up projects compared to the fund's plan for that year, the percentage in the previous year, and the ambition set by the fund
- the amount and type of levelling up investments that have been made through the fund's LGPS pool, and outside the pool

- a narrative account explaining the changes in AUM allocated and the progress against the fund's plan, and the rationale for investing through the pool or outside the pool.

Summary of responses

98. There were 134 responses to this question, of which 42% were opposed and 37% were in favour. Some said that improved transparency was beneficial for members and employers and could help funds to make sure that their investments were delivering levelling up in line with objectives. Some suggested that funds should adopt best practice via the Place Based Impact Reporting Framework (https://www.impactinvest.org.uk/learning-hub/place-based-impact-investing/a-pbii-reporting-framework/).

99. Many respondents were concerned about the burden of additional reporting requirements and suggested that these reporting requirements could be phased in over a longer, potentially a 3-year period. Some argued that it would be difficult for external fund managers to know the exact proportion of assets in their fund which fulfilled the criteria. Respondents pointed out that there would be costs associated with the proposal including procurement and training.

Our response

100. We will revise guidance on annual reports to include guidance on reporting progress against the fund's plan. Given the concerns raised on the additional burden and the need for clarity to assist data collection, we will expect data to be reported on a best endeavours basis and will work closely with the SAB and practitioners to design a reporting template.

Chapter 4: Investment opportunities in private equity

101. In question 11, we asked for views on whether funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio. We also asked whether there are barriers to investment in growth equity and venture capital for the LGPS which could be removed. The government proposed that LGPS funds and pools should double their current allocation into private equity, with a total ambition of 10% investment allocation, as part of a diversified but ambitious portfolio. This

ambition would help drive investment, in a way that allows everyone in the UK to benefit from growth, by boosting LGPS investment returns, incentivising companies to grow and list in the UK, and grasping productive opportunities of the future.

102. We proposed that LGPS funds should consider such private equity opportunities, including growth equity and venture capital, as part of the regular review of their investment strategy statement. The new ambition would be set out in revised guidance on investment strategy statements.

Summary of responses

103. There were 144 responses to this question and 84% were opposed to the proposal including many who thought that the government was proposing to mandate investment in private equity. The most cited reason for opposing the proposal was a perceived conflict with funds' fiduciary duties. Numerous respondents said that a government ambition of 10% investment in private equity, even if not mandatory, was inappropriate and that local funds should be free to make their own choices locally, after considering their individual circumstances and risk appetites. Several respondents also expressed concern about private equity as a higher risk asset class, and about impacts on investment costs and liquidity.

104. The definition of private equity was a concern to some respondents. Some respondents assumed that the ambition would only include UK private equity. Some considered that a broader set of private markets investments should be included in order to support UK growth more effectively, and in particular that private debt also provided good returns to funds while providing companies the valuable capital they need to scale up.

105. Most respondents did not identify particular barriers which were preventing investment in private equity in addition to high cost or risk. Some said that suitable investments in private equity were not available, or that there was insufficient scale or pipeline of opportunities in the UK market to attract greater investment. Others pointed out that as funding levels have recently improved at the 2022 actuarial valuation, some funds would be more inclined to de-risk their asset allocations.

106. Many responses indicated that private equity was an important asset class for their fund, and that a significant amount of private market investment was made through asset pools. Some reported that these investments were made as parts of diversified portfolios and that they supported local projects which could be categorised as levelling up.

Our response

107. The government is committed to unlocking capital to support growth businesses whilst improving returns for pension funds. This forms part of a wider package of measures to reform the pensions landscape which aims to improve outcomes for pension savers, strengthen the diversification of pension fund investments and increase the finance available for the high-growth companies in all parts of the UK.

108. The LGPS is largely well funded and has a very long-term time horizon, unlike most private sector defined benefit funds, which are typically closed and much more mature. The government believes the LGPS is therefore well placed to benefit from these more illiquid but potentially higher-return investments, with a view to improving the financial stability of local councils over the long term.

109. The government wishes to ensure that LGPS investments reflect an appropriate long-term balance of risk and return for a large open scheme with members mainly employed by tax-backed employers. A prudent adjustment in risk appetite on a proportion of investments is necessary in order to secure higher returns as well as contributing to UK growth. Investment in the UK is particularly welcome but it is not proposed to restrict this ambition to investments in private equity in the UK.

110. The government has carefully considered the responses to the consultation. However, setting an ambition to invest 10% in private equity would not mandate investment. Administering authorities would be under the same requirement as currently to act in the interests of members under their fiduciary duty. Investments in private equity should only be made as part of an appropriate and diversified investment strategy which aims to provide good returns in the interests of scheme members, employers and local taxpayers.

111. The government will therefore set a new ambition for funds to invest 10% of assets in private equity in revised guidance on investment strategy statements. This will help improve access to finance for high-growth companies all across the UK, including areas where businesses face particular challenges accessing the capital they need to grow. LGPS investment into innovative local companies stands to increase potential returns while boosting growth and jobs in local areas.

112. Whilst the 10% ambition relates to private equity allocations, the government recognises the broader opportunities in private markets including, for example, private debt which may also provide good returns for funds whilst contributing capital for companies seeking to grow. It is for LGPS funds to decide what other investments outside of this ambition are appropriate for them in line with their risk management and fiduciary responsibilities.

British Business Bank

113. In question 12, the government sought views on whether the LGPS should be supported to collaborate with the British Business Bank (BBB). The BBB is a government-owned economic development bank that makes finance markets for smaller businesses work more effectively, allowing those businesses to prosper, grow and build UK economic activity.

Summary of responses

114. There were 128 responses to this question, and just over half (57%) supported the proposal. The British Business Bank was widely recognised as an effective organisation with a good investing track record in the UK, though some felt its track record was too short. Many said that they would only consider working with the BBB if it could offer suitable investment products. Some respondents pointed out that the BBB's offer was likely to be more suited to pools than administering authorities. Some respondents asked why the government's focus in the consultation was on the BBB and not other organisations.

Our response

115. To support LGPS in delivering against the 10% ambition, we will encourage LGPS pools to develop and strengthen partnerships with the BBB to explore opportunities in venture capital and growth equity. As the Chancellor announced at Mansion House this year, the BBB is in the process of engaging industry to test the case for a government-led investment vehicle to support pension fund investment into high-growth companies by providing access to the BBB's pipeline of investment opportunities.

Chapter 5: Improving the provision of investment consultancy services to the LGPS

116. In question 13, the government sought views about proposed amendments to regulations and guidance to require LGPS funds to set and review strategic objectives for any investment consultants which they use. This would bring requirements on LGPS funds under LGPS regulations and guidance into line

with requirements under an order made by the Competition and Markets Authority (CMA) in 2019 which already apply to the LGPS.

Summary of responses

117. There were 118 responses to this question, of which 94% were in favour of the proposal and 4% were opposed. Respondents commented positively that the proposals would be a prudent and valuable addition to LGPS regulations, promote transparency, accountability, and effective engagement with investment consultants. A number of respondents also noted that transferring the requirement from the CMA Order to the LGPS regulations would ensure a more consistent approach to investment consultancy services across the LGPS.

118. A number of responses noted that pool companies owned by LGPS funds are treated as in-house providers and are exempt from the CMA order, which excludes in house or wholly owned providers of investment consultancy or fiduciary management. Respondents questioned whether these pool companies should remain exempt in LGPS regulations and guidance. A few respondents requested clarity on whether investment advisers that are not part of FCA authorised entities or who are independent would be covered. Respondents also requested further guidance on the scope of the services that independent investment advisors may advise on.

Our response

119. We will bring forward amendments to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and associated guidance to implement requirements on LGPS funds that use investment consultants. With regard to the application of the requirements to pool companies owned by LGPS funds, we that it would be good practice to set objectives for all investment consultancy providers including pools, and will set this out in revised guidance. The guidance will also make clear that all providers of investment consultancy services are covered including independent advisers and that such services include advice on investments, investment strategy statements, strategic asset allocation and manager selection.

Chapter 6: Updating the LGPS definition of investments

120. In question 14, we asked for views on a proposed technical change to the definition of investments within regulation 3(1)(b) and 3(4) of the 2016 regulations. This would correct an inconsistency in the definition of investment that the Joint Committee on Statutory Instruments identified in the 2016 regulations.

121. We proposed to add the word ‘partnership’ to regulation 3(1)b as follows:

- Reg 3(1)(b) a contribution to a limited partnership in an unquoted securities investment partnership.

122. The proposed amendment to regulation 3(1)b would ensure consistency with the language used in regulation 3(4), where unquoted securities investment partnerships are defined. The proposed amendment should also eliminate any ambiguity in regard to regulation 3(1)b.

Summary of responses

123. There were 83 responses to this question of which, 89% agreed that the technical change would help clear up ambiguity in the regulations. A number of respondents considered that such investment vehicles were too high-risk and inappropriate for the LGPS.

Our response

124. We will bring forward amendments to the regulations to make a technical change to the definition of investments within regulation 3(1)(b) and regulation 3(4) of the 2016 regulations. The proposed amendment provides consistency and clarity and fulfils a commitment the department has made to update the definition of investment as set out above at the earliest opportunity.

Chapter 7: Public sector equality duty

125. In question 15, the government asked for views on impact on any particular groups with protected characteristics, in order to help us ensure that the impact of any changes on groups with protected characteristics is properly considered, with proper regard to our obligations under the public sector equality duty.

Summary of responses

126. Of the 152 responses, 7% suggested a particular group with a protected characteristic would be affected. Several responses indicated that there were groups who could benefit from the proposals on levelling up, including older people via social housing investment, and people in deprived areas.

127. Some responses pointed out that the LGPS provides vital income to millions of people including high proportions a disproportionately high number of females, part-time workers, ethnic minorities and low-income workers. They argued it is therefore vital that the LGPS is well run for the protection of member benefits and expressed concern that future benefits could be affected if investment returns were lower as a result of changes to investments via the cost-control mechanism.

128. A number of respondents asked why the government had not prepared an Equality Impact Assessment alongside the consultation.

Our response

129. Most of the responses which expressed concern suggested that member benefits could be at risk as a result of the proposals. This is not the case as member benefits are guaranteed in statute and are unaffected by the performance of any LGPS fund.

130. Some referred to the cost-control mechanism, which is the process designed to ensure a fair balance of risk between scheme members and employers which can result in changes to the benefits members accrue. The cost-control mechanism does not depend on either historic or future investment returns, so scheme members should be reassured that the proposals in this consultation will not affect their pension benefits.

131. We believe that the reforms set out above will not affect any particular groups with protected characteristics adversely, as there will be no change to member contributions or benefits as a result. There may be an indirect benefit to protected groups who live in deprived areas which benefit from levelling up investments. The changes relate to the investment of assets by local government pension scheme administering authorities. These authorities are all public sector organisations, so no impact assessment is required.

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Appendix 3: Summary of 2023 McCloud consultation

- **Aggregation** – DLUHC now proposes that service does not need to be aggregated for a member to qualify for McCloud, but, where a member who qualifies for underpin protection leaves and re-joins the LGPS or holds concurrent posts and LGPS membership ends in one post, that it is required in order for underpin figures to be recalculated when they next have an underpin

- **Club transfers** – DLUHC is now proposing that members will not need to have transferred their previous service in another public service pension scheme into the LGPS to qualify for underpin protection in the LGPS. Instead, if an LGPS member had membership of another public service pension scheme on or before 31 March 2012 and did not have a disqualifying gap, they would have underpin protection on their LGPS service in the underpin period (even if the previous service was not transferred to the LGPS)

- **Flexible retirement** – DLUHC proposes that a protected member will have a second underpin date if they took flexible retirement between 1 April 2014 and 31 March 2022 and continued to build up pension in the underpin period after their flexible retirement and before they reached their final salary normal pension age. The proposed treatment of partial flexible retirement is also set out. The approach may lead to multiple underpin and final underpin dates and will be complex to administer but DLUHC intends that the approach will deliver consistent protection

- **Divorce** – actuarial guidance will be updated to reflect the McCloud remedy and there will be minor changes to how pension debits are reflected in underpin calculations

- **Injury allowances** – DLUHC does not believe that any special provisions are required in relation to this group

- **Excess teacher service** - excess teacher service is pensionable in the LGPS, and members will be retrospectively admitted to the LGPS for the period they were in the TPS reformed scheme during the remedy period

- **Compensation** - draft regulations include provisions regarding payment of and applications for compensation

- **Interest** – draft regulations set out the interest applicable and the period applicable for various types of payment (e.g. retrospective pension/lump sum addition, direct/indirect compensation for financial loss/Part 4 tax loss)

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Department for Levelling Up, Housing & Communities

Local Government Pensions SAB England and Wales

The McCloud judgment and your LGPS pension

This factsheet summarises the McCloud judgment and changes the Government is making to the Local Government Pension Scheme (LGPS) in England and Wales.

At a glance

The changes may affect you if:

- you were paying into the LGPS or another public service pension scheme before 1 April 2012
- you were also paying into the LGPS between 1 April 2014 and 31 March 2022
- you have been a member of a public service pension scheme without a continuous break of more than 5 years

Department for Levelling Up, Housing & Communities

Local Government Pensions SAB England and Wales

What is the McCloud judgment?

When the Government reformed public service pension schemes in 2014 and 2015, transitional protections were introduced for older members. In December 2018, the Court of Appeal ruled that younger members of the judicial and firefighters' pension schemes had been unlawfully discriminated against because the protections did not apply to them.[1]

This ruling is called the McCloud judgment, after a member of the Judicial Pension Scheme involved in the case. Because of the ruling, there will be changes to all public service pension schemes that provided transitional protection, including the LGPS.

The changes are called the McCloud remedy and are intended to remove the age discrimination found in the McCloud court case.

The changes are called the McCloud remedy and are intended to remove the age discrimination found in the McCloud court case

1 Lord Chancellor and another v McCloud and others
Secretary of State for the Home Department and others v Sargeant and others
[2018] EWCA Civ 2844

How is the LGPS changing?

In 2014, the LGPS changed from a final salary scheme (a pension based on your pay when you leave) to a career average scheme (a pension which builds up based on what you earn each year).

Older members who were closer to retirement were protected from the changes. This means when a protected member takes their pension, the benefits payable under the career average scheme are compared with the benefits that would have been built up, had the final salary scheme continued and they receive the higher amount. This protection is called the underpin.

To remove the McCloud age discrimination, qualifying younger members will now receive the underpin protection too. This change will come into force on 1 October 2023. Underpin protection only applies to pension built up in the remedy period, between 1 April 2014 and 31 March 2022. The underpin will have stopped earlier if you left the scheme or reached your final salary normal retirement age (usually 65) before 31 March 2022.

From 1 April 2022, there is no underpin protection. Pension built up after this date is based on the career average scheme only.

The LGPS McCloud remedy will come into force on 1 October 2023

01

1 October 2023

Am I affected?

You may qualify for underpin protection if you were a member of the LGPS before 1 April 2012 and at any time between 1 April 2014 and 31 March 2022, as long as you did not have a disqualifying break. A disqualifying break is a continuous period of more than five years when you were not a member of a public service pension scheme.

If you have had more than one period of LGPS membership, the Government is considering if those periods have to be joined up or 'aggregated' to determine whether you qualify for underpin protection. The Government will seek views on this in 2023, ahead of announcing a final decision.

You may also qualify for protection if you were a member of another public service pension scheme before 1 April 2012 and you transferred that membership to the LGPS. The Government is considering whether you should also qualify for underpin protection if you have not transferred that membership to the LGPS. The Government will seek views on this in 2023, ahead of announcing a final decision. You can use the tool on the next page to see if the changes could affect you.

You may qualify for underpin protection if you were a member of the LGPS before 1 April 2012 and at any time between 1 April 2014 and 31 March 2022

Were you paying into the LGPS before 1 April 2012?

YES

NO

You are not affected

Were you paying into the LGPS in the remedy period (1 April 2014 to 31 March 2022)?

YES

NO

You are not affected

Were you under 65 during some or all of the remedy period?

YES

NO

You are not affected

Have you had a disqualifying break?*

YES

NO

You are not affected

Have you retired or are you planning to retire before October 2023?

Yes – After **1 October 2023**, your pension fund will work out whether the pension you built up in the remedy period would have been higher in the final salary scheme. If so, you'll receive an addition to your existing pension.

No – When you take your pension, your pension fund will check whether the pension you built up in the remedy period would have been higher in the final salary scheme. If it would have been, you'll receive an addition to your pension.

*If you have changed jobs, underpin protection could apply to you. This will depend on your circumstances and the rules of aggregation which are being considered by the Government.

Department for Levelling Up, Housing & Communities

Local Government Pensions SAB England and Wales

What do I need to do?

You do not need to do anything. If you qualify for underpin protection, your pension fund will work out if an addition is due to be paid to you when you take your pension. If you have already retired, your pension fund will work out if you are due an addition to your existing pension. They will do this as soon as they can after 1 October 2023.

Will my pension increase?

This depends on the pension that you have built up when you take your pension. You don't need to do anything – your pension fund will work out whether you are due any additional pension.

Many members won't see an increase because the pension they build up in the career average scheme will be higher than what they would have built up in the final salary scheme.

Your pension fund will work out if an addition is due to be paid to you when you take your pension

Do the changes affect me if I qualified for original underpin protection?

If you already qualified for protection under the original rules for protection, your pension fund will work out if you are due an addition to your existing pension. They will do this as soon as they can after 1 October 2023.

How can I find out more?

This factsheet doesn't cover all circumstances or provide a detailed explanation of the McCloud remedy, which will be set out in legislation. For more information on how the McCloud remedy may affect you, contact your pension fund. Contact details for all LGPS funds are available here: **www.lgpsmember.org/contact-your-fund**

For further information on how the McCloud remedy may affect you, please contact your pension fund

Key dates

1 April 2012

Members in the LGPS before this date may be in scope of protection

1 April 2014

The LGPS changes from a final salary scheme to a career average scheme

1 October 2023

The LGPS McCloud remedy regulations become law. Qualifying members' pensions will be reviewed from this date onwards

2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024 2025

1 April 2014 to 31 March 2022

The remedy period, during which underpin protection may apply for qualifying members

1 April 2022

The underpin protection ends, and all LGPS members build up their pension on a career average basis without underpin protection

31 August 2025

Annual benefit statements issued by this date will include information about underpin protection for all qualifying members

Local Pension Board

7 December 2023

Pension Administration Report

Report of Paul Darby, Corporate Director of Resources

Purpose of the Report

1 This report briefs the Board on the Fund's pension administration and service provision to members, as well as providing an update on key performance information.

Executive summary

2 Pension administration services have been provided to members uninterrupted since lockdown and the extension of working from home. Communication with members has continued through the provision of the Fund's Telephone and Online Services. To date, 20,466 scheme members have registered for the Fund's online portal.

3 In the second quarter of 2023/24, 271 retirement cases were processed with 99.26% of those retirees receiving a statement within 10 days of the team receiving the necessary information. This report seeks to provide the Board an overview of pension administration performance.

Recommendation(s)

4 The Board is asked to note the report.

Background

5 This report provides an update to the Board on pensions administration performance, its key communications with members, and any issues impacting the service provided to scheme members.

Key Performance Indicators (KPIs)

6 Included in Appendix 1 are a number of Performance Indicators, with the aim of making the Board aware of administration performance in key areas. Reporting is included for the first two quarters of 2023/24, ie. up to 30 September 2023. The data covers services to members in respect of retirement, deferment (leaving scheme before pension payable), Helpline support, and Online services.

7 Additionally, as the Fund develops enhancements to its KPI reporting to the Local Pension Board, data is now included for both Transfers and Estimates. These KPIs reflect how quickly a scheme member receives details of their cash-equivalent transfer value and projection of estimated retirement benefits respectively.

8 In the second quarter of 2023/24, the administration team processed 271 retirement cases. Measured in line with the Disclosure requirement of providing scheme members a statement containing retirement information within one months of retirement, the Fund met this target in 81.55% of the 271 cases. The majority of failures were as a result of late information from Fund employers. In respect of performance within the administration team's control, the Fund provided a statement containing retirement benefit information within 10 days of receiving all required information in 99.26% of cases in the quarter.

9 In respect of deferment cases, in line with Disclosure requirements the Fund provided 505 early leavers information as to their rights and options available. Of the 505 deferment cases, 94.26% of these cases were within one month of the Fund being notified of an early leaver.

10 The Fund received 26 requests for transfer-out information during quarter two. Of these requests, 100% of scheme members were provided information as to the transfer rights and options available to them within one month. Therefore, the administration team provided a quotation of the cash-equivalent transfer value to which a member is entitled in respect of 100% requests within three months.

11 In respect of Estimates, the Fund received 4,222 requests for a statement of estimate pension entitlement in the quarter. It should be noted that the vast majority of these requests are transacted through

the Fund's online Portal. Of 4,213 requests in the quarter, 100% were provided within two months of the initial request.

12 During the second quarter, the pension administration team received 3,686 telephone calls to the Fund's Helpline. Of these calls, the team answered 99.50% of scheme members' calls first time. In respect of Online services for members, 20,466 members have registered for the Fund's Pensions Online portal, where 38,821 online calculations have been completed, 17,644 changes have been transacted and 3,161 secure messages have been sent.

13 There are no material breaches of law to report to the Local Pension Board, but a full summary of breach monitoring and minor breaches will be presented to the Board in March.

Scheme Employer Communications

14 The Fund held its Annual Meeting on 9 November 2023. The Annual Meeting provides an opportunity for the Fund to pass on relevant information and to enable participating employers to ask or raise any issues about the Fund. The Annual Meeting is designed to enhance the stewardship and reporting of the Fund's activities.

15 Recognising the key role played by the Fund's participating employers in delivering services to members, the Fund has previously commissioned training tailored for those employers. Three sessions were held in January 2023, covering:

(a) Understanding how the LGPS works

(b) Importance of Data – impact on members and employers

(c) Pensions terminology and historic issues

16 It is pleasing to note that 67 different representatives from the Fund's participating employers attended one or more of the sessions.

17 Ahead of the implementation of the 2022 Valuation, effective from 1 April 2023, all participating employers were provided with their indicative contribution rate for the following 3 years. The rates were ultimately certified by the Fund Actuary ahead of the deadline of 31 March 2023, and the Valuation Report was published on the Fund's area of the council's website www.durham.gov.uk/lgps. As required, the Report was shared with the Scheme Advisory Board and DLUHC.

18 All employers were notified of the publication of the Valuation Report. At the same time, the Fund took the opportunity to provide an annual update to its participating employers, covering:

(a) Changes to pensions tax, as reported in previous Regulatory Updates to the Local Pension Board

(b) Revision to Employee Contribution Bands

(c) Updated Payroll and HR Guides to the LGPS

(d) Auto Enrolment Bands for 2023/24

(e) Approach to Annual Benefit Statement Communications

19 On 10 August 2023 the Scheme Advisory Board published a detailed report that pulls together data from all of the 2022 local fund valuation reports. This 2022 Scheme Valuation Report aims to provide a rich source of information about a range of vital issues for scheme members, employers and other stakeholders. A copy of both the scheme-wide report, and the Fund's 2022 Valuation Report was previously shared with the Board.

20 Officers are in the process of upgrading the Fund's online Employer Hub. It is anticipated that this will improve the service provided to participating employers and offer the same level of enhancement as the Fund's scheme member portal. By offering more efficient interactions between Fund and Employers, service levels to scheme members should also be enhanced.

21 Working in collaboration with the Fund's software supplier on its development, development of the Hub represents significant step forward as the Fund seeks to further digitise its processes and interactions with its employers. The new web-based portal will facilitate more streamlined and efficient workflows and reduce manual tasks with the aim of improving productivity. The Hub seeks to enhance the experience of employer participation in the Fund and provide easier access to important information and services.

22 Fund Officers have carried out extensive testing on the new Hub, undertaking testing on hundreds of individual test cases executed over several weeks. The Team evaluated all features and functionality of the module, from user interface elements to back-end processes, ensuring they met or exceeded the established practices. This rigorous testing phase served to identify and rectify potential issues, ensuring a seamless and efficient user experience upon launch.

23 It is intended to roll out the new Hub to selected scheme employers in the early part of 2024 giving them a 3 month window to provide feedback. Following on from this live testing, all feedback will be reviewed and the Fund's Systems Team will implement any

improvements identified by the test group. The final product will then be rolled out to all employers and training/assistance provided by the Systems Team.

Scheme Member Annual Communications

24 All Annual Benefit Statements for both Active and Deferred members of the Scheme were made available ahead of the statutory deadline of 31 August 2023. Unless a member has opted out of the service, the Statements were be made available through the Fund's Pensions Online portal. A paper copy was provided to the small number of members who have opt-ed out. A copy of the was previously shared with the Board.

25 In April 2023 the Fund wrote to all of its c21,000 pensioners to notify those members of the annual increase. The letters were made available through the Fund's Pensions Online portal, and like Annual Benefit Statements, paper copies were posted to those who have opt-ed out of the online service. In addition to the rate of increase, important information for LGPS pensioners and topical relevant information was included.

Prudential

26 Members of the LGPS are able to increase their benefits through an Additional Voluntary Contribution (AVC) facility. As such, each Administering Authority is required to have arrangements with an AVC provider (often an insurance company or building society). Durham County Council Pension Fund offers its members two providers: Prudential and Standard Life.

27 As reported to the Board previously, one of those providers, Prudential, introduced a new ICT system across its business during 2020-21. The implementation resulted in delays for members who have invested through Prudential. In particular, claims for cash at retirement and the processing of contributions were delayed. Board Members were previously provided with a copy of communications received from Prudential.

28 The Fund remains cautiously optimistic of improvement in the service received. Occasional issues remain with scheme members reporting an increase in waiting times to their calls to Prudential. Performance overall has improved with scheme members' contributions being allocated more quickly and remaining up to date. Disinvestment timescales have also improved and are currently within the 30-day

SLA. AVC members were provided with benefit statements from Pru within the statutory timescales for 2022-23.

29 Both the Pensions Regulator (nationally) and External Auditor (locally) were made aware of the wider issues. Prudential have written to the Local Government Association (LGA) with an update on the national position – a copy of which was previously shared with the Local Pension Board.

30 Prudential have reintroduced their 'LG AVC Forum', on which the Fund is represented. The forum is led by Prudential's Head of Corporate Pensions. As part of their drive to improve their service, it is proposed that these sessions are held every 6 months. Prudential are also working closing with LGA and the LGPS Technical Group, and are keen to improve engagement with both LGPS Funds and LGPS employers and hope that by investing time in these areas it will improve customer experience and expectation.

31 These updates provide Officers with an insight into the changes implemented by Prudential in order to rectify the poor service experienced by many Funds, but also outlined the future changes planned for implementation, aimed at further service improvement.

32 Overall, Prudential are currently working within their expected service SLAs and their phone call abandonment rates are within industry standards. Going forward management information will be available to all Funds so that performance can be monitored at an individual fund level. This will be shared with the Board when available.

33 Prudential have recognised the challenges faced by many Funds regards receipt of AVC scheme revision information, which is required for inclusion in the Annual Report and Accounts. Whilst Prudential sent fully audited information to in September 2023 (within their statutory deadline) they conducted an exercise during May which provided an unaudited figure to the Fund for use in the Annual Report and Accounts.

34 Officers will continue to monitor service levels and will feedback to the Board.

McCloud

35 After reforming public service pension schemes in 2014 and 2015, the Government introduced transitional protections for older members. However, in December 2018, the Court of Appeal ruled that younger members of the judicial and firefighters' pension schemes had been unlawfully discriminated against because the protections did not apply to them. This ruling is called the 'McCloud

judgment'. As a result of the ruling, changes have been made to the LGPS to remove the age discrimination. These changes are known as the 'McCloud remedy', on which the Board has been briefed previously and whose main provisions are set out elsewhere on the agenda.

36 The Fund has been collecting and inputting missing service data for the period from 1 April 2014 from all scheme employers, with data received from the largest employers and the majority of smaller employers.

37 The Fund's software provider is developing a rectification solution which will enable both calculations going forward and the re-visiting of historic calculations to apply the 'McCloud Remedy', with testing across scheme administrators currently ongoing.

Dashboard

38 The Board have previously been briefed on the upcoming Pensions Dashboard initiative. The Fund is committed to contributing to the success of the project, recognising its role in facilitating better retirement planning for individuals. A key aspect of the Fund's preparation is data cleansing and ongoing management of data quality.

39 As part of its commitment, the Fund is therefore considering data cleansing options. Recognising that the efficiency of the Pension Dashboard Project relies on the quality of data across the industry, the Fund will seek to eliminate any inconsistencies or errors within the existing dataset.

GMP Rectification Project (Guaranteed Minimum Pension)

40 The Board has previously considered the Fund's approach to the rectification stage of the national GMP reconciliation/rectification project. This was a HMRC project in which all contracted-out pension schemes were obliged to participate. The reconciliation stage of the project identified individuals who had a liability with the Pension Fund. The rectification stage of the project compared the GMP value held by the Fund, against the GMP value held by HMRC. Where there was a variance in the amounts, the Fund was required to implement the GMP value from HMRC.

41 Any amount of GMP accrued before 1988 is not due to an increase from the Pension Fund, as this increase is paid with the individual's State Pension. Similarly, any GMP accrued after 1988 is only allowed the first 3% of any increase paid by the Fund, again any excess is paid with the State Pension.

42 The way in which the GMP element is increased means that adjusting the amount of GMP held by the Fund resulted in the total pension amount being over or underpaid. The Fund took the approach to rectify all pensions amounts to the correct rate, pay any arrears to those who had been underpaid but write-off any overpayments.

43 This rectification work was brought to a conclusion in October 2023, with the Fund communicating with affected pensioners ahead of October pensions payroll. As previously highlighted to the Board and Committee in March 2023, individual overpayments would be exacerbated by the April 2023 pensions increase of 10.10%. However, around 550 pensions in payment were adjusted and despite this higher than usual rate of inflationary increase, 83% of pensions changed by no more than £10 per month.

44 The total amount of arrears paid to underpaid pensioners was c£41k whilst the total amount of overpayments written-off by the Fund was c£171k. Both the value of arrears and value of write offs compare favourably with initial modelling. The number of pensions in payment requiring rectification were lower than initially anticipated at the beginning of the project, and less than amounts experienced by similarly sized LGPS Funds who have completed their rectification. This is at least in part, due to accurate historic record keeping.

45 The Pensions Team have received a very low volume of telephone queries from impacted pensioners, and a single letter of complaint.

Author(s)

Paul Cooper Tel: 03000 269798

Appendix 1: Performance Indicators

Performance to 30 September 2023

Category	Performance Indicator	Cases in Quarter	Performance in Quarter	Total Cases in 2023-24	Performance in 2023-24	Performance in 2022-2023	Performance in 2021-2022
Retirements – Disclosure	Within two months of retirement provide a statement containing retirement benefit information.	271	81.55%	495	81.86%	82.61%	86.65%
Retirements – in Fund's control	Within 10 days of receiving all required information provide a statement containing retirement benefit information.	271	99.26%	495	98.77%	98.47%	98.99%

Deferments - Disclosure	Within one month of being notified of a leaver, provide that member information as to the rights and options available.	505	94.26%	821	94.31%	95.91%	86.70%
Transfers Out – Disclosure	Within one month of a request, provide that member information as to the transfer rights and options available.	26	100%	57	100%	99.22%	-
Transfers Out – Quotation	Within three months of a request, provide a quotation of the cash equivalent transfer value to which a member is entitled.	26	100%	57	100%	99.22%	-
Estimates	Within two months of a request, provide a statement of estimated	4,222	100%	7,471	100%	100%	-

	pension entitlement online or in writing.						
Telephone Helpline	Calls from Scheme Members answered first time	3,686	99.50%	7,422	99.50%	99.4%	98.47%

Category	Performance Indicator	Total Registrations to date	Total Online Calculations Completed by Scheme Members	Total Changes Transacted Online by Scheme Members	Secure messages sent by Scheme Members Online
Online Portal	Total Registrations, and Activity through Pensions Online portal (https://pensionsonline.durham.gov.uk/)	20,466	38,821	17,644	3,161