



FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

WEDNESDAY, 2 MARCH 2022

Report of the Interim Director of Finance and ICT

Derbyshire Pension Fund Service Plan

1. Purpose

- 1.1 To seek approval for Derbyshire Pension Fund's Service Plan for 2022-23, including the annual budget for the year of £35.200m.

2. Information and Analysis

- 2.1 The Service Plan, attached as Appendix 2 sets out:

- The objectives of Derbyshire Pension Fund (the Fund)
- Details of the Pension Fund Team
- Key services of the Fund
- Key achievements in 2021-22
- Review of 2021-22 performance indicators
- Forward plan of Pension Fund procurements to 31 March 2024
- The Fund's medium-term priorities
- The 2022-23 budget required to deliver the Fund's services
- 2022-23 key performance indicators

- 2.2 A forecast budget has been presented to Committee for the last two years to improve transparency and to provide assurance regarding the business planning process and the use of the Fund's resources.

The forecast budget requirement for 2021-22 was £33.796m, made up of operational costs of £5.425m and investment management expenses (IMEs) of £28.371m. The current expected outturn for 2021-22 is

£35.062m, made up of operational costs of £5.324m and IMEs of £29.738m.

The forecast overspend of £1.266m largely reflects a £1.441m higher than forecast increase in IMEs (ex-property expenses) which was driven by an additional £2.544m of costs associated with higher assets under management, partially offset by a reduction of £1.102m in costs due to a lower total expense ratio i.e. lower investment management fees as a proportion of AUM.

The reduction in the total expense ratio reflects an increased use of passive management and differences in the asset allocation mix. The higher than forecast IMEs (ex-property expenses) are partly offset by the expectation that property expenses will be £0.073m lower than forecast and that operational costs will be £0.101m lower than forecast.

- 2.3 IMEs are largely ad-valorem in nature (i.e. they relate to the value of assets under management). The forecast IME costs for 2021-22 were based on the assets under management at 31 January 2021 (£5.6bn) and on assumptions at the time the budget was prepared in respect of the future asset class mix. The actual level of assets has been, on average, around £500m higher throughout the year, and there have been small differences in the asset class mix against the original assumptions.

The report presented to Committee on the Fund's Service Plan for 2021-22, noted that the forecast 2021-22 budget would be adjusted to take into account the actual level of AUM and the actual asset class mix throughout the year at the time of the budget outturn review.

Adjusting the forecast 2021-22 budget to take into account the additional costs related to the increase in assets under management, gives a restated 2021-22 forecast of £36.314m. The forecast outturn for 2021-22 of £35.062m is 3.7% above the unadjusted budget forecast, and 3.4% below the adjusted forecast.

- 2.4 For 2022-23, a budget of £35.200m is sought to deliver the services of the Pension Fund, made up of operational costs of £5.657m and total IME costs of £29.542m. This represents a 0.4% increase on the 2021-22 forecast outturn, and a decrease of 3.1% compared to the 2021-22 adjusted budget.

The forecast IME costs are based on forecast assets under management of £6.3bn during 2022-23 and on the current assumed asset class mix for the year ahead. When the expected budget outturn

is reviewed next year, the forecast budget for 2022-23 will be adjusted to take into account the actual level of AUM and the actual asset class mix throughout the year.

Further details on 2021-22 budget outturns by category of expenditure and on the requested budgets by category for 2022-23, are set out in the attached Service Plan.

3. Implications

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

4. Background Papers

- 4.1 Background papers are held by the Head of Pension Fund.

5. Appendices

- 5.1 Appendix 1 – Implications
5.2 Appendix 2 – Derbyshire Pension Fund Service Plan 2022-23

6 Recommendation(s)

That Committee approves the 2022-23 Service Plan for Derbyshire Pension Fund, attached as Appendix 2, including the annual budget of £35.200m

7 Reasons for Recommendation(s)

- 7.1 An annual Service Plan clearly sets out the objectives of the Pension Fund for its stakeholders, improving transparency and providing assurance regarding the direction of the Fund, the business planning process and the use of the Fund's resources.

Report Author: Dawn Kinley

Contact details: dawn.kinley@derbyshire.gov.uk

Appendix 1

Implications

Financial

1.1 As set out in Section 2 of the report.

Legal

2.1 None

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 None

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

7.1 None