

INTRODUCTION

Derbyshire County Council (DCC) is the administering authority for Derbyshire Pension Fund (the Fund/Pension Fund); one of 86 regional Local Government Pension Scheme (LGPS) administering authorities in England and Wales. There are over 330 employers in the Fund, including Derbyshire County Council, Derby City Council, all the district and borough councils in Derbyshire, Peak District National Park Authority, Derbyshire Police Authority, Derbyshire Fire Authority, Derby College, Chesterfield College, University of Derby, a host of town and parish councils and a large group of smaller employers via admission agreements. There are currently around 105,000 Derbyshire Pension Fund membership records; 38,000 membership records in respect of active contributing members who are currently employed by one of the Fund's employers, 33,000 membership records in respect of deferred members who worked for a scheme employer in the past and are entitled to receive a pension from the Fund in the future and 34,000 membership records in respect of members in receipt of pension. The membership records relate to around 90,000 individual members. Key stakeholders of the Fund include: pension fund members; employers; and local tax payers.

Pension Fund Objectives

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

Pension Fund Team

The Pension Fund Team, headed by Dawn Kinley, is part of the Finance & ICT Division of Derbyshire County Council's Corporate Services and Transformation Department, and is comprised of an Investment Team and a Pension Administration Team. Both teams contribute to the governance of the Pension Fund.

The Pension Fund establishment is made up of 66 posts equating to 61.04 full time equivalent posts. There are currently 58 members of staff in post and 8 vacancies, 7 full-time vacancies and 1 part-time vacancy.

The Investment Team actively manages a proportion of the Fund's investments assets in-house, and oversees the external management of the remaining assets; the investment assets were valued at £6.1bn at 31 January 2022. The Investment Team is currently comprised of an Investment Manager, an Assistant Fund Manager, a Pension Fund Accountant and 3 Business Services Officers.

The Pension Administration Team manages the day to day activities associated with members of the Fund and their employers and is currently comprised of 4 Team Leaders, 1 Project Lead, 45 Pensions Officers across three levels and 1 Business Services Assistant. A recruitment process is underway to fill 4 out of the 7 vacant posts in the Pension Administration Team.

Key services include:

- Managing and monitoring the Fund's governance obligations, including supporting the Local Pension Board, formulating and reviewing the Fund's statements, strategies and policies and preparing the Fund's Annual Report.
- Reporting to, and providing support to, the Pensions and Investments Committee (PIC).
- Managing the employer admissions and cessations process.
- Maintaining 105,000 membership records.
- Calculating and arranging payment of pension benefits.
- Managing the Fund's investment assets.
- Managing the transition of investment assets into investment vehicles offered by LGPS Central Ltd (LGPSC).
- Selecting, managing and monitoring the performance of the Fund's other external investment managers.
- Ensuring the security of the Fund's assets in conjunction with the external custodian.
- Managing the Pension Fund's stewardship responsibilities in conjunction with the Fund's external fund managers.
- Communicating with members and employers (e.g. supporting employing authorities with their responsibilities under LGPS regulations), including maintaining and developing the Fund's website.
- Managing and monitoring costs; seeking value for money and seeking to reduce average costs per member.

- Monitoring and managing the Fund's cash flows.
- Maintaining the Fund's accounting records, including monthly valuations and preparation of supporting control accounts and reconciliations; reconciling and accounting for employee and employer contributions received, and benefits paid out.
- Providing investment settlement services (i.e. processing cash payments and receipts) in respect of the Fund's investment portfolio.

KEY ACHIEVEMENTS IN 2021-22

Key achievements over the last 12 months include:

Governance:

- Continued implementation of hybrid working arrangements, ensuring that the critical activities of the Pension Fund continued to be delivered whilst a large part of the team worked remotely.
- Induction of six new members of PIC and seven other DCC councillors, including potential substitute members of PIC.
- Utilisation of the Pension Fund's performance dashboard to monitor the key performance indicators of the Fund.
- Formulation and Committee approval of: an updated Communications Policy; an updated Governance Policy and Compliance Statement; and an updated TCFD (Task Force on Climate-related Financial Disclosures) Report.
- Oversight by a project board of the implementation and launch of My Pension Online, a member self service system which allows members to view certain parts of their pension information, undertake a restricted number of data amendments and to carry out benefit projections on-line.
- Continued oversight by a project board of the legislative developments related to, and the Fund's preparations for, the implementation of DLUHC's remedy in respect of the McCloud and Sargeant judgements.
- Formulation and Committee approval of policies relating to new employer flexibilities (included in the Funding Strategy Statement).
- Development, and subsequent rollout to the Team, of detailed Data Management Procedures for the Pension Fund which set out: Why is it necessary to protect members' data; How the Fund protects members' data; and What to do when things go wrong.
- Recruitment of a new Employer Representative for Derbyshire Pension Board.

- Implementation of the Fund's Conflicts of Interest Policy, including the establishment of a Register of Potential and Actual Conflicts of Interest, to aid good governance, encourage transparency and minimise the risk of any matter prejudicing decision making or management of the Fund.
- Continued development of the Fund's bespoke website, including its utilisation in the launch of My Pension Online, the development of fillable pdf forms and online response forms, and ongoing improvements in accessibility of site content and functionality.
- Continuation of significant contribution to the LGPS Central Pool's governance arrangements.
- Further development of the Fund's Risk Register to show trend risk scores to provide additional context.

Investments:

- Outperformance against the Fund specific benchmark over 1, 3, 5 and 10 years.
- Provision of asset allocation advice and support to the Director of Finance & ICT and the Pensions and Investments Committee.
- Implementation of the Fund's new final Strategic Asset Allocation Benchmark (SAAB).
- Significant progress towards achieving the targets set out in the Fund's Climate Strategy with a 37% reduction in the carbon footprint of the Fund's listed equity portfolio and an invested allocation of 19% in low carbon and sustainable investments against targets of 30% for both measures by 2025.
- Active participation in the development of the LGPS Central investment offer.
- Completion of due diligence on the LGPS Central All World Equity Climate Multi Factor Fund and the LGPS Central Credit Partnership II LP and initial investment/commitment made.
- Increased allocations made to Global Sustainable Equities, with the weighting building to around 25% of the portfolio by mid-February 2022.
- Continued internal management of a proportion of the Fund's investments.

Pension Administration:

- Continued efficient adjustment to largely remote working; the commitment and flexibility of the team enabling queries to the telephone Pension Helpline and to the online Pension Inbox to be answered throughout the period of remote working.
- On boarding of at least 14 new employers (academies, admission bodies and Town/Parish Councils).

- Successful onboarding of a further 129 employers to the i-Connect system, which enables employers to automate the submission and validation of their data, increasing the proportion of the Fund's membership on the system from around 52% to 81%.
- Successful launch of My Pension Online, with the registration of over 22% of the Fund's active membership, and over 18% of the Fund's combined active and deferred membership, achieved within 8 months of launch.
- Further improvement in the Fund's common and conditional data scores which are reported to the Pensions Regulator.
- Successful utilisation of an external provider to verify the identity of overseas members using an efficient and secure verification app.
- Collaboration with Nottinghamshire Pension Fund towards achieving the efficient transfer in administering authority of seven Fund employers.
- Publication of active and deferred member newsletters in co-operation with other LGPS pension funds on the Joint Communication Working Group.
- Continued support to all employing authorities with their LGPS responsibilities via regular newsletters and bulletins.
- Continued development of the performance management regime and the performance report to the Pensions and Investments Committee and to the Pension Board.
- Continued collaboration with other LGPS funds including membership of the LGPS Central Administration Group and an LGA Communications Group, in addition to membership of the East Midlands Pension Officers Group.

REVIEW OF 2021-2022 PERFORMANCE INDICATORS

Indicators	Definition and Success Measure	Owner	2020-21 Performance
Investment Performance	Target outperformance against the Fund's Strategic Asset Allocation Benchmark over the long term – performance is measured externally on a quarterly basis and reported to the Pensions and Investments Committee on a quarterly basis.	DKK/NS	The Fund outperformed its Strategic Asset Allocation Benchmark (SAAB) over 1, 3, 5 and 10 years to 31 December 2021.
i-Connect	Achieve onboarding of employers representing 95% of the membership by 31 March 2022.	DKK/EW/SW	<p>By mid-February 2022, the Fund had successfully onboarded employers representing 81% of the membership. When employers who are currently in test go live, this number will rise to 85%.</p> <p>The appointment of a new payroll provider at two of the Fund's larger employers and resource constraints at a number of other Fund employers has delayed the implementation of i-Connect for employers representing a further 11% of the membership.</p>
Member Self Service (MSS)	Achieve registration of 15% of active members by 31 March 2022.	DKK/EW/SW	The number of active members who had registered on My Pension Online, the Fund's MSS system, by mid-February 2022 was just over 22%.
'Employer Flexibilities' Policy	Develop and obtain Committee approval for an 'Employer Flexibilities' Policy following receipt of guidance from MHCLG and the LGPS Scheme Advisory Board on the implementation of The Local	DKK/SW	Employer flexibilities policies were approved by Committee as part of an updated Funding Strategy Statement in September 2021.

	Government Pension Scheme (Amendment) Regulations 2020.		
Review the Fund's AVC provision	Review the Fund's provision of AVCs, evaluating whether it provides an efficient, effective and value for money service for members.	DKK/WS	The review of the Fund's provision of AVCs has been delayed by the well documented administration problems experienced by Prudential (part of M&G plc), the Fund's current AVC provider. The review will now take place during 2022-23.

FORWARD PLAN OF PENSION FUND PROCUREMENTS TO 31 MARCH 2024

Address Tracing	May 22
External Investment Advisor	Jul 22
Portfolio Performance Measurement	Jun 22
Pension Board Chair	Sept 22
Tax Advisory Service	Jan 23
Sustainable Global Equities Portfolio Managers	Jan 23
Strategic Investment Research	Jan 23
Actuarial Services	Jun 23
Property Valuation	Jul 23
Custodian	23/24

MEDIUM TERM PRIORITIES

Priority	Timeline	Owner
Ensure sound governance arrangements for the Fund.		
Continue to review the Fund's governance arrangements, including the Fund's statements, strategies and policies, taking into consideration the emerging expectations from The Pensions Regulator & the Scheme Advisory Board.	Ongoing	DKK
Continue to identify the training requirements of members of the Committee, members of the Pension Board and members of staff and update training plans accordingly.	Ongoing	DKK
Review the structure of the Pension Fund Team to enable it to support an agile, customer focussed operating model and to provide development opportunities which will build the skills and resilience required for the future.	2022/23	DKK
Ensure that sufficient assets are available to meet benefit payments & Enable employer contribution rates to be kept as constant as possible and at a reasonable cost to the taxpayer.		
Continue to develop and implement employer covenant analysis, carrying out another employer health check exercise before the next triennial actuarial valuation.	2022/23	DKK/SW
Support the Fund's actuary in carrying out the actuarial valuation via the appropriate consideration of assumptions and the provision of timely and accurate data.	2022-23	DKK/RJ/SW
Manage the Fund's investments with the aim of outperforming the Fund specific benchmark over the longer term.	Measured and reported on a quarterly basis – to be assessed annually	DKK/NS
Continue to deliver the Fund's new SAAB on an invested basis.	Ongoing	NS
Deliver the targets included in the Fund's Climate Strategy (to be reviewed in 2023).	End 2025	DKK/NS
Continue to develop a sustainable working relationship with LGPS	Ongoing	DKK/NS

Central Ltd and the Partner Funds within the Central Pool and ensure, where possible, that the Pool develops appropriate products to support the delivery of the Fund's investment strategy.		
Deliver a high quality service to scheme members and employers & Deliver clear, timely and relevant communications to all stakeholders.		
Continue to improve the efficiency of the pension administration service with the support of the new system and develop administration performance targets in line with best practice.	2022/23	DKK/Pension Admin Team Leaders
Complete the roll out of i-Connect the employer automated data submission and validation service to the employing authorities.	2022/23	DKK/EW/SW
Develop digital interaction and communication with members via My Pension Online.	2022/23	DKK/EW/SW
Implement the remedy in respect of the McCloud and Sargeant judgements.	Ongoing	DKK/Pension Admin Team Leaders
Enhance the Fund's employer onboarding and exit processes.	2022/23	SW/RJ
Review the Fund's AVC provision, ensuring it provides an efficient, effective, and value for money service for members.	2022/23	DKK/WS
Develop the provision of online training materials for employers.	Ongoing	SW
Seek feedback on the delivery of the Fund's services to improve the customer experience, utilising the Fund's website and via the formation of a Member Forum.	2022/23	DKK/SW
Continue the project to review letters and documentation to ensure that the information is clear for members and enables them to engage effectively with the Fund.	Ongoing	SW

RESOURCES

Investment management expenses (IMEs), including property expenses, are external investment manager costs incurred in the management of the Fund's assets, and account for the bulk of the Fund's costs, representing around 85% of total costs. IMEs are largely ad-valorem in nature (i.e. they relate to the value of the asset under management (AUM)) and are impacted by changes in the asset allocation mix of the Fund as well as the value of assets under management, making this part of the budget difficult to forecast in advance.

The remaining approximately 15% of the Fund's budget relates to operational costs including: oversight & governance costs; the direct costs of providing internal services (employee costs; system costs); and other non-IME costs (actuarial fees; custody fees; subscriptions; DCC exchequer and treasury management recharges; together with other miscellaneous expenses). Operational costs also include LGPS Central Ltd governance, operator and product development charges. Year on year changes in operational costs are largely driven by inflationary pressures and service delivery changes.

2021-22 Forecast Budget Outturn

A forecast budget has been presented to Committee for approval 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 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 AUM (assets under management were, on average, approximately £500m higher than forecast during the year) 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.

Within operational costs: the 2021-22 forecast outturn for employee costs is 5.1% lower than the 2021-22 budget due to the level of unfilled vacancies; the forecast outturn for LGPS Central Ltd is 6.2% lower than the budget due to the agreement of a lower level of mark-up during the year; and the forecast outturn for 'other' operational costs is 7.9% higher than the budget due to higher than expected net actuarial charges and higher than expected printing, packaging and posting costs.

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.

2022-23 Budget

In order to deliver the services of the Pension Fund, the forecast budget requirement for 2022-23 is £35.200m, 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.

	2021-22 Budget	2021-22 Adjusted Budget	2021-22 Forecast Outturn	2021-22 Forecast Outturn v Adj 2021- 22 Budget	2022-23 Forecast Budget	2022-23 Budget v 2021-22 Adj Budget	2022-23 Budget v 2021-22 Forecast Outturn
	£	£	£	%	£	%	%
Oversight & Governance	422,580	422,580	428,540	1.4	448,290	6.1	4.6
Employee Costs	2,464,820	2,464,820	2,339,186	(5.1)	2,549,079	3.4	9.0
Systems	502,358	502,358	512,135	1.9	555,234	10.5	8.4
LGPS Central Ltd	1,080,000	1,080,000	1,013,000	(6.2)	983,136	(9.0)	(2.9)
Other	955,351	955,351	1,030,972	7.9	1,121,681	17.4	8.8
Operational Costs	5,425,109	5,425,109	5,323,833	(1.9)	5,657,420	4.3	6.3
Investment Management Expenses (ex property expenses)	27,090,549	29,609,250	28,531,155	(3.6)	28,198,395	(4.8)	(1.2)
Property Expenses	1,280,000	1,280,000	1,207,132	(5.7)	1,344,000	5.0	11.3
Total IMEs	28,370,549	30,889,250	29,738,287	(3.7)	29,542,395	(4.4)	(0.7)
Total	33,795,658	36,314,359	35,062,120	(3.4)	35,199,815	(3.1)	0.4

Oversight & Governance: includes professional and legal fees; investment performance management; independent external advisor fees; and costs associated with the Pensions and Investments Committee and Pensions Board. A provision for possible Covid-19 related expenditure has been maintained in the 2022-23 budget for prudence.

Employee Costs: relate to the employee costs of the Pension Administration Team, the Investment Team and the Head of Pension Fund. The forecast increase in the 2022-23 budget against the 2021-22 forecast outturn reflects: the impact of

budgeting for all vacancies; changes in pay grades; and an assumed 2% inflationary increase in pay. The provision for the additional staffing resource that is likely to be required to implement the remedy for the McCloud case is maintained in the 2022-23 budget forecast.

Systems: includes the cost of the pension administration system (including add-on services) and the investment price and information systems. The underlying systems' costs for 2022-23 are assumed to be relatively in line with the 2021-22 forecast outturn. In addition, a provision has been included for system development costs related to the implementation of the McCloud remedy and for potential system related costs in respect of Pensions Dashboards.

LGPS Central Ltd: includes LGPS Central Ltd governance, operator and product development recharges. LGPSC investment management and monitoring costs (IMMC) are included in the Fund's budget under Investment Management Expenses together with forecast LGPSC external manager charges.

Governance costs are split between the Partner Funds on a 1/8th basis and operator and product development recharges are calculated on the level of Partner Fund AUM. The 2022-23 forecast is based on the Fund's expected share of LGPSC's forecast expenditure budget for the year with the following expected post profit mark-up recharges by category: governance £251,000; operator £650,000; and product development £82,000. The forecast IMMC recharge is currently £181,000 before profit mark-up. The actual level of IMMC will be driven by the products and services used by the Fund during the year.

Other Operational Costs: include actuarial fees; custody fees; subscriptions; Derbyshire County Council exchequer & treasury management recharges; together with other miscellaneous expenses. The forecast increase in the 2022-23 budget against the 2021-22 forecast outturn largely reflects the expected increase in actuarial costs related to the March 2022 triennial actuarial valuation.

IMEs: the investment management expenses (ex property) for 2022-23 have been built up on an asset class basis (i.e. asset class AUM multiplied by asset class basis point charge). Average AUM is budgeted to increase to £6.3bn in 2022-23, from £6.1bn in 2021-22, increasing budgeted costs by £0.902m. However, the impact of increased AUM is more than offset by a forecast change in the asset class mix to lower cost products (e.g passive products) which reduces forecast costs by £2.313m, resulting in a net decrease in IME (ex property) costs of £1.411m (a 4.8% decrease against the 2021-22 adjusted budget, and a 1.2% decrease against the expected outturn for 2021-22).

Property expenses largely relate to unrecoverable costs driven by voids and refurbishments. As a result, property costs are difficult to forecast; they tend to be relatively lumpy and can fluctuate significantly year on year. The 2022-23 Budget is based on the 2021-22 budget with a 5% inflationary increase.

2022-23 KEY PERFORMANCE INDICATORS

Indicators	Definition and Success Measure	Timeline	Owner
Investment Performance	Target outperformance against the Fund's Strategic Asset Allocation Benchmark over the long term – performance is measured externally on a quarterly basis and reported to the Pensions and Investments Committee on a quarterly basis.	Ongoing	DKK/NS
i-Connect	Achieve onboarding of employers representing 95% of the membership by 31 March 2023.	March 23	DKK/EW/SW
Member Self Service	Achieve registration of 30% of the combined active and deferred membership by 31 March 2023.	March 23	DKK/EW/SW
Funding Strategy Statement	Obtain Committee approval for an updated Funding Strategy Statement as part of the actuarial valuation process.	March 23	DKK/SW
Review the Fund's AVC Provision	Review the Fund's AVC provision, evaluating whether it provides an efficient, effective and value for money service for members.	March 23	DKK/WS