



FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

WEDNESDAY, 8 MARCH 2023

Report of the Interim Director - Finance and ICT

Derbyshire Pension Fund 2023-2024 Service Plan

1. Purpose

- 1.1 To seek approval for Derbyshire Pension Fund's Service Plan for 2023-24, including the annual budget for the year of £35.132m.

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 2022-23
- Review of 2022-23 performance indicators
- Forward plan of Pension Fund procurements to 31 March 2025
- The Fund's medium-term priorities
- The 2023-24 budget required to deliver the Fund's services
- 2023-24 key performance indicators

- 2.2 A forecast budget has been presented to Committee for the last three 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 2022-23 was £35.200m, made up of operational costs of £5.658m and investment management expenses

(IMEs) of £29.542m. The current expected outturn for 2022-23 is £33.004m, made up of operational costs of £5.548m and IMEs of £27.456m.

The forecast underspend of £2.196m largely reflects a £2.087m reduction in forecast IMEs (ex-property expenses), of which £1.945m was driven by lower than expected assets under management (on average, around £434m lower than forecast during the year). The balance of the reduction in forecast IMEs (ex-property expenses) of £0.142m reflects 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.

- 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 2022-23 were based on the assets under management at 31 December 2021 (£6.291bn) 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 £434m lower 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 2022-23, noted that the forecast 2022-23 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 2022-23 budget to take into account the reduction in costs related to the lower level of assets under management, gives a restated 2022-23 forecast of £33.254m. The forecast outturn for 2022-23 of £33.004m is 6.2% below the unadjusted budget forecast, and 0.8% below the adjusted forecast.

- 2.4 For 2023-24, a budget of £35.132m is sought to deliver the services of the Pension Fund, made up of operational costs of £6.392m and total IME costs of £28.740m. This represents a 6.4% increase on the 2022-23 forecast outturn, and an increase of 5.6% compared to the 2022-23 adjusted budget. These costs will be met by the Pension Fund.

The forecast IME costs are based on forecast assets under management of £6.0bn during 2023-24 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 2023-24 will be adjusted

to take into account the actual level of AUM and the actual asset class mix throughout the year.

Further details on 2022-23 budget outturns by category of expenditure and on the requested budgets by category for 2023-24, 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 2023-24

6 Recommendation(s)

That Committee approves the 2023-24 Service Plan for Derbyshire Pension Fund, attached as Appendix 2, including the annual budget of £35.132m.

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.

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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