

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 107,000 Derbyshire Pension Fund membership records; 37,500 membership records in respect of active contributing members who are currently employed by one of the Fund's employers, 35,000 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 34,500 membership records in respect of members in receipt of pension. The membership records relate to around 93,000 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 Corporate Finance & ICT Division of DCC'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 63.2 full time equivalent posts (FTEs). There are currently 55 members of staff in post, 2 pending joiners and 9 vacancies, of which 1 vacant post relates to the Investment Team and 8 vacant posts relate to the Pension Administration Team.

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 £6.0bn at 31 January 2023. The Investment Team is currently comprised of an Investment Manager, an Assistant Fund Manager, a Pension Fund Accountant, 2 Business Services Officers and 1 Business Services Assistant.

The Pension Administration Team manages the day to day activities associated with members of the Fund and their employers and is currently comprised of 5 Team Leaders and 43 Pensions Officers across three levels with 2 pending joiners. A recruitment process is underway to fill 6 out of the 8 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 107,000 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 Limited (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 2022-23

Key achievements over the last 12 months include:

Governance:

- Continued implementation of hybrid working arrangements, ensuring that the services of the Pension Fund continued to be delivered effectively by a cohesive team, whilst providing colleagues with the flexibility of being able to work partly at home.
- Supported the Fund’s March 2022 triannual actuarial valuation, providing the required data to the Fund’s actuary, undertaking employer covenant analysis, engaging with employers and developing an updated Funding Strategy Statement.
- Utilisation of the Pension Fund’s performance dashboard to monitor the key performance indicators of the Fund.
- Formulation and Committee approval of: an updated Pension Administration Strategy; an updated Governance Policy and Compliance Statement; and an updated Task Force on Climate-related Financial Disclosures report.
- 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 judgement and the roll-out of Pension Dashboards.
- Receipt of a ‘substantial assurance’ rating, the highest assurance rating issued, from the first combined Pension Fund audit inspection, covering both pension administration and investment management, by DCC’s internal audit.
- Continued member training, including training sessions in respect of actuarial valuations, pensions administration, global sustainable equities, financial management and budget control and contracts and procurement.
- Recruitment of both a new Member Representative and an Employer Representative for Derbyshire Pension Board.
- Continuation of significant contribution to the LGPS Central Pool’s governance arrangements.
- Procurement of the Fund’s independent investment advisor and address tracing/identity verification provider.
- Submission of a response to the DLUHC consultation in respect of the LGPS proposals for Taskforce for Climate-Related Financial Disclosure reports.

Investments:

- Outperformance against the Pension Fund's specific benchmark over 1, 3, 5 and 10 years.
- Asset allocation advice and support to the Director of Finance & ICT and the Pensions and Investments Committee.
- Continued implementation of the Pension 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 44% reduction in the carbon footprint of the Fund's listed equity portfolio and an invested allocation of 27% in low carbon and sustainable investments (29% on a committed basis) against targets of 30% for both measures by 2025.
- Active participation in the development of LGPSC's investment offer.
- Leading the update to the LGPS Central Pool's Cost Savings Model.
- Increased allocations made to Global Sustainable Equities, with the weighting building to around 25% of the investment portfolio by mid-February 2023.
- Continued internal management of a proportion of the Fund's investments, including continuing to build the Pension Fund's commitments to renewable energy assets.

Pension Administration:

- On boarding of 17 new employers (academies, admission bodies and Town/Parish Councils).
- Continued rollout of My Pension Online, a member self-service system, with the expectation that the Pension Fund will achieve the 2022-23 target of registering 30% of active and deferred members by 31 March 2023.
- Continued rollout of i-Connect, a secure platform which automates the submission of pension data by scheme employers on a monthly basis, with the expectation that employers representing just under 90% of the Fund's membership will be onboarded by the end of March.
- Publication of active and deferred member newsletters in co-operation with other LGPS pension funds on the Joint Communication Working Group.
- A focused effort to reduce the cases backlog, resulting in a significant improvement in the ageing profile of the outstanding cases.
- 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 2022-2023 PERFORMANCE INDICATORS

Indicators	Definition and Success Measure	Owner	2022-23 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 2022.
i-Connect	Achieve onboarding of employers representing 95% of the membership by 31 March 2023.	DKK/ EW/SW	The Fund has onboarded 242 employers representing just under 88% of the Fund's membership. Employers representing around 90% of the membership are expected to be onboarded by 31 March 2023 with employers covering a further 8% of the membership expected to be onboarded in early 2023/24.
Member Self Service (MSS)	Achieve registration of 30% of active and deferred membership by 31 March 2023.	DKK/ EW/SW	The number of active and deferred members who had registered on My Pension Online, by mid-February 2023 was 29%. The Fund expects to achieve the 30% target by 31 March 2023.
Funding Strategy Statement	Obtain Committee approval for an updated Funding Strategy Statement as part of the actuarial valuation process.	DKK/ SW	Committee approval for an updated draft Fund Strategy Statement (FSS) was obtained in December 2022. A consultation with stakeholders on the FSS closed on 31 January 2023 and the responses will be reported to Committee in March 2023 together with the final FSS for approval.
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	Delayed until 2023-24 due to the well documented administration problems experienced by Prudential (part of M&G plc), the Fund's current AVC provider, and the potential entrance of a new provider to the market.

FORWARD PLAN OF PENSION FUND PROCUREMENTS TO 31 MARCH 2025

Property Valuation	Q1/Q2-23
Pensions Administration System	Q2-23 (contract extension)
Actuarial Services	Q3-23
Portfolio Performance Measurement	Q3-23
Address Tracing	Q3-23
Custodian	Q2-24
Market Information Systems	Q2-25
Pensions Administration Legal Support	TBC
Pensions Dashboards – Integrated Services Provider	TBC

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.	2023-24	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.	Ongoing	DKK/SW
Complete a procurement exercise in respect of the Pension Fund's actuary.	2023-24	DKK/RJ/EW/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 SAAB on an invested basis.	Ongoing	NS
Deliver the targets included in the Fund's Climate Strategy (to be reviewed in 2023-24).	End 2025	DKK/NS
Continue to develop a sustainable working relationship with LGPSC 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.	Ongoing	DKK/NS

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.	Ongoing	DKK/Pension Admin Team Leaders
Complete the roll out of i-Connect the employer automated data submission and validation service to the employing authorities.	2023-24	DKK/EW/SW
Develop digital interaction and communication with members via My Pension Online.	2023-24	DKK/EW/SW
Implement the remedy in respect of the McCloud and Sargeant judgements. Continue to collect, cleanse and update data in preparation for the expected change in scheme regulations.	Ongoing	DKK/Pension Admin Team Leaders
Prepare for the launch of Pensions Dashboards and the integration of the Fund's pension administration system with the Pensions Dashboard ecosystem.	2023-2024	EW
Continue to enhance the Fund's employer onboarding and exit processes.	Ongoing	SW/RJ
Review the Fund's AVC provision, ensuring it provides an efficient, effective, and value for money service for members.	2023-24	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.	2023-24	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 80% 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 20% of the Fund's budget relates to operational costs including: oversight and 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 LGPSC governance, operator and product development charges. Year on year changes in operational costs are largely driven by inflationary pressures and service delivery changes.

2022-23 Forecast Budget Outturn

A forecast budget has been presented to Committee for approval 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 IMEs of £29.542m.

The current expected outturn for 2022-23 is £33.004m, 6.2% below the budget forecast, 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 AUM (assets under management were, on average, £434m lower during the year than the forecast of £6.291bn). 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.

Within operational costs:

- The 2022-23 forecast outturn for oversight and governance costs is 18.2% lower than the 2022-23 budget due to the release of an unutilised general provision.
- The 2022-23 forecast outturn for employee costs is 13.4% lower than the 2022-23 budget due to unfilled vacancies
- The forecast outturn for system costs is 6.3% lower than the 2022-23 budget due to lower than expected system development costs.
- The forecast outturn for 'other' operational costs is 31.1% higher than the budget due to higher than expected printing, packaging and posting costs, higher than expected exchequer charges and costs related to a systems' reconciliation exercise.

Adjusting the forecast 2022-23 budget to take into account lower IME costs related to the lower than forecast level of assets under management, gives a restated 2022-23 forecast of £33.254m. The forecast outturn for 2022-23 of £33.004m is 0.8% lower than the adjusted budget forecast.

2023-24 Budget

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

	2022-23 Budget	2022-23 Adjusted Budget	2022-23 Forecast Outturn	2022-23 Forecast Outturn v Adj 2022-23 Budget %	2023-24 Forecast Budget	2023-24 Budget v 2022-23 Adj Budget %	2023-24 Budget v 2022-23 Forecast Outturn %
	£	£	£		£		
Oversight & Governance	448,290	448,290	366,622	(18.2)	458,326	2.2	25.0
Employee Costs	2,549,079	2,549,079	2,207,512	(13.4)	2,907,466	14.1	31.7
Systems	555,234	555,234	520,207	(6.3)	542,860	(2.2)	4.4
LGPSC	983,136	983,136	983,136	-	1,205,000	22.6	22.6
Other	1,121,681	1,121,681	1,470,969	31.1	1,278,580	14.0	(13.1)
Operational Costs	5,657,420	5,657,420	5,548,446	(1.9)	6,392,232	13.0	15.2
Investment Management Expenses (ex-property expenses)	28,198,395	26,253,059	26,111,444	(0.5)	27,328,450	4.1	4.7
Property Expenses	1,344,000	1,344,000	1,344,000	-	1,411,200	5.0	5.0
Total IMEs	29,542,395	27,597,059	27,455,444	(0.5)	28,739,650	4.1	4.7
Total	35,199,815	33,254,479	33,003,891	(0.8)	35,131,882	5.6	6.4

Oversight and 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. The 2023-24 Oversight and Governance budget is 2.2% higher than the 2022-23 budget, reflecting a forecast increase in third-party investment performance measurement costs following a contract termination, largely offset by a reduction in the general provision held to cover unexpected expenditure.

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 2023-24 budget against the 2022-23 forecast outturn reflects: the impact of budgeting for all vacancies; the flow through of a higher than expected 2022-23 pay award; and an assumed 2023-24 pay increase in line with current National Employers' pay offer for local government employees. 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 2023-24 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 2023-24 are assumed to be broadly in line with the 2022-23 budget, together with some small systems development costs and additional user licences.

LGPSC: includes LGPSC's 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 2023-24 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 £289,000; operator £834,000; and product development £82,000. The forecast IMMC recharge (excluding forecast LGPSC external manager charges) is currently £180,000 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; DCC exchequer and treasury management recharges; together with other miscellaneous expenses. The forecast reduction in the 2023-24 budget compared to the 2022-23 forecast outturn largely reflects lower forecast actuarial costs in a non-valuation year and lower forecast systems' reconciliation costs partly offset by a further expected increase in DCC recharges.

IMEs: the investment management expenses (ex property) for 2023-24 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 be £6.0bn (£5.979bn at 31 January 2023), £143m higher than the 2022-23 forecast outturn AUM of £5.857bn, increasing budgeted costs by £0.638m. The average Total Expense Ratio is budgeted to increase slightly (44.6 basis points to 45.6 basis points), reflecting a forecast change in the asset class mix, increasing budgeted costs by £0.579m).

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 2023-24 Budget is based on the 2022-23 budget with a 5% inflationary increase.

2023-24 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
UK Stewardship Code	Achieve UK Stewardship Code 2020 signatory status by 31 March 2024.	March 24	DKK/NS
Investment Strategy Statement, Responsible Investment Framework and Climate Strategy	Obtain Committee approval for an updated Investment Strategy Statement, Responsible Investment Framework and Climate Strategy as part of a three year review of the Fund's investment strategy.	March 24	DKK/NS
Establish an effective Member Forum representing a wide cross section of the membership of the Fund.	Report to Committee on the Terms of Reference and inaugural activities of the Forum.	March 24	DKK/SW
Training Policy	Obtain Committee approval for an updated Training Policy.	Dec 23	DKK/NS