

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 350 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 109,000 Derbyshire Pension Fund membership records; 37,600 membership records in respect of active contributing members who are currently employed by one of the Fund's employers, 35,500 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 35,900 membership records in respect of members in receipt of pension. The membership records relate to around 95,000 individual members. Key stakeholders of the Fund include: pension fund members; employers; and local tax payers.

Pension Fund Objectives

The overarching objective of the Pension Fund is to deliver secure, accurate and efficient administration of the LGPS in Derbyshire on behalf of the Fund's employers and members:

- ensuring sound governance arrangements for the Fund
- ensuring sufficient assets are available to pay pension benefits
- delivering a high quality service to scheme members and employers
- enabling employer contribution rates to be kept as constant as possible and at reasonable cost to the taxpayer
- delivering 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 67 posts equating to 64.2 full time equivalent posts (FTEs). There are currently 51.3 FTE members of staff and 12.9 FTE vacancies, of which 1.5 FTE vacancies relate to the Investment Team and 11.4 FTE vacancies 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 £6.2bn at 31 January 2024. The Investment Team is currently comprised of an Investment Manager, an Assistant Fund Manager, a Pension Fund Accountant, 2.0 FTE Business Services Officers and 0.5 FTE 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 4.8 FTE Team Leaders and 40 FTE Pensions Officers across three levels. Planning is currently being undertaken to recruit to 9.4 of the FTE 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 (Committee).
- Managing the admission of employers and the exit of ceased employers.
- Maintaining 109,000 membership records.
- Calculating and arranging the payment of pension benefits.
- Managing applications to transfer pension benefits both into and out of the Fund.
- 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 and My Pension Online platform.
- 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 2023-24

Key achievements over the last 12 months include:

Governance:

- Formulation and Committee approval of an updated: Complaints Policy; Communications Policy; Governance Policy and Compliance Statement; and an updated Statement of Policy on Administering Authority Discretions.
- Utilisation of the Pension Fund's performance dashboard to monitor the key performance indicators of the Fund, pension administration performance reporting to Committee and dashboard reporting to the Pension Board.
- 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 Pensions Dashboards.
- Receipt of a 'substantial assurance' rating, the highest assurance rating issued, for the combined Pension Fund audit inspection, covering both pension administration and investment management, by DCC's internal audit.
- Recruitment of a new independent Chair, a new Member Representative and a new Employer Representative for Derbyshire Pension Board.
- Induction training and ongoing training for members of the Pensions and Investments Committee and the Pension Board, including training sessions in respect of private equity, multi-asset credit, ill health retirement, Pension Fund cash flow, investment strategy, responsible investment and the management of climate risk.
- Continuation of significant contribution to the LGPS Central Pool's governance arrangements.
- Procurement of the Fund's actuary and a specialist pensions legal services provider to support the provision from DCC's Legal Services Department in respect of legal advice and support on pension related matters.

- Submission of responses to the DLUHC consultations in respect of the McCloud remedy and LGPS investment pooling.

Investments:

- Asset allocation advice and support to the Director of Finance & ICT and the Pensions and Investments Committee.
- Achievement of both of the targets set out in the Fund's Climate Strategy with a 47% reduction (50% on a restated basis) in the carbon footprint of the Fund's listed equity portfolio and an invested allocation of 29% in low carbon and sustainable investments (30% on a committed basis) against targets of 30% for both measures by 2025.
- Achievement of signatory status to the Financial Reporting Council's UK Stewardship Code 2020.
- Formulation and Committee approval for consultation (and subsequent consultation) of an updated: Investment Strategy Statement; Responsible Investment Framework; and an updated Climate Strategy.
- Active participation in the development of LGPSC's investment offer.
- 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:

- Onboarding of 18 new employers (academies and admission bodies).
- Continued delivery of a high quality pension administration service for members and employers during a period of significant procedural and legislative change.
- Continued rollout of My Pension Online, a member self-service system, achieving the registration to date of over 35% of active and deferred members combined.
- Continued rollout of i-Connect, a secure platform which automates the submission of pension data by scheme employers on a monthly basis, with employers representing just under 95% of the Fund's membership expected to be onboarded by the end of March.
- Implementation of functionality enabling current deferments, retirements and death benefit calculations to be assessed in respect of the McCloud remedy.
- Delivery of sessions for members and employers to promote understanding of the LGPS, including in-person and virtual sessions and continued publication of monthly employer newsletter.
- Continued development of the Fund's website to improve the experience of visitors, including enhancing the accessibility and inclusivity of content.

REVIEW OF 2023-2024 PERFORMANCE INDICATORS

Indicators	Definition and Success Measure	Owner	2023-24 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 marginally underperformed its Strategic Asset Allocation Benchmark over 3 years to 31 December 2023, outperforming over 5 and 10 years.
UK Stewardship Code	Achieve UK Stewardship Code 2020 signatory status by 31 March 2024.	DKK/NS	The Fund achieved signatory status of the UK Stewardship Code in August 2023.
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.	DKK/NS	The updated Investment Strategy Statement, Responsible Investment Framework and Climate Strategy are being presented to the 6 March 2024 Pensions and Investments Committee meeting for approval.
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.	DKK/SW	Expressions of interest for membership of the Fund's Member Engagement Forum have been received and the first meeting of the Forum is expected to take place in April/May 2024.
Training Policy	Obtain Committee approval for an updated Training Policy.	DKK/NS	The Fund's updated Training Policy is being presented to the 6 March 2024 Committee meeting for approval.

FORWARD PLAN OF PENSION FUND PROCUREMENTS TO 31 MARCH 2026

Global Custody Services & Investment Performance Measurement	Q2 2024
Pensions Administration System	Q1 2025 (contract extension)
Supply of an Externally Hosted Investment Market Data and Analysis Solution and Associated Services	2025
Discretionary Manager for the Derbyshire Pension Fund Asset Direct Property	Q2-25
MSCI Real Estate Benchmarking	Q2-24
Address tracing and Overseas Existence ID App	Q2 2024
Integrated Service Provider - Pensions Dashboards Programme	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.	2024-25	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
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.	By the end of 2030.	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
Prepare for the 2025 triennial valuation, including engaging with employers.	2024-25	DKK/SW

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 pension administration system and develop administration performance targets in line with best practice.	Ongoing	DKK/Pensions Officers
Complete the roll out of i-Connect the employer automated data submission and validation service to the employing authorities.	2024-25	DKK/EW/SW
Continue to develop the My Pension Online platform to improve functionality for members, including developing digital interaction and communication.	Ongoing	DKK/EW/SW
Implement the remedy in respect of the McCloud remedy, utilising bulk processing tools in preparation for the 2025 Annual Benefit Statements.	Ongoing	DKK/Pensions Officers
Prepare for the launch of Pensions Dashboards and the integration of the Fund's pension administration system with the Pensions Dashboard ecosystem.	2024-2025	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.	2024-25	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 Member Engagement Forum.	2024-25	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/SH
Review the Fund's Pension Administration Strategy.	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 LGPS Central Limited governance, operator and product development charges. Year on year changes in operational costs are largely driven by inflationary pressures and service delivery changes.

2023-24 Forecast Budget Outturn

A forecast budget is presented to Committee for approval 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 2023-24 was £35.132m, made up of operational costs of £6.392m and IMEs of £28.740m. Adjusting the forecast 2023-24 budget to take into account higher IME costs related to the higher than forecast level of assets under management (£6.018bn against the forecast £6.000bn) gives a restated 2023-24 forecast of £35.215m made up of operation costs of £6.392m and IMEs of £28.823m.

The current expected outturn for 2023-24 is £34.023m, 3.2% below the budget forecast, and 3.4% below the adjusted budget forecast, made up of operational costs of £5.905m and IMEs of £28.118m.

The forecast underspend of £1.192m against the adjusted budget reflects a forecast IME underspend of £0.704m relating to lower than expected property expenses and a lower total expense ratio (lower investment management fees as a proportion of AUM reflecting greater use of lower cost passive products than budgeted) and a forecast underspend in operational costs of £0.488m.

Within operational costs:

The 2023-24 forecast outturn compared to the adjusted 2023-24 budget:

- Oversight and governance costs: 23.3% higher than the budget due to higher than forecast external audit fees and higher than forecast investment performance measurement fees after the Fund's third party service provider withdrew from the market and the Fund had to switch to a new provider.
- Employee costs: 18% lower than the budget due to unfilled vacancies.
- System costs: 8.4% lower than the budget due to lower than forecast costs in respect of the Fund's pensions administration system.
- LGPSC costs: 1.7% lower than the budget due to general underspends relative to budget.
- 'Other' costs: 0.5% lower than the budget, largely in line with the forecast

2024-25 Budget

In order to deliver the services of the Pension Fund, the forecast budget requirement for 2024-25 is £36.233m, made up of operational costs of £6.996m and IMEs of £29.237m, an increase of 2.9% compared to the 2023-24 adjusted budget, and an increase of 6.5% compared to the 2023-24 forecast outturn. These costs will be met by the Pension Fund.

	2023-24 Budget	2023-24 Adjusted Budget	2023-24 Forecast Outturn	2023-24 Forecast Outturn v Adj 2023-24 Budget %	2024-25 Forecast Budget	2024-25 Budget v 2023-24 Adj Budget %	2024-25 Budget v 2023-24 Forecast Outturn %
	£	£	£		£		
Oversight & Governance	458,326	458,326	564,919	23.3	553,940	20.9	(1.9)
Employee Costs	2,907,467	2,907,467	2,385,548	(18.0)	3,204,039	10.2	34.3
Systems	542,860	542,860	497,203	(8.4)	559,220	3.0	12.5
LGPSC	1,205,000	1,205,000	1,185,000	(1.7)	1,400,000	16.2	18.1
Other	1,278,580	1,278,580	1,271,938	(0.5)	1,278,940	0.0	0.6
Operational Costs	6,392,233	6,392,233	5,904,608	(7.6)	6,996,139	9.4	18.5
Investment Management Expenses (ex-property expenses)	27,328,450	27,411,451	27,185,093	(0.8)	28,131,636	2.6	3.5
Property Expenses	1,411,200	1,411,200	933,075	(33.9)	1,105,000	(21.7)	18.4
Total IMEs	28,739,650	28,822,651	28,118,168	(2.4)	29,236,636	1.4	4.0
Total	35,131,883	35,214,884	34,022,776	(3.4)	36,232,774	2.9	6.5

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 2024-25 Oversight and Governance budget is 20.9% higher than the 2023-24 budget, reflecting the flow through of higher external audit and investment performance measurement fees in 2023-24.

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 2024-25 budget against the 2023-24 forecast outturn reflects the impact of

budgeting for all vacancies and an assumed 2024-25 pay increase equating to an average uplift of £1,925 per employee in line with the assumption used by Derbyshire County Council for its 2024-25 budget. A provision is also included for the potential additional costs relating to the outcome of the current review of the Pension Fund's staffing structure.

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 2024-25 are assumed to be broadly in line with the 2023-24 budget, with the impact of lower pension administration system costs in 2023-24 being offset by some new budgeted costs to cover preparations for the launch of Pensions Dashboards.

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 2024-25 forecast is based on the Fund's expected share of LGPSC's proposed expenditure budget for the year with the following expected post profit mark-up recharges by category: governance £340,000; operator £988,000; and product development £72,000. The forecast IMMC recharge (excluding forecast LGPSC external manager charges) is currently £501,00. 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 2024-25 forecast for 'other' costs is largely in line with the 2023-24 budget and the 2023-24 forecast outturn.

IMEs: the investment management expenses (ex property) for 2024-25 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 £6.222bn based on actual AUM on 31 December 2023 (£6.220bn at 31 January 2024), £204m higher than the 2023-24 forecast outturn AUM of £6.018bn, increasing budgeted costs by £0.921m. The average Total Expense Ratio is budgeted to increase slightly (45.17 basis points to 45.21 basis points), reflecting a forecast change in the asset class mix, increasing budgeted costs by £0.021m.

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 2024-25 budget is broadly based on the 2023-24 forecast out-turn plus £100,000 to cover any potential credit loss provision.

2024-25 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
Implementation of updated Investment Strategy Statement, Responsible Investment Framework & Climate Strategy	Asset allocation on 31 March 2025 in line with the Fund's new strategic asset allocation benchmark, adjusted for any tactical asset allocation recommendations approved by Committee. The Fund's carbon metrics on 31 March 2025 show progress consistent with the Fund's updated Climate Strategy	March 25	DKK/NS
Pensions Dashboards' Readiness	Demonstrate that the Fund is on track with the procurement of an Integrated Service Provider to enable connection to the Pensions Dashboards ecosystem in advance of the statutory deadline.	March 25	DKK/EW
Assess compliance against The Pension Regulator's new General Code of Practice.	Report to the Pension Board on compliance against the new General Code of Practice.	Dec 24	DKK/SW