

Agenda Item No. 4 (c)

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

10 June 2020

Report of the Director of Finance & ICT

DERBYSHIRE PENSION FUND SERVICE PLAN

1. Purpose of the Report

To seek approval for Derbyshire Pension Fund's Service Plan for 2020-21, including the annual budget for the year.

2. Information and Analysis

The Service Plan, attached as Appendix 1 sets out:

- The objectives of Derbyshire Pension Fund (the Fund)
- Details of the Pension Fund Team
- Key services of the Fund
- Key achievements in 2019-20
- Review of 2019-20 performance indicators
- Forward plan of Pension Fund procurements to 31 March 2022
- The Fund's medium term priorities
- The 2020-21 budget required to deliver the Fund's services
- 2020-21 key performance indicators

In line with best practice, the Fund is seeking approval from Committee for its annual budget in order to improve transparency and to provide assurance regarding the business planning process and the use of the Fund's resources. As this is the first year that Committee's approval has been sought for the Fund's budget, the forecast budget is compared in the Service Plan to actual Fund spend in 2019-20.

A budget of £32.9m is sought to deliver the services of the Pension Fund; this represents an increase of 5.5% over the previous year. It should be noted, that around 85% of the Fund's costs relate to external investment management fees which are impacted by changes in the Fund's asset allocation mix, as well as changes in the value of assets under management.

3. Other Considerations

In preparing this report the relevance of the following factors has been considered: financial, legal and human rights, human resources, equality and diversity, health, environmental, transport, property and prevention of crime and disorder.

4. Officer's Recommendation

That the Committee approves the 2020-21 Service Plan, including the annual budget of £32.9m.

PETER HANDFORD
Director of Finance & ICT

INTRODUCTION

Derbyshire County Council is the administering authority for the Derbyshire Pension Fund (the Fund); one of 89 regional Local Government Pension Scheme (LGPS) administering authorities in England and Wales. There are over 300 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 members of Derbyshire Pension Fund; around 40,000 active contributing members who are currently employed by one of the Fund's employers, 33,000 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 32,000 members in receipt of pension. 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 Commissioning, Communities and Policy Department, and is comprised of an Investment Team and a Pension Administration Team. Both teams contribute to the governance of the Pension Fund.

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 are currently valued at £4.9bn (30 April 2020). Following the recruitment of an Assistant Fund Manager and an additional Business Services Officer, the Investment Team is now 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 comprised of a Pensions Administration Manager, 4 Team Leaders, 1 Project Lead, 45 Pensions Officers across three levels and 1 Business Services Assistant. Pension Fund full-time equivalent posts: 54.

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.
- Managing the employer admissions and cessations process.
- Maintaining records for around 105,000 members.
- Communicating with members and employers (e.g. supporting employing authorities with their responsibilities under LGPS regulations).
- 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.
- Selecting, managing and monitoring the performance of the Fund's other external investment managers.
- Managing the stewardship of the Fund's assets in conjunction with the external custodian.
- 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 2019-20

Key achievements over the last 12 months include:

Governance:

- Development and implementation of an Employer Risk Management Framework to identify, manage and monitor the risks associated with employers; including assessments of the covenant strength of employers not benefiting from local or national tax payer backing.
- Sound management of the triennial actuarial valuation process in conjunction with the Fund's actuary Hymans Roberston, including agreement of employer contribution rates from 1 April 2020 to 31 March 2023.
- Review and update of the Funding Strategy Statement, including revised employer risk categorisations to reflect the assessments of employer covenants.
- Development and implementation of a detailed Covid-19 Business Continuity Plan, ensuring that the critical activities of the Pension Fund could be continued remotely.
- Procurement of a Climate Risk Report and subsequent development of Pension Fund Climate-Related Disclosures.
- Development of a Data Management Group to review progress against the Fund's Data Improvement Plan and ensure continued compliance with GDPR and data security requirements.
- Development and implementation of a Complaints Policy & Procedure to provide assurance to members of the Pension Fund that all complaints will be considered properly and dealt with in a consistent manner.
- Establishment of a project board to oversee the implementation of the i-Connect system which will enable employers to automate the submission of their data.
- Successful transition to a new custodian for the custody of investment assets.
- Development of an Admission, Cessation & Bulk Transfer Policy setting out the Fund's approach to the risks involved in the admission of new employers to the Pension Fund and how it deals with possible bulk transfers and employers ceasing their participating in the Fund.
- Review and update of the Fund's Pension Administration Strategy, Communications Policy Statement and Governance Policy and Compliance Statement.
- Successful LGPS Employer Discretions communications strategy resulting in 98% of the Fund's employers having published their discretion policy by the financial year end.

- Continued development of the Fund's bespoke website, including the introduction of online enquiry forms and the launch of an improved version of the online pension calculator.
- Procurement of online training tools to assist with the training and development of new and existing team members
- Continuation of significant contribution to the LGPS Central Pool's governance arrangements including leading the Pool's Finance Working Group, and developing a new Cost Savings Model in collaboration with LGPSC.

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 & Investments Committee.
- Active participation in the development of the LGPS Central offer.
- Continued implementation of the new Strategic Asset Allocation Benchmark (SAAB).
- Continued build of significant commitments to Infrastructure, Private Equity and Multi-Asset Credit.
- Successful sourcing and completion of due diligence on a £50m renewable energy infrastructure fund.
- Completion of due diligence on the options for the new allocation to Global Sustainable Equities.
- Successful transition of the Fund's corporate bond investments to the LGPS Central Ltd Global Corporate Bonds Fund.
- Continued internal management of a substantial proportion of the Fund's investments.

Pension Administration:

- Successful team adaptation to Altair, the new pension administration system, with efficiency gains starting to flow through into an improved service to members and to a reduction in backlogs.
- Continued significant data cleansing exercise and re-evaluation of processes and procedures associated with the implementation of Altair.
- Continued improvement in the Fund's common and conditional data scores which are reported to the Pensions Regulator.
- Timely provision of good quality data to the Fund's actuary to support the triennial valuation.
- Successful on boarding of around 45 new employers (mostly academies).
- Continued improvement in relationships with, and information flow from, some of the larger employing authorities.
- Increased support to all employing authorities with their LGPS responsibilities via regular newsletters and very well received training events.

- Provision of well attended LGPS information sessions for Fund members at various sites around the County.
- Continued development of the performance management regime and quarterly performance report to the Pensions and Investments Committee and to the Pension Board.
- Increased 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.
- Successful onboarding of an initial seven employers to the i-Connect system.
- Efficient transition to remote working; the commitment and flexibility of the team enabled queries to the telephone Pension Helpline and to the online Pension Inbox to be answered throughout the 'Stay At Home' period of the Covid-19 pandemic.

REVIEW OF 2019-2020 PERFORMANCE INDICATORS

Indicator	Definition and Success Measure	Owner	2019-20 Performance
Investment Performance	Target outperformance against the Fund's Strategic Asset Allocation Benchmark (SAAB) 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 / NAS	The Fund outperformed its (SAAB) over 1, 3, 5 and 10 years to 31 March 2020.
Actuarial Valuation and Funding Strategy Statement	Manage the actuarial valuation process and seek agreement from employers for the Funding Strategy Statement including employer contribution rates from April 2020 – to be reported to the Pensions and Investments Committee.	DKK /ND	The actuarial valuation process was successfully managed in conjunction with the Fund's actuary. An updated Funding Strategy Statement has been approved by Committee following a consultation exercise and contribution rates from April 2020 to March 2023 have been agreed. The Actuarial Valuation is due to be received by Committee in June 20.
Strategic Asset Allocation Benchmark	Implement the new Strategic Asset Allocation Benchmark on a committed basis – asset allocation is reported to the Pensions and Investments Committee.	DKK /NAS	The Fund's committed asset allocation is in line with the SAAB with the exception of the 3% allocation to Global Sustainable Equities. The IIMT expect this allocation to be in-line by Q3 2020 subject to market conditions.
TPR Code of Practice 14	Ensure full compliance with the Pension Regulator's (TPR) Code of Practice No. 14 – with confirmation to be sought from the Pension Board.	DKK/ND	During the year, TPR announced its intention to review its codes of practice and combine the content of the 15 current codes of practice to form a single, shorter code. It is intended to make the codes quicker to find, use and update so that trustees and managers of all types of schemes can be

			more responsive to changes in regulations. The new code is currently awaited.
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FORWARD PLAN OF PENSION FUND PROCUREMENTS TO 31 MARCH 2022

External Investment Advisor	Apr 21
Fixed Income Research	Sept 20
Investment Performance & Cost Monitoring/Benchmarking & Reporting	Apr 21
Investment Property Performance Measurement	May 21
Macro-Economic Research	Apr 21
Portfolio Performance Measurement	Jun 20
Property Valuation	Dec 20
Stock Market Data Provider 1	June 21
Stock Market Data Provider 2	June 21
Sustainable Global Equities Portfolio Managers	Jun 20
Tax Advisory Service	Sept 20
US Equity Discretionary Portfolio Manager	May 21
Voting Service	Mrch 21
Stock market Index Data Provider	Jan 21

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.	2020/21	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.	2020/21	DKK/SW
Review the Fund's Investment Strategy Statement, including the Strategic Asset Allocation Benchmark.	By Sept 2020.	NS
Develop a Responsible Investment Strategy and a Climate Strategy.	By Sept 2020.	DKK/NS
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 allocation to Global Sustainable Equities.	By Sept 20	NS
Progress due diligence on a pipeline of additional renewable energy investments.	2020/21	NS
Continue to develop a sustainable working relationship with LGPS Central Ltd and the Partner Funds within the Central Pool and ensure,	Ongoing	DKK/NS

where possible, that the Pool develops products to deliver the Fund's investment strategy.		
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.	2020/21	DKK/Pension Admin Team Leaders
Deliver a high quality service to scheme members and employers & Deliver clear, timely and relevant communications to all stakeholders.		
Implement and roll out an employer automated data submission and validation service to employing authorities.	2020/21	DKK/EW/SW
Enable digital interaction and communication with members with the development of a member self-service system.	2020/21	DKK/EW/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.	2020/21	DKK/SW

RESOURCES

2020-21 Budget

In order to deliver the services of the Pension Fund, the forecast budget requirement for 2020-21 is £32,917,891, up from actual spend of £31,207,308 in 2019-20, an increase of 5.5%.

This is the first year that the Pension Fund has sought Committee approval for its budget. Comparison to last year's actual spend rather than last year's budget provides an appropriate baseline for considering the proposed budget.

	Actual 2019-20 £	Budget 2020-21 £	Change £	Change %
Oversight & Governance	1,275,726	1,547,500	271,774	21.3
Employee Costs	1,805,925	2,162,811	356,886	19.8
Systems	552,450	537,734	(14,715)	(2.7)
Other Non-IME	932,130	1,021,046	88,916	9.5
Non-Investment Management Expenses	4,566,231	5,269,091	702,860	15.4
Investment Management Expenses	26,641,077	27,648,800	1,007,723	3.8
Total	31,207,308	32,917,891	1,710,583	5.5

Oversight & Governance costs: include LGPS Central Ltd Governance, Operator & Product Development recharges, which accounted for £907,158 in 2019-20 and are forecast to account for £1,033,000 in 2020-21. A provision of £100,000 for possible Covid-19 related expenditure has been included in the budget for 2020-21.

Employee Costs: relate to the employee costs of both the Pension Administration Team and the Investment Team. The forecast increase in the budget against last year's actual spend reflects: the expected local authority pay increase for 2020-21; the impact of increments; the full year impact of staff recruited part way through the previous year; and a provision for the additional staffing resource that is likely to be required to implement the remedy for the McCloud case and to implement the member self-service system.

Systems: the reduction in forecast expenditure reflects certain one-off upfront costs for the new pension administration systems being charged in 2019-20. New costs related to the implementation of i-Connect and the member self-service system partially offset the reduction.

Other Non-IME costs: include: actuarial fees; custody fees; subscriptions; DCC exchequer & treasury management recharges; together with other miscellaneous expenses. The forecast increase in the budget against last year's actual spend reflects the cost of the one-off fiche digitisation project, offset by lower actuarial fees following completion of the triennial valuation.

Investment Management Expenses (IMEs): external investment manager costs incurred in the management of the Fund's assets. IMEs account for the bulk of the Fund's costs, representing around 85% of total costs in 2019-20. These costs are largely ad-valorem in nature (i.e. they relate to the value of the asset under management) and are impacted by changes in the asset allocation mix of the Fund as well as the value of assets under management.

2020-21 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 70% of the membership by 31 March 2021.	Mrch 21	DKK/EW/SW
Member Self Service	Achieve registration of 15% of active members by 31 March 2021.	Mrch 21	DKK/EW/SW
Review SAAB & ISS	Review and obtain Committee approval for updated SAAB & ISS.	Dec 20	NS
Responsible Investment Strategy & Climate Strategy	Develop and obtain Committee approval for a Responsible Investment Strategy & a Climate Strategy.	Dec 20	DKK/NS