

Agenda Item No.4 (b)

**DERBYSHIRE COUNTY COUNCIL
PENSIONS AND INVESTMENTS COMMITTEE**

2 August 2017

Report of the Director of Finance & ICT

DERBYSHIRE PENSION FUND SERVICE PLAN

1 Purpose of the Report

To seek approval for the Derbyshire Pension Fund Service Plan for 2017–18.

2 Information and Analysis

The Service Plan (attached as Appendix 1) sets out how both the Investment Section and the Pensions Administration Section will contribute to the priorities of the Derbyshire Pension Fund in 2017–18. It also describes how these priorities will be delivered and how success will be measured.

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, social values and prevention of crime and disorder.

4 Officer's Recommendation

That Members approve the 2017-18 Service Plan.

PETER HANDFORD

Director of Finance & ICT

Derbyshire Pension Fund – Service Plan 2017-18

Dawn Kinley – Head of Investments
Nigel Dowey – Pensions Manager

OPERATIONAL CONTEXT

Derbyshire County Council is the administering authority for the Derbyshire Pension Fund (DPF); one of 89 regional Local Government Pension Scheme (LGPS) administering authorities in England and Wales. There are approximately 170 employers in the DPF, 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 100,000 members of Derbyshire Pension Fund; 41,000 active contributing members, 30,000 deferred beneficiaries and 28,000 members in receipt of pension.

The Derbyshire Pension Fund's activities are mainly provided by the Finance & ICT Division of Derbyshire County Council's Corporate Resources Department, in particular two sections: Investments & Pensions Administration.

The Investment Section actively manages the majority of the Fund's investments assets, currently valued at £4.5bn. The service currently includes a Head of Investments, 5 Fund Managers, 1 Assistant Fund Manager, 1 Research Analyst, 1 Pensions Accountant and 2 Business Services Officers.

The Pensions Administration Section manages the day to day activities associated with members of the fund and their employers. The Section includes a Pensions Manager, 4 Team Leaders, 36 Pensions Officers across three levels and 3 Business Services Assistants.

Key services include:

- Managing and monitoring the Fund's investment governance obligations, including supporting the Local Pension Board and maintaining the Funds Investment Strategy Statement, Communications Policy, Governance Policy Statement, Voting Policy, and Risk Register.
- Reporting and providing support to the Pensions and Investments Committee.
- Maintaining records for around 100,000 members.

- Communicating with members and employers (e.g. supporting employing authorities with their responsibilities under LGPS regulations).
- Calculating and arranging payment of pension benefits.
- Actively managing the Fund's investment assets.
- Selecting, managing and monitoring the performance of the Fund's external investment managers.
- Managing the stewardship of the Fund's assets in conjunction with the external custodian.
- Co-ordinating and providing the base data for the triennial pension fund valuation.
- Managing and monitoring the Fund's investment governance obligations, including Investment Strategy Statement, Communications Policy, Governance Policy Statement, Voting Policy, and Risk Register.
- 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.

SIGNIFICANT ACHIEVEMENTS

Significant achievements over the last 12 months include:

Governance:

- Continuing to develop the Member Training programme for the Pensions and Investments Committee.
- Introduction of an Investment Strategy Statement.
- Completing the 2016/17 Pension Fund accounts on target, and contributing to the Pension Fund Annual Report.

Triennial Valuation:

- Managing the triennial valuation of the Fund, including providing accurate data for analysis and communicating / negotiating amended employer contribution rates with employers for the next 3 years.
- Renewing the contract for actuarial services.

Investments:

- Outperforming fund specific benchmark over 1, 3, 5 and 10 years.
- Developing a strong position in the creation of LGPS Central; raising the profile of DPF; developing robust working relationships with other partner funds; contributing a proactive approach to setting the agenda; contributing internal resource to leading core workstreams; openly engaging with the Pensions and Investments Committee.
- Managing the on-going transition to a new asset allocation, including a significant build in commitments to Alternatives, Property and Multi-Asset Credit.
- Successfully managing the appointment of a new external advisor.

Pension Administration:

- Reviewing the performance of the current pension administration system and making the decision to re-procure.
- Developing a collaborative relationship with Leicestershire Pension Fund.
- Completing the third stage of the GMP Reconciliation project.
- Making further significant progress against the backlogs that resulted from LGPS 2014 and the inadequate performance of the pensions administration system, and improving data quality as a result.
- Developing improved relationships with, and information flow, from some of the larger employing authorities; supporting all employing authorities with their LGPS responsibilities via regular newsletters and training events.
- Providing Fund members with LGPS information sessions, in partnership with employing authorities and Prudential, in line with the Fund's Communications Strategy.
- Manually calculating and arranging prompt and accurate payment of benefits and transfer values in cases where the current pensions administration system is still not functional.
- Issuing Pensions Savings Statements to members as appropriate.
- Developing and implementing new procedures for the efficient and transparent on-boarding of employing authorities new to the Derbyshire Pension Fund, and ensuring that related risks are mitigated.
- Developing and delivering a presentation on annual and lifetime allowance rules to assist the increasing numbers of Fund members who are affected.

Staffing:

- Expanding both teams; supporting on-going staff development; undertaking My Plan reviews and several staff members successfully completing professional training courses. Several internal promotions, demonstrating career progression opportunities.
- Expanding both teams; supporting on-going staff development; undertaking My Plan reviews and several staff members successfully completing professional training courses. Several internal promotions, demonstrating career progression opportunities.

MEDIUM TERM CHALLENGES

DPF is facing a number of challenges over the medium term, including:

Investment Section:

- The majority of DPF's in-house investment management team is scheduled to be transferred into LGPS Central in April 2018. DPF will need to ensure that it has sufficient investment skills and experience after the transfer to fulfil the following roles:
 - Monitor asset allocation and provide robust advice and support to the Pensions & Investments Committee;
 - Build a substantive and sustainable working relationship with LGPS Central post-pooling;
 - Maintain an oversight, and challenge, the type of investment offering by LGPS Central and their underlying risks;
 - Monitor and challenge both the performance of LGPS Central;
 - Safeguard the Fund's investment assets;
 - Monitor the costs recharged by LGPS Central (both on-going and those associated with the transition) to ensure compliance with agreed cost sharing principles and value for money; and
 - Manage legacy investment cash flows and overall DPF cash flows.
- Manage the transfer of staff into LGPS Central (scheduled for April 2018); ensure staff are treated fairly and ensure that the transfer complies with legal requirements.
- Managing the on-going transition to a new asset allocation, in particular building the weightings to Alternatives, Property and Multi-Asset Credit.
- Ensuring that the Members of the Pensions and Investments Committee have the necessary training to achieve sufficient investment knowledge and skills, in the face of ever more complex asset classes / investment vehicles, including the potential impact of pooling.
- Continuing to manage and control Investment Management Expenses.

Pension Administration Section:

- Procuring a replacement pensions administration system.
- Cleansing data with a view to migrating to the new pension administration system in 2018/19.
- Restructuring the team to reflect the change in systems strategy.
- Developing a standalone website and identity for the Pension Fund that is distinct but related to DCC.
- Issuing Annual Benefit Statements by the end of August 2017.
- Issuing Pension Savings Statements by the end of September 2017.
- Completing the GMP Reconciliation exercise.
- Eliminating remaining backlogs while maintaining a good quality level of service.
- Continuing to meet the goals of the Pensions Communication Strategy.
- Implementing a new performance management regime.
- Developing 'Employer Asset Tracking' which will enable better informed management of employer risk.

SERVICE ACTIVITY AND PERFORMANCE MEASURES***Investment Section will:***

- Continue to manage the Fund's investments with the longer term target of achieving a return in line with that set out in the actuarial assumptions.
- Monitor asset allocation and provide advice and support to the Director of Finance & ICT and Pensions & Investments Committee.
- Actively engage with, and monitor, the performance of LGPS Central.
- Assist and participate to the extent required in any LGPS Central forums and boards (e.g. Shareholders Forum, Practitioners' Advisory Forum and Joint Committee).
- Safeguard the Fund's investments assets.
- Support the Pensions and Investments Committee through a targeted rolling Member training programme.
- Monitor the Fund's governance policy statements and refresh as necessary.
- Carry out any procurement exercises in accordance with DCC procurement rules and regulations.
- Co-ordinate and respond to Investment FOI requests.
- Provide timely help and support to other DCC departments, as and when required.
- Support the Local Pension Board.

Pension Administration Section will:

- Calculate and arrange payment of LGPS benefits for scheme members.
- Reconcile contributions received and produce annual accounts.
- Provide Fund members and employing authorities with prompt and accurate information, support and training.
- Produce Annual Benefit Statements and Lifetime and Annual Allowance information as required.
- Improve data quality.
- Improve efficiency by:
 - Continually improving work allocation, completion and checking processes;
 - Maintaining central process notes and ensuring their use;
 - The use of training matrices in conjunction with the My Plan process to manage staff development;
 - Helping employers to provide 'right first time' starter, change and leaver information;
 - Encouraging improvements and efficiencies in governance arrangements;
 - Channelling queries through the 'one number' helpline and generic email inbox;
 - Encouraging increasing Fund member use of on-line information and facilities;
 - Taking a risk based approach to process improvement; involving staff in improvement projects; and
 - Sharing costs / effort / ideas with Leicestershire Pension Fund and others as appropriate.
- Support the Local Pension Board.

PERFORMANCE MEASURES

Ref.	Indicator	Definition and Success Measure	Owner	Key Due Dates/Achieved
CFI1	Investment Report	Report Fund asset allocation mix, performance and recommended strategy to the Pensions and Investments Committee.	DKK	Quarterly: March, June, September and December
CFI2	PEL Performance Report	Monitor and report quarterly performance. Target out-performance over 1, 3, 5 and 10 year periods.	DKK	Quarterly: March, June, September and December

CFI3	Investment management costs per member	Monitor and seek to reduce (on a growth and mix adjusted basis) investment management expenses per member	DKK	Annually post year-end
CFI4	Admin cost per member	The cost of providing the pensions administration service divided by the number of members in the Derbyshire Pension Fund. Success is defined as maintaining a cost lower than the benchmark across the LGPS Funds in England and Wales.	ND	Annually post year-end
CFI5	Statement of Accounts	Deliver the Fund's year-end accounts within statutory deadlines. Deliver the Pension Fund's Annual Report within LGPS Regulations.	DKK//ND/EMS/RD	Pre-audit statutory accounts: 30 June / Post-audit statutory accounts: 30 September / Annual Report: 1 December
CFI6	Three Year Cash Flow	Review and update the three year cash flow annually. Monitor cash flow performance on a quarterly basis. Targeted reduction in cash weighting towards 2.0% neutral position.	RD	Update cash forecast annually in May/June. Monitor cash position on a quarterly basis
CFI7	Divisional Service Plan	Develop a Service Plan in agreement with Key Officers within the Division to ensure that the Plan receives approval prior to the start of the new financial year. Target achievement of the objectives set out in the Service plan within an appropriate time scale.	DKK/ND	Annually
CFI8	Staff Development	Annual My Plans; attainment of supported professional qualifications. There should be at least two members of the Pension Administration team studying for the CIPP qualification (or equivalent) at any time.	DKK/ND	On-going
CFI9	Absence management	The target is to achieve and maintain an average sickness level of less than 5 days per member of staff per year.	DKK/ND	Monthly check on Workplace

CFI10	Pension Administration Operational Reports	1) Member movement analysis 2) Status changes 3) Data cleanliness 4) Internal performance against targets 5) Individual workload	ND	Vary by report; typically monthly or quarterly
-------	---	--	----	---