

Agenda Item No. 4 (a)

**DERBYSHIRE COUNTY COUNCIL
PENSIONS AND INVESTMENTS COMMITTEE**

8 May 2019

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 2019–20.

2. Information and Analysis

The Service Plan (the Plan), attached as Appendix 1, sets out how the Pension Fund Team, which is made up of Investments staff and Pensions Administration staff, will contribute to the priorities of Derbyshire Pension Fund (the Fund) in 2019–20. It also describes how these priorities will be delivered and how success will be measured.

The Plan also reports on progress against the objectives set out in the Fund's 2018/19 Service Plan and provides details of the services that are expected to be procured by the Fund up to 31st March 2021.

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 2019-20 Service Plan.

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 around 280 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 102,000 members of Derbyshire Pension Fund; 41,000 active contributing members, 31,000 deferred beneficiaries and 30,000 members in receipt of pension. Key stakeholders of the Fund include: pension fund members; employers and local tax payers.

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 Investments Team and a Pensions Administration Team. Both teams contribute to the governance of the Pension Fund.

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

The Investments 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 £4.8bn. Following the launch of LGPS Central Limited (LGPSC) on 1 April 2018, and the resultant transfer of several investment professionals to LGPSC on that date, the Investment Team is now comprised of an Investment Manager, a Pension Fund Accountant and 2 Business Services Officers.

The Pensions 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, 43 Pensions Officers across three levels and 3 Business Services Assistants.

Key services include:

- Managing and monitoring the Fund's governance obligations, including supporting the Local Pension Board and formulating and reviewing the Fund's statements, strategies and policies which include: Governance Policy & Compliance Statement; Funding Strategy Statement (in conjunction with the Fund's Actuary); Investment Strategy Statement; Communications Policy Statement; Risk Register; and Voting Policy.
- Reporting to and providing support to the Pensions and Investments Committee.
- Maintaining records for around 102,000 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.
- Co-ordinating and providing the base data for the triennial pension fund valuation.
- 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.
- Preparing the Fund's Annual Report.
- Providing investment settlement services (i.e. processing cash payments and receipts) in respect of the Fund's investment portfolio.

KEY ACHIEVEMENTS IN 2018-19

Key achievements over the last 12 months include:

Governance:

- Successful launch of a new dedicated website for the Fund with distinct branding and a substantial refresh of the content.
- Sound management of the new pension administration system project via an effective Project Board and a dedicated Project Team.
- Delivery of a targeted training programme for members of the Pensions and Investments Committee and the Pension Board and development of an induction information manual for new members of the Pension Board.
- Agreement of revised Pensions and Investments Committee Terms of Reference for recommendation to Full Council.
- Successful recruitment of two new members to the Pension Board.
- Development of a delegated Admission Body Approval Process and a Legislative Breaches Log and the formulation of a Governance Policy and Compliance Statement.
- Completion of a review of the Fund's arrangements for Additional Voluntary Contributions.
- Implementation of processes and procedures to comply with the introduction of the General Data Protection Regulations.
- Completion of the 2018/19 Pension Fund accounts on target, and preparation of the Pension Fund Annual Report with a clean response from the external auditor.
- Development of the Pension Fund team briefings to encourage a "one team" approach and to improve the focus on the Fund's objectives.
- Continuation of significant contribution to the LGPS Central Pool's governance arrangements including: hosting the Practitioners' Advisory Forum which supports the Pool's Joint Committee and Shareholders' Forum; leading the Pool's Finance Working Group which reviews the LGPSC Annual Budget, represents the Partner Funds in budget discussions with LGPSC, and monitors Partner Fund cost sharing arrangements; assisting the development of collaborative Partner Fund audit arrangements with respect to pooling; starting to develop a new Cost Savings Model in collaboration with LGPSC; and contributing to the pooling update reports to the Ministry of Housing Communities and Local Government.

Investments:

- Outperformance against the fund specific benchmark over 3, 5 and 10 years.
- Provision of asset allocation advice and support to the Director of Finance & ICT and the Pensions & Investments Committee and active participation in the development of the LGPS Central offer.
- Formulation of a new Strategic Asset Allocation Benchmark (SAAB) designed to “lock-in” some of the recent improvement in the Fund’s funding position following an Asset Liability Modelling Review.
- Formulation of a revised Investment Strategy Statement to reflect the new SAAB, developments with regard to the LGPS Central Pool and to the Fund’s approach towards Responsible Investment.
- Continued build of significant commitments to Infrastructure, Private Equity and Multi-Asset Credit.
- Initial assessment of the options for the new allocation to Global Sustainable Equities.
- Successful internal management of the Fund’s sovereign bond portfolio.
- Continued internal management of a substantial proportion of the Fund’s investments despite the significant reduction in investment staffing resource.

Pension Administration:

- Data successfully migrated to the new pension administration system and “Go Live” date of 4 March 19 achieved.
- Significant data cleansing exercise and re-evaluation of processes and procedures as part of the implementation of the new system.
- Continued progress in the reduction of the backlogs that resulted from the introduction LGPS 2014 and the inadequate performance of the previous pension administration system.
- Successful on boarding of a record number of 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 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.

KEY PERFORMANCE INDICATORS 2018-19

Ref.	Indicator	Definition and Success Measure	Owner	2018-19 Performance
CFI1	Investment Report	Report Fund asset allocation mix, performance and recommended strategy to the Pensions and Investments Committee.	DKK / NAS	Achieved quarterly.
CFI2	PEL Performance Report	Monitor and report quarterly performance. Target out-performance over 1, 3, 5 and 10 year periods.	DKK / NAS	Performance monitored and reported quarterly to the Pensions and Investments Committee. Outperformance over, 3, 5 and 10 year periods achieved (to Dec 18).
CFI3	Investment management costs per member	Monitor and seek to reduce (on a growth and mix adjusted basis) investment management expenses per member.	DKK / NAS	Achieved when adjusted for growth and mix and commitment build.
CFI4	LGPS Central Ltd net performance and cost recharges	<p>Monitor the net of cost performance returns versus benchmark by mandate / product.</p> <p>Monitor LGPS Central cost recharges to ensure these are in line with the agreed budget and agreed cost sharing principles.</p>	DKK / NAS	<p>Achieved - quarterly performance review meetings held with the company.</p> <p>Achieved – quarterly recharges monitored and reviewed.</p>
CFI5	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	Achieved for 17-18 – Derbyshire Pension Fund £20.34 admin cost per member compared to LGPS average of £20.89 from MHCLG SF3 Report (Oct 18).

CFI6	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: 31 May 2018 / Post-audit statutory accounts: 31 July 2018 / Annual Report: 1 December 2018 – all deadlines met.
CFI7	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 subject to market conditions.	RD	High level cash flow prepared in Q3 2018. A full 3 year cash flow forecast will be developed in Q2 19/20 following the development of the Pension Fund budget. Cash is monitored on an on-going basis by the Treasury Management Accountant and is reported to IM and HoP.
CFI8	Divisional Service Plan	Develop a Service Plan in agreement with Key Officers within the Division. Target achievement of the objectives set out in the Service plan within an appropriate time scale.	DKK	Service plan developed in agreement with key officers and objectives targeted.
CFI9	Staff Development	Completion of Annual My Plans.	DKK / NS / ND	Ongoing.
CFI10	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 / NS / ND	This target has not been achieved; absence is managed in accordance with the Council's attendance management procedures and the trend in absences is improving.

CFI11	Pension Administration Operational Reports	1) Member movement analysis 2) Status changes 3) Data cleanliness 4) Internal performance against targets	ND	Reports presented to Pensions and Investments Committee and Pension Board on a quarterly basis.
CF12	Pension Administration System implementation	Migrate to, and manage the implementation of, the replacement pension administration system by March 2019.	DKK / ND / Project Team	Achieved – system went live 4 March 2019

RESOURCES

The new pension administration system is expected to provide the Pension Fund with an improved support system during 2019/20. Three new members of staff are expected to be recruited in 2019/20 (Assistant Fund Manager and two Business Services Assistant) to strengthen the Investment Team and improve succession planning. The newly formed Staff Development Group, which is developing consistent induction plans for new staff and development plans for all the Team, is expected to increase the opportunities for staff rotation within the whole Pension Fund Team to increase the resilience of the service. A dedicated legal post to support the Pension Fund is expected to be put in place during 2019/20.

PLAN OF PENSION FUND PROCUREMENTS FROM 1st APRIL 2019 TO 31 MARCH 2021

Custodian Services	Jun 19
Fixed Income Research	May 19
Investment Performance & Cost Monitoring/Benchmarking & Reporting	Apr 19
Investment Property Performance Measurement	May 19
Macro-Economic Research	Apr 19
Portfolio Performance Measurement	Jun 19
Property Valuation	Dec 19
Sustainable Global Equities Portfolio Managers	May 19
Tax Advisory Service	Aug 19
US Equity Discretionary Portfolio Manager	May 19
Voting Service	Mrch 20

PRIORITIES 2019-20 and the medium term

Priority	Timeline	Owner
Complete an audit of the Fund's governance arrangements, including a review of all the Fund's statements, strategies and policies.	To be completed by Dec 19	DKK
Further develop and promote the Fund's website and utilise it to provide customer feedback.	2019/20	ND/SW
Implement the Fund's new Strategic Asset Allocation Benchmark.	New allocations to be committed by Dec 19	NS
Develop a budget for the Pension Fund.	By May 19	DKK/RD
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
Deliver the Fund's new allocation to Global Sustainable Equities.	By Sept 19	NS
Continue to develop a sustainable working relationship with LGPS Central Ltd and the Partner Funds within the Central Pool and ensure, where possible, that the Pool develops products to deliver the Fund's investment strategy.	Ongoing	DKK/NS
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	ND
Implement and roll out an employer automated data submission and validation service to employing authorities.	2019/21	ND/SW
Develop a member self-service system.	2020/21	DKK/ND
Develop and implement employer covenant analysis.	To be implemented by June 19	DKK/SW
Manage the actuarial valuation process and seek agreement for the Funding Strategy Statement including employer contribution rates from April 2020.	To be completed by end March 20	DKK/ND
Develop a more sustainable staffing resource for the Pension Fund.	Ongoing	DKK

KEY PERFORMANCE INDICATORS

Indicators	Definition and Success Measure	Timeline	Owner
TPR Code of Practice 14	Ensure full compliance with the Pension Regulator's Code of Practice No. 14 – with confirmation to be sought from the Pension Board.	Dec 19	DKK/ND
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
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.	By March 2020	DKK/ND
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.	Dec 19	NS