

Local Members Interest	
Nil	

PENSIONS COMMITTEE – 15 JUNE 2018

Report of the Director of Finance and Resources

Staffordshire Pension Fund Business Plan 2017/18 Outturn

Recommendation of the Chairman

1. To note and approve the outturn position of the Staffordshire Pension Fund Business Plan 2017/18.

Background

2. At the beginning of each financial year, the Pensions Committee is asked to approve an annual Business Plan for the Staffordshire Pension Fund. This report details the final outturn position for the financial year 2017/18 and summarises the key achievements against that Business Plan.
3. The Business Plan that was approved for 2017/18 is set out in Appendix 2. The final position against the plan shows that the majority of planned activities have been achieved or are in progress. Of those in progress, some are classed as 'business as usual' activities and these together with several other 'development' activities have been carried forward into the 2018/19 Business Plan.
4. Key achievements during 2017/18 were reported to the March Pension Committee as being:
 - (i) Pensions Administration Team
 - Implementing new processes and procedures following a review of the Fund's Additional Voluntary Contribution (AVC) providers at the end of 2016;
 - Issue of the Annual Benefit Statements by 31 August 2017; and
 - An initial review of compliance to The Public Service Scheme Code of Practice and Public Service Regulatory Strategy in relation to Disclosure of Data e.g Breaches.
 - (ii) Pensions Investment Team
 - Appointment of an independent Performance Measurer for the investments of the Fund; and
 - Continued support to LGPS Central Ltd in its progress towards Financial Conduct Authority (FCA) approval.
5. Additionally throughout the year there have been a number of Internal Audit reviews across the two teams. The Pension Fund Governance and Pensions Investment Audits both received 'significant' assurance from Staffordshire Audit Services and the Pensions Administration and i-

Connect audits both received 'adequate' assurance, that the necessary controls are in place.

Pensions Administration - Performance Standards

6. The Pensions Administration Team's Service Standards for 2017/18 are attached at Appendix 3. The Committee are asked to note the significant improvement in these standards over the previous two years and also the number of performance targets achieved in 2017/18. A summary of the position is as follows:
 - 2015/16 showed that a 90% performance target was achieved in 6 of the 15 published standards.
 - 2016/17 shows that a 90% performance target was achieved in 4 of the published 15 standards.
 - 2017/18 shows that a 90% performance target was achieved in 8 of the 14 published standards and for the month of March this increased to 11 out of the 14 published standards.
7. Furthermore in 2017/18:
 - 13 out of the 14 published standards have either maintained target or improved performance levels compared to 2016/17; and
 - If the target measure was set at 80% then this would mean that 12 of the published 14 standards would have been achieved consistently in 2017/18.
8. Whilst extremely pleasing to report, it is difficult to be precise about the reasons for the increased performance. An analysis of volumes illustrates that in some cases volumes have decreased with a resultant increase in the service standard and vice versa, but this is not the case in all areas and more work needs to be undertaken in capturing the 'throughput' of work in each service standard to provide a truer reflection for Senior Management to consider. The backlog work being carried out by JLT in certain areas also needs to be factored into these new metrics.

Ongoing workloads and impact on Performance Standards

9. In previous years, the Committee received reports predicting that performance standards would reduce for a number of reasons:
 - the introduction of a more complex Pension Scheme on 1 April 2014, meaning that there are effectively 3 schemes under administration;
 - an ever increasing number of Scheme employers;
 - difficulty in recruiting experienced employees; and more recently,
 - the fragmentation of the County Council's payroll services, which means that direct access to employer data has been removed, making doing the day job in terms of the benefit calculations that little bit more involved.

It is important to remind the Committee, therefore, that going forward these challenges still remain.

10. Day to day challenges are also added to, by a number of unexpected larger Employer restructuring exercises, whereby access to the LGPS is being withdrawn or restricted to certain Employees. This in turn results in a significant amount of extra work for the Pensions Administration Team in providing scheme members with estimates for deferred and retirement benefits and Employers often request priority for these exercises, over and above our statutory obligations and reporting deadlines, to fit in with their own consultation deadlines.
11. Unforeseen changes in Regulations also have an impact on workload that needs to be accommodated. The recent LGPS (Amendment) Regulations 2018, which came into being on 14 May 2018, makes provision for *the payment of deferred benefits from age 55 for leavers before 1 April 1998 and between 1 April 1998 and 31 March 2014*. A quick interrogation of our records indicates that there are 6,288 deferred cases (post 1998 leavers) who are currently between age 55 and 59 and who may now ask for benefit calculations.

Other considerations

12. Not all administration processes are benchmarked but most are usually complex and time consuming areas of work for example:
 - Payment of transfers between Local Government Pension Funds.
 - Combining pension records for re-joining members known as aggregation.
 - Concurrent employment cases.
 - Data cleansing.
 - Software upgrades & testing ICT infrastructure.
 - Record maintenance.
 - Issue of Annual Benefit Statements.
 - Attending retirement sessions to support members being made redundant.
 - Communication projects for example Academy training sessions.
 - Introducing new software to employers for the monthly transmission of data to the pension system and onboarding (i-Connect).
 - Pensions Increase exercise
 - Production of HR costing data for employers.
 - Regulatory and legal support to employers.

Many of these are included in the Business Plan as Business as Usual activity.

Pensions Administration Team Staffing

13. Previous outturn reports to Committee have made mention of problems with recruiting experienced staff and the time and additional in-house resource it takes to train in-experienced staff. Several staff were transferred from the County Council's Shared Service Centre in 2016/17

and the fact they have now been fully trained and are working at almost full capacity is one of the reasons cited for the improvement in performance standards.

14. The Team has, however, lost a number of experienced staff over the last 12 months due to retirement and it is pleasing to be able to report that a successful recruitment exercise with the intention of once again 'training our own' has resulted in 3 new staff joining the team on 2 July 2018. This will take the number of full-time equivalent staff in the Team to 42.70 FTE which has been the result in a gradual and measured increase in staff from 37.50 FTE in 2014/15.

Pensions Investment Team

15. As well as undertaking their day to day accounting and contract monitoring activities, the investment team were kept busy during the year with several projects:
 - Work on the creation of LGPS Central Ltd has continued over the last 12 months, with several members of the team involved in the continuing development of the LGPS Central pool. Whilst the official launch date for LGPS Central Ltd to trade was 3 April 2018, the first transfer of assets (Global Equities) from Staffordshire is not planned until Q3 of 2018. In line with the Company's wider business plan, transition activity will continue for a considerable number of years going forward.
 - Private Debt was an area of focus for Officers during the year. Significant time was devoted to working with incumbent private debt managers to model the forecast cash flows of the Fund's investments. This then allowed for a report to be presented to the Pensions Panel on the annual commitments required to grow the Funds investment in this fairly new asset class. A monitoring process has also been put in place.
 - Undertaking a detailed review of the control reports (referred to as AAF01/06, SOC1, SSAE16) of the various investment managers to provide assurance that the Fund's data and investments monies are at minimal risk of fraudulent activity.
16. The Committee will receive a presentation from the Fund's independent performance measurer, Portfolio Evaluation Limited on the detail of the Fund's investment performance at the meeting. And whilst the heady investment returns of 2016/17 were no longer produced by markets, it is still pleasing to note that in 2017/18, the Fund produced positive absolute investment returns of 3.1%, marginally outperforming the return of its strategic benchmark by 0.1%.
17. Over the longer term, the Fund has outperformed its strategic benchmark in the 3, 5 and 10 year time periods with annualised excess returns over 3 and 5 years in excess of 8%, well ahead of the investment return assumptions used by the Actuary in the triennial valuation.

Pension Fund Budget and Costs

18. At previous Pensions Committee meetings Members were asked to note that instead of setting an annual budget and relying on budget monitoring to manage cost, the Committee should place more reliance on cost comparisons, benchmarking and trends to ensure that value for money is delivered. Considering comparative figures is considered a better approach to understanding and managing the cost base of the Fund, thus ensuring that value for money is consistently delivered.
19. Unfortunately, the availability of comparative figures is decreasing and so going forward, it is considered beneficial to use a combination of both budget monitoring and benchmarking.
20. The headline budget reported to Pensions Committee for 2017/18, as part of the Business Plan versus the headline Actual Outturn position is provided in the Table below.

	2017/18
	£000
Forecast Budget	16,150
Actual Outturn position	<u>16,760</u>
Under (Over) spend	<u><u>(610)</u></u>

21. The apparent overspend of £610,000 can be explained by the lack of an original estimate being included in the Forecast Budget for the set-up costs of LGPS Central Ltd, which we now know to be in the region of £500,000 and which will be reimbursed by the Company in 2018/19. The true overspend is therefore £110,000 which relates to the cost of implementing the i-Connect software. The tables that follow break the Actual Outturn position down into more detail, as per the reporting classification in the annual accounts, and provide comparisons to previous years expenditure.
22. The following table shows this year's **Administration Costs** compared to the last two years:

	2015/16	2016/17	2017/18
	£000	£000	£000
Pensions administration	2,249	2,074	2,248
Legal costs	84	71	140
Other costs	13	16	5
Total Administration Costs	<u>2,346</u>	<u>2,161</u>	<u>2,393</u>

23. The increase in Pensions administration costs predominantly relate to the cost of implementing the i-Connect software, which enables the better capture of employer payroll data. And whilst there has been an increase in legal costs, due to an increased level of Employer activity requiring legal input, some of this remains to be recharged in 2018/19.

24. Using the latest data available (for 2016/17), we can compare the cost per scheme member of our Pensions Administration Team to those of the 32 other Funds (out of a possible 90) captured by the CIPFA benchmarking service. The 2015/16 costs are provided in brackets for reference.

2016/2017	Administration costs per scheme member	
	SCC	Average
CIPFA benchmarking - pensions administration	£20.63 (£23.17)	£20.14 (£18.37)

25. In 2015/16 Staffordshire Pension Funds costs were significantly higher than average due to the additional costs of introducing the new Pension Payroll system. The majority of these costs have now fallen away and the Pensions Payroll is starting to deliver savings, hence the cost per scheme member has reduced in 2016/17, closer to the average cost. For the sake of consistent benchmarking, part of the costs of the pension’s payroll project were spread over 5 years, and without these costs included in the 2016/17 figures, it is estimated that the comparative costs per scheme member would be around £20.13; spot on average.

26. What is also interesting from the above table is that fact that the average cost itself has increased by just under 10% from 2015/16 to 2016/17. Looking at the detail behind this, in the CIPFA report, makes it clear that this is predominantly due to the direct costs of staff; a legacy of the introduction of the 2014 scheme?

27. The following table shows this years **Oversight and Governance Costs** compared to the last two years:

	2015/16 £000	2016/17 £000	2017/18 £000
Audit Fees	31	34	29
Actuarial Advice	152	249	97
Governance Expenses	185	187	176
Investment Oversight fees	245	150	165
Other	94	322	545
Total Oversight & Governance costs	707	942	1,012

28. Total Oversight and Governance costs have increased in 2017/18. This is predominantly due to the Fund incurring £416k of set up costs relating to LGPS Central, albeit these will be refunded in 2018/19 as they will be passed back to the Company as an operating expense. These are included in ‘Other’ costs in the table above and without these costs, Oversight and Governance costs would have significantly reduced in 2017/18.

29. The following table shows the comparative **Investment Management Costs** of the Fund for the past three years.

	2015/16	2016/17	2017/18
	£000	£000	£000
Investment managers	12,246	11,524	11,763
Property costs	1,023	1,050	1,301
Consultants and advisors	7	9	9
Other	401	739	782
Total investment costs	<u>13,677</u>	<u>13,322</u>	<u>13,355</u>

30. Investment management costs in 2017/18 have remained fairly constant compared with previous years, even with the growth in assets under management (AUM) during the year. This was mainly due to the full year effect of the termination of contracts with two global active equity managers in January 2017, and the subsequent re-investment of the monies in global passive equity funds at a significantly reduced cost.
31. The market value of the Fund's assets has increased by over 25% over the last 2 years, and despite the majority of the Fund's investment management fees being based on the value of AUM, the overall level of fees paid in 2016/17 reduced but then stayed consistent in 2017/18 in absolute terms. This point is illustrated in the following table, which shows the growth in the assets of the Fund and also the reduction / consistency in fees in percentage terms.

	2015/16	2016/17	2017/18
	£000	£000	£000
IM Fees	12,246	11,524	11,763
Fund value at 31/3	3,747,001	4,587,100	4,775,829
Fee level (%)	0.35	0.25	0.25

Cost Benchmarking

32. In previous years it was possible to benchmark the Fund's Investment Management Costs, using data taken from the SF3 Government return, but this service is no longer being offered by MHCLG LGPS Statistics. With the advent of pooling and the wider agenda for cost savings as a result, LGPS Central Partner Funds are keen to work together to explore a number of options to ensure that they can put some appropriate and meaningful metrics in place, both for peer benchmarking within and potentially across pools.
33. In order to seek further reassurance about cost, Staffordshire Pension Fund has taken part in an extended benchmarking exercise with international company CEM Benchmarking. CEM benchmark 400+ global pension funds with plan sizes ranging between £35m and £600bn.
34. The 2016/17 CEM survey grouped Staffordshire Pension Fund with 21 LGPS and international funds ranging in size from £3.0bn to £8.2bn (a

median size of £4.8bn versus our £4.6bn). Based on a comparative cost base, taking into account embedded costs, but before adjusting for asset mix, our Fund's costs of 53.2 basis points (bps) were 4bps above the peer median of 49bps. However, when adjusting for asset mix, our Fund's costs of 53bps were below the benchmark cost of 56.1bps, by 2.8bps. This demonstrates that the Staffordshire Pension Fund is a low cost scheme, with our slightly lower cost being attributable to the fact that we paid less than our peers for similar services.

35. CEM have been appointed to continue to work with the 8 LGPS Central Partner Funds going forward and have been invited to talk more about cost benchmarking at the Committee's training session in July.

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Background Documents: None

Equalities implications: There are no direct equalities implications arising directly from this report.

Legal implications: There are no direct legal implications arising from this report.

Resource and Value for money implications: Resource and value for money implications are considered in the report.

Risk implications: There are no direct risk implications the report does contain some actions to address risks identified in the risk register.

Climate Change implications: There are no direct climate change implications arising from this report.

Health Impact Assessment screening – There are no health impact assessment implications arising from this report.

Issue to be addressed	Key Development Activity	Comments
LGPS Pensions Administration	Review Administration Team staffing levels and structure	Under ongoing review
	Review Processes and Procedures (i-Connect) (new SCC Finance System)	Achieved with ongoing review
	Develop new working Practices (Third Party Payroll Providers)	Partially Achieved with ongoing review
	Compliance with new General Data Protection Legislation (GDPR)	Substantially achieved by May 2018
	Finalise Year end data	Achieved
	Issue Active and Deferred Annual Benefit Statements	Achieved
	Record Keeping Data Integrity Checks	Ongoing to March 2019
	Introduce employer asset tracking model (HEAT)	Partially achieved but further input required
	Revise HMRC maximum allowance process	Achieved
Fire Pensions Administration	Train additional Support Staff	Partially Achieved
	Explore providing administration to additional Fire Authorities	NB. Service terminated with effect from June 2018
	Issue Active and Deferred Annual Benefit Statements	
Pensions Administration System	Implement Pension Payroll Phase 3	Deferred as update not yet available from Heywoods
	Implement I Connect Phase 1 Staffordshire County Council	Ongoing
	Implement I connect Phase 2 Large Employers	Partly achieved and ongoing
	GAD Transactional data project	Achieved
Reconciliation – Contracting Out	Phase 1 Finalise Deferred and Pension members	Ongoing
	Finalise under/overpaid pensioner members	Ongoing
	Phase 2 Active Members commence reconciliation	Ongoing
Governance	To ensure that the Pension Board members have the appropriate skills and knowledge and are able to demonstrate their level of	Ongoing – Training Plan in place

Issue to be addressed	Key Development Activity	Comments
	understanding	
	To ensure that the Committee members have the appropriate skills and knowledge and are able to demonstrate their level of understanding	Ongoing – Training Plan in place
	Conduct CIPFA skills gap analysis	Achieved
	Appoint Actuarial Adviser to the Fund	Achieved
Communications	Review website content and structure	Ongoing
	Revise Employer Administration manual	A review of the format of this document is ongoing
	Finalise and communicate administration strategy	Ongoing
The Pensions Regulator	The Public Service Scheme Code of Practice and Public Service Regulatory Strategy – Review compliance	Achieved
	Comply with Record Keeping Regulations	Ongoing
	Monitor and report employer performance	Achieved
Additional Voluntary Contribution Providers	Embed new processes for Scottish Widows	Achieved
	Implement changes to investment routes for Standard Life	Achieved
Pension Fund Investment	Review Strategic Asset Allocation in the context of the Investment Structure being offered by LGPS Central	Achieved
	Tender and appoint Performance Measurer	Achieved
	Continue to respond to and develop detailed pooling proposals with LGPS Central	Achieved
	Tender and appoint Independent Investment Advisor	Deferred