

PENSIONS COMMITTEE – 15 MARCH 2019

Report of the Director of Corporate Services

Staffordshire Pension Fund Business Plan 2019/20

Recommendation of the Chairman

1. That the Pensions Committee approves the Pensions Business Plan for 2019/20 and notes the key challenges.

Background

2. For reasons of best practice and good governance, it is important for the Pensions Committee to consider and approve an annual Business Plan for the Pension Fund. This report reviews progress against the current financial year's Business Plan (Appendix A - 2018/19) and provides the proposed Business Plan for the following financial year (Appendix B – 2019/20).

Pensions Business Plan 2018/19 – Progress Update

3. Progress against the current year's Business Plan is detailed in Appendix A. As well as continuing to do the 'day job' and the increasing challenges that this presents, in effectively administering 3 schemes, significant successes have been achieved in several areas including;
 - Implementing Hymans Employer Asset Tracker (HEAT) in preparation for the 2019 Actuarial Valuation;
 - Ensuring full compliance with the General Data Protection Regulations (GDPR);
 - Making real progress with i-Connect;
 - Engaging with Employers through Employer Focus Newsletters, an Employer Training Day and the creation of an Employer Focus Peer Group;
 - Redesigning the Staffordshire Pension Fund Website;
 - Embedding the Governance of the LGPS Central pool, including the working of the Shareholders Forum, Joint Committee and the Practitioners Advisory Forum and its working groups; and
 - Preparing for the transition of Assets into LGPS Central Limited.

Full details will be included in the final outturn report which will be presented to the Pensions Committee at their meeting in June 2019.

Performance Standards 2018/19

4. The Committee have been made aware in previous year's reports of the challenges implicit in administering the LGPS, since the introduction of the 2014 scheme and the regulatory complexity that brings with it. Indeed, at its last meeting, the Pensions Committee approved a 6-month extension to the backlog project, undertaken with an external provider, to assist with the competing demands on internal resources.
5. Whilst performance in certain areas may not be back to the optimum target levels the Pensions Services Teams aspire to, there is a real sense that things are improving. Issues with recruiting appropriately skilled staff were addressed via a recruitment exercise in 2018, to begin to 'grow our own' instead. Several new staff are fast approaching being up to speed and are a good addition across the teams.
6. Issues due to the increasing number of payroll providers are being addressed and remain a key priority. The wider implementation of i-Connect will assist in the quality and timeliness of data, albeit in the short term, this will create additional pressure on the teams as it generates more errors and queries.
7. A full set of performance statistics will be provided as part of the Outturn reporting for the June Committee.

Pensions Business Plan 2019/20

8. The Business Plan for 2019/20 has been split into 2 distinct sections. The first section deals with Key Development Activities which aim to make the way we work more efficient and effective. The second section deals with the activities that we need to undertake as part of the day job, but which impact us significantly at certain points in the year or which happen as a by-product of another activity e.g. finalising the year end data.
9. And, whilst there are new areas of focus for development in 2019/20, it must be recognised that an Actuarial Valuation year always puts immense pressure on Pensions Administration teams in the LGPS and Staffordshire is no different. Therefore, our Key Development Activities in 2019/20, to some extent, will build on embedding the good development work the team undertook in 2018/19 into our 'Business as Usual' activity.
10. Some of the areas that the Pensions Services Teams have identified as Key Development Activities in 2019/20 include:
 - Undertaking a Mortality / Living as Stated / Tracing Exercise prior to the issue of our Deferred Members Annual Benefit Statements in 2020;

- Continuing to implement i-Connect software for data collection with Fund Employers, with the aim of having **as close to 100%** of Active Fund Member data being submitted monthly;
- Continued development of the Pension Fund's website (www.staffspf.org.uk) and the promotion of Member Self Service;
- Reviewing the Fund's Strategic Asset Allocation alongside the Actuarial Valuation;
- Maintaining effective pool Governance and monitoring asset transitions into LGPS Central as more sub-funds are launched; and
- Appointing 4 Members of the Local Pensions Board.

Pensions Administration – Key Development Activities

Tracing Services

11. The Staffordshire Pension Fund has an unusually high level of Deferred Members who have a Pensions record but no longer pay contributions into the Scheme; usually due to them changing their job to one which means they are no longer eligible to be a member of the LGPS. As with Active Members, however, Deferred Members are entitled to receive an Annual Benefit Statement (ABS). But given they are less likely to engage with the Fund, regards change of address or personal circumstances etc, it is quite often the case that ABS's get returned. Similarly, the Fund may not have received notification of death for a Deferred Member. It is therefore good practice to undertake a Tracing Exercise to pick these changes up, at least every 2-3 years.

Continued implementation i-Connect

12. Work has been ongoing throughout 2018/19 to get several of the larger payroll providers to submit their pensions data monthly, via the i-Connect module in Altair, the Pensions administration system. Whilst much of the effort, from both sides, is now coming to fruition, there is a need to keep the momentum going and engage with the remainder of Employers to encourage their payroll providers to do the same. This will not only assist in the accuracy and timeliness of data, but it will also help to ensure that the Fund is fully compliant with The Public Service Scheme Code of Practice and Public Service Regulatory Strategy in relation to the Disclosure of Data.

Website, Member and Employer Communications

13. The Fund's new look website was launched in late 2018 and we have received many positive comments. The layout is more intuitive with a fresher look and feel to it and already we are beginning to see changes in the way Scheme Members use the website and ultimately, we hope to see a fall in the

number of telephone enquiries as a result. We have also unlocked most of the pages in the Employers' dedicated area where we are beginning to provide them with new factsheets to accompany the various guides they already have access to. But there is still much more to do and work will remain ongoing throughout 2019/20.

14. Through the Fund's website, we also want to promote the use of the Member Self Service (MSS) portal in Altair. Once they have signed up, any Scheme Member can view their pensions data and calculate their retirement benefits payable in the future. Whilst arguably Scheme Members who are over the age of 55 are more likely to find MSS of interest initially, our longer-term intention is to use MSS as a means of providing both Active and Deferred Scheme Members with their ABS.

Pensions Investment – Key Development Activities

Strategic Asset Allocation (SAA)

15. Alongside the 2019 Actuarial Valuation, it makes sense to review the Fund's Strategic Asset Allocation, i.e. how much of the Fund's assets are to be invested in Equities, Bonds, Property, Alternatives and Cash. Whilst some preliminary modelling has been undertaken by Hymans Robertson, the Fund's Investment Consultant, and it appears that the Fund has little scope to reduce its SAA to growth assets, such as equities, it will be advantageous to consider the granularity within asset classes e.g. UK equities versus Global Equities. There will also be a need to factor in the sub-fund launches planned by LGPS Central Limited in any re-allocation across and within the asset classes. Any changes in the SAA will be brought to the Pensions Committee as a recommendation of the Pensions Panel in due course.

LGPS Asset Pooling

16. Over the last 3 years, the Committee have been regularly updated and remained engaged with the numerous complexities surrounding LGPS asset pooling and the creation of LGPS Central Limited, which was successfully launched on 1 April 2018. Work has continued at pace for Officers of the 8 Partner Funds, throughout the company's first year of operation; to implement the various Governance arrangements, plan for asset transitions as the first sub funds were launched and work with the Company to refine and develop the investment offering and determine the next range of sub funds. This level of Officer commitment will need to continue throughout 2019/20, as more of the Fund's assets transfer into LGPS Central Limited and transition activity increases. Performance reporting and refined accounting arrangements, in line with the new guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) also must be considered and implemented.

Cost and Resources

17. The Pension Fund currently has five main areas of 'resource/cost';

- Pension’s administration and accounting (internal);
 - Advice from actuary and consultants/advisors (external);
 - Legal support either internal or external;
 - Investment management (external);
 - Custody (external).
18. A number of costs are very difficult to anticipate for example, costs for investment advice and legal support vary depending on the level of activity. Investment Management fees vary dependent of the GBP (£) amount of assets under management (AUM) and the level of manager performance, impacting on the payment of performance related fees. Therefore, it is likely that there could be considerable variation in the final outturn position.
19. CIPFA reporting guidance states it is good practice to produce a three-year budget and Table 1 illustrates our best estimate of the likely budget costs for the three years commencing 2019/20. Clearly, given the difficulty outlined in the previous paragraph these are indicative costs only and as such will be subject to further variation with changes over time.
20. The indicative costs have been produced using the information we have available at the current time, with reasonable assumptions made about growth in AUM and levels of activity. However, even small changes in activity levels combined with other factors, such as increases in the governance and running costs of LGPS Central Limited or contra to that, reduced investment manager fees, as a direct or indirect result of asset pooling, could create significant variations from these figures.

Table 1 - Indicative Pension Fund Costs 2019-2022

Cost Heading	2019/20	2020/21	2021/22
	£000	£000	£000
Pensions Administration	2,400	2,450	2,500
Governance*	970	990	1,010
Audit	30	40	40
Actuarial Fees	280	100	110
Legal Fees	270	270	280
Investment Advice	180	190	190
Investment Management Fees**	12,310	12,400	12,500
Property Expenses (ex-legal)	1,720	1,760	1,800
Monitoring and Custody	100	90	90
Other expenses	510	520	530
Total	18,770	18,810	19,050

**Includes the running costs of LGPS Central*

*** the above does not include the cost of transition which will be taken from the capital value of assets.*

21. The LGPS Central Limited Strategic Business Plan and Budget for 2019/20 was approved by Shareholders on 12 February 2019. Whilst the full implications of this for Partner Funds is still being analysed through the cost / savings model, the Fund's estimated share of the budget is included in the Governance costs in the table above. Whilst, this includes an element of fixed cost, that the Fund must pay by virtue of being a Shareholder of the company, many other elements of cost will be dependent on a number of variables, including the services being provided to the Fund by the company e.g. manager monitoring as well as the AUM invested in the sub-funds being offered by the company.
22. Excluded from Table 1 are transition costs; these are not a revenue cost per-se and are more typically deducted from the capital value of the assets being transitioned. However, as these are by far one of the biggest costs that pooling will generate, there is a need to ensure that they are kept to a minimum through an effective and efficient transition management process. Working with LGPS Central Limited, Partner Funds will appoint both a Transition Advisor and a Transition Manager (TM); the Advisor being appointed to provide effective and experienced challenge to the TM throughout the process. Post trade reporting of the costs of individual transitions, versus their pre-trade estimates will be reviewed by the LGPS Central Joint Committee and individual Partner Funds through their usual Governance arrangements. For Staffordshire, this will be a report to the Pensions Panel.
23. Because of the uncertainty around a number of costs highlighted in the previous paragraphs, it is not proposed to use these estimated costs for 'budget monitoring' purposes per-se but to use them as an indication. Whilst they will be compared to the budget forecast post 31 March as part of the outturn report, the Committee is asked to consider them alongside cost comparisons, benchmarking and trends to ensure that value for money is being delivered. A more detailed report on comparative outturn costs for 2018/19 will be brought to the Committee in June 2019.

Risk

24. The primary risks to the continued delivery of a pension's administration, accounting and investment monitoring service to the high standards achieved are;
 - Having a team of staff, sufficiently resourced, with the right experience to cope with changes to Government Legislation;
 - The ability to deal with an increasing number of Employers and the challenge and complexities their different requirements present;
 - The increasing fragmentation of payroll provision and the requirement for accurate and timely data; and ultimately
 - The need to ensure that the correct Pensioner Members are paid on time with the correct amount.

These, and other risks, are further analysed in the Pension Fund's Risk Register, the latest version of which will be presented in full to the June 2019 meeting of this Committee.

25. **Equalities implications:** There are no direct equality implications arising from this report.
26. **Legal implications:** There are no direct legal implications arising from this report albeit LGPS Regulations do have an impact on the business.
27. **Resource and Value for money implications:** Resource and value for money implications are considered in the report.
28. **Risk implications:** There are no direct risk implications, but the report does contain some actions to address risks identified in the risk register.
29. **Climate change:** There are no direct climate change implications arising from this report.
30. **Health Impact Assessment screening:** There are no health impact assessment implications arising from this report.

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Background Docs: None