PENSIONS COMMITTEE – 28 JUNE 2019

Report of the Director of Corporate Services

Staffordshire Pension Fund Business Plan 2018/19 Outturn

Recommendation of the Chairman

1. To note and approve the outturn position of the Staffordshire Pension Fund Business Plan 2018/19.

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 2018/19 and summarises the key achievements against that Business Plan.

3. The Business Plan that was approved for 2018/19 is set out in Appendix 2. The final position against the plan shows that most 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 which require further work or ongoing activity have been carried forward into the 2019/20 Business Plan.

4. Key achievements during 2018/19 were reported to the March Pensions Committee as being:

(i) Pensions Administration Team

- 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;

(ii) Pensions Investment Team

- 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 and physically transitioning Assets into LGPS Central Limited.

5. Additionally, throughout the year there have been several Internal Audit reviews across the two Teams. The Pension Fund Governance Audit received ‘substantial’ assurance for the second year in a row from Staffordshire Audit Services and the Pensions Administration Audit improved from ‘adequate’ assurance in 2017/18 to ‘substantial’ assurance

in 2018/19. As well as providing assurance that the necessary controls are in place, this re-affirms the hard work and effort of staff across the Teams and their ongoing commitment to the Fund, despite the increasing complexities of delivering the service.

Pensions Administration - Performance Standards

6. The Pensions Administration Team's Service Standards for 2018/19 are attached at Appendix 3. The Committee are asked to note the continued improvement in these standards over the previous two years and the number of performance targets achieved in 2018/19. A summary of the position is as follows:

- 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.

- 2018/19 shows that a 90% performance target was achieved in 9 of the 14 published standards and for the month of March 2019 this increased to 12 out of the 14 published standards.

7. Of the 5 published standards where the performance target was not achieved in 2018/19, the reasons for such include:
    - significant increases in the number of cases, c33% in one instance;
    - the 4-month suspension of the Transfers Team being able to calculate Transfer Payments whilst waiting for the Government Actuaries Department to publish a series of 'factors' on which calculations are based; and
    - the ongoing clearance of backlog by Jardine Lloyd Thomson (JLT), who are now part of the Mercers Group.

8. Whilst extremely pleasing to report this continued improvement, the Pensions Senior Management Team (PSMT) are cognisant of the fact that this may be in some part down to timing. It is important, therefore, that the work that has been started in capturing the 'throughput' of cases in each service area is developed further to enable any trends and peaks and troughs in caseloads to be identified. The PSMT are also mindful that the backlog work being carried out by JLT needs to be absorbed back into the resourcing across the Teams for certain activities and this may impact target performance in the short term.

<u>Ongoing workloads and impact on Performance Standards</u>

9. In previous years, the Committee has 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.

Whilst the Performance Standards appear to indicate that this may no longer be the case, it is important to remind the Committee, that the Scheme continues to become more and more complex and the number of Employers and their arrangements for continuing to participate in the Scheme are in themselves becoming more complex as a result. Going forward both old and new challenges remain.

10. Day to day challenges are often 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. E.g. last year's report cited the LGPS (Amendment) Regulations 2018, which came into being on 14 May 2018, and made 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'.* The impact of this change is now clearer, with the section having processed approximately 2,000 additional cases for retirees between the ages of 55 and 60. The Fund's records further indicate that there remains just under 7,000 members holding deferred benefits in the 55 to 60 age group, and with continued interest in this option, an additional ongoing caseload of around 1,000 cases each year is anticipated, for the foreseeable future.

12. At the time of writing, the Government are consulting on a change to the Employment Regulations (Restricting Exit Payments in the Public Sector). And whilst this may not appear to have direct consequences for the LGPS, there are several significant implications in terms of the need to amend the LGPS Regulations and Pensions Administration systems to comply. But on a far more practical level there will be a need to ensure that Pensions Teams are adequately resourced to assist Employers in preparing several alternative calculation options for Scheme Members, where the £95,000 exit payment cap will be exceeded.

<u>Other considerations</u>

13. 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

14. Due to the complex nature of the LGPS, recruiting experienced staff is always difficult and so the focus has to be on ‘training and growing our own’.

15. The Team lost several experienced staff in 2017/18 due to retirement, but it is extremely pleasing to be able to report that a successful recruitment exercise in 2018 led to 3 new staff joining the Team on 2 July 2018. The 3 new staff have proved to be excellent appointments and are almost fully up to speed on their daily activities. This takes the number of full-time equivalent staff in the Team to 42.70 FTE which has been the result of a gradual and measured increase in staff from 37.50 FTE in 2014/15.

16. The backlog project with JLT comes to an end on 30 June 2019 and whilst it was anticipated that current staffing levels would prove sufficient to absorb this work back across the Teams, caseloads in these areas continue to increase. Additionally, the short-term goal of getting all Employers onto i-Connect is proving to be extremely resource intensive and although this will lead to efficiencies longer term, it does mean that staffing resources will need to be enhanced in the short to medium term to accommodate this additional caseload falling on the service.

17. Whilst there is inevitably a direct cost implication of any increase in staff numbers, this is anticipated to be limited to 1 or 2 entry grade staff. This will not only ensure that performance against published standards does not decline significantly but more importantly that the service to the end user i.e. the Scheme Member, is not sub-standard and in direct contravention of the Pensions Regulators Disclosure requirements.

Pensions Investment Team

18. 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:

- Following LGPS Central Limited's launch on 3 April 2018, work has continued at pace, with several members of the team involved in the continuing development of the LGPS Central pool and the various Officer Working Groups. After significant planning, with the Company and the Transition Manager, over a number of months, the first transfer of assets from Staffordshire was completed in February 2019 with an investment in the LGPS Central External Active Global Equity Multi-Manager sub-fund. In line with the Company's wider business plan, transition activity will continue for a considerable number of years going forward.

- Working with the Fund's appointed Investment Advisor, Hymans Robertson, a preliminary review of the Fund's Strategic Asset Allocation was undertaken ahead of the commencement of the 2019 Actuarial Valuation. This considered how any reduction in growth assets (e.g. Equities) might impact the Fund's forecast investment returns and contribution strategy. Work was also undertaken in reviewing the Fund's investment structure across the asset classes (e.g UK versus Global Equities). The outcome of this review will be reported to the Pensions Panel and Pensions Committee in due course.

19. In 2018/19, the Fund's investment return was 8.1% which was 0.2% ahead of the return of its strategic benchmark return target. Whilst nowhere near the highs of the 20%+ returns seen in 2016/17, it is 5% higher than the 2017/18 investment return and well ahead of the long-term investment return assumptions used by the Actuary in the triennial valuation.

20. Over the longer term, the Fund has outperformed its strategic benchmark return in the 3, 5 and 10 year time periods with annualised excess returns over 3 and 5 years in excess of 8%, again well ahead of the investment return assumptions used by the Actuary in the triennial valuation.

21. 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 in 2018/19, at their next meeting in July.

Pension Fund Budget and Costs

22. 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.

23. Unfortunately, the availability of comparative figures continues to diminish and so going forward, it is considered beneficial to use a combination of both budget monitoring and benchmarking.

24. The headline budget reported to Pensions Committee for 2018/19, as part of the Business Plan versus the headline Actual Outturn position is provided in the following table. A comparison to 2017/18 is also provided.

	2017/18	**2018/19**
	£000	**£000**
Initial Budget forecast	16,150	19,040
Less LGPS Central Transition Costs*	0	(2,030)
Revised Budget forecast	**16,150**	**17,010**
Actual Outturn position	16,760	20,443
Under (Over) spend	(610)	(3,433)

*Transition Costs are not a direct revenue cost and should have been excluded from the Initial Budget Forecast reported to Committee on 16 March 2018.

25. The majority of the £3.4m overspend in 2018/19 is attributable to two major factors:

(i) A £1.2m increase in Property expenses above the amount assumed in the budget. This arose as a result of 2 significant voids in the property portfolio over the year, at Hayes (ex-Toys-R-Us) and St. Anne’s Road, Industrial Estate in Bristol which was impacted by the bankruptcy of Palmer and Harvey.

(ii) A £2.1m increase in investment management fees above the amount assumed in the budget. Whilst a proportion of this was as a direct result of the growth in Assets Under Management (AUM) the majority £1.7m was due to the increase in costs from the Fund choosing to invest in Alternative assets (e.g. Private Equity and Private Debt) which are widely accepted to be some of the most expensive asset classes in which to invest. As well as increasing the Fund’s allocation to Alternatives, there has been a move across the industry generally for greater accounting transparency of the multiple fee layers. So, whilst in previous years ‘incentive’ (performance) fees paid on Alternatives were not accounted for, the more transparent reporting regime means that for 2018/19, this additional layer of cost has been included.

The tables that follow break the Actual Outturn position down into more detail, as per the reporting classification in the annual accounts, they also provide comparisons to previous years’ expenditure.

26. The following table shows this year's **Administration Costs** compared to the last two years:

	2016/17 £000	2017/18 £000	2018/19 £000
Pensions administration	2,074	2,124	2,099
Legal costs	71	140	114
Other costs	63	163	34
Income	(47)	(44)	(57)
Total Administration Costs	2,161	2,383	2,190

27. Administration Costs have remained fairly constant over the last three years. As well as a saving on Staffing, the decrease in 2018/19 was predominantly in the Other Costs line, where there was an additional one-off cost of implementing the i-Connect software in 2017/18.

28. Using the latest data available (for 2017/18), 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 2016/17 costs are provided in brackets for reference.

2017/2018	**Administration Costs per scheme member**	
	SCC	**Average**
CIPFA benchmarking - pensions administration	£21.30 (£20.63)	£21.16 (£20.14)

29. In 2017/18 the Fund's administration costs were marginally above the CIPFA average, the principal reason for this was the cost of the i-Connect software. Without this one-off cost, the Fund would have been below the benchmark (around £20.31 per scheme member).

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

	2016/17 £000	2017/18 £000	2018/19 £000
Audit Fees	34	29	33
Actuarial Advice	249	97	130
Governance Expenses	187	176	180
Investment Oversight fees	150	165	137
LGPS Central costs	0	0	833
Other	322	545	427
Total Oversight & Governance costs	942	1,012	1,740

31. Total Oversight and Governance costs have increased significantly in 2018/19. This is entirely due to the Fund now incurring its share of the

ongoing running costs of LGPS Central. These costs are included as a separate line item in the previous table.

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

	2016/17 £000	**2017/18 £000**	**2018/19 £000**
Investment managers	11,524	11,763	13,940
Property costs	1,050	1,301	2,349
Custody costs	182	136	130
Other	566	155	93
Total investment costs	13,322	13,355	16,512

33. Based on AUM alone, there would automatically be an increase in investment management costs in 2018/19. However, as explained in paragraph 21, there have also been additional property expenses and increased expenditure on investment management fees from the Fund's increased levels of investments in Alternative assets.

34. The market value of the Fund's assets has increased by over 12% over the last 2 years; hence with most the Fund's investment management fees based on the value of AUM, the overall level of fees paid would be expected to rise accordingly. However, despite the increase in investment management fees (as detailed above), the table below shows that the fees have stayed relatively consistent as a percentage of assets.

	2016/17 £000	**2017/18 £000**	**2018/19 £000**
IM Fees	11,524	11,763	13,940
Fund value at 31/3	4,587,100	4,775,829	5,128,319
Fee level (%)	0.25	0.25	0.27

35. With an increased allocation to Alternative assets and the Fund's return to active global equity management through investment in LGPS Central's sub-fund, (as opposed to current passive global equity management which incurs lower fees), the investment management costs of the Fund are expected to rise in the short-term. Over the long-term, however, as the economies of scale from asset pooling are achieved it is anticipated that these costs will stabilise before eventually falling to provide savings. As always, these costs are largely dependent on the Fund's Strategic Asset Allocation and should always be justifiable on a 'net return' basis.

Cost Benchmarking

36. 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 options, to ensure that they can put some appropriate and meaningful

metrics in place, both for peer benchmarking within and potentially across pools. With the focus on getting pools up and running, over the last 2 years, this piece of work is yet to be developed.

37. To seek further reassurance about cost, Staffordshire Pension Fund continues to take 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.

38. The 2017/18 CEM survey grouped Staffordshire Pension Fund with 21 LGPS and international funds ranging in size from £3.2bn to £8.6bn (a median size of £5.5bn versus our £4.8bn). Based on a comparative cost base and taking into account embedded costs, our Fund’s costs of 53.9 basis points (bps) was 3.2bps below the peer median of 57.2bps. This demonstrates that the Staffordshire Pension Fund is a low-cost scheme, with our lower cost being attributable to the fact that we have a low-cost implementation style but also because we paid less than our peers for similar services.

39. Measuring trends is also important and whilst it is pleasing to note that our costs have fallen from 58.4bps in 2013/14 to 53.9bps in 2017/18, comments made previously in this report about Strategic Asset Allocation and the implementation of such, in terms of active and passive investment management styles, should be noted.

40. 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 and the Fund’s costs at the Committee’s next meeting in July.

John Tradewell
Director of Corporate Services

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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.

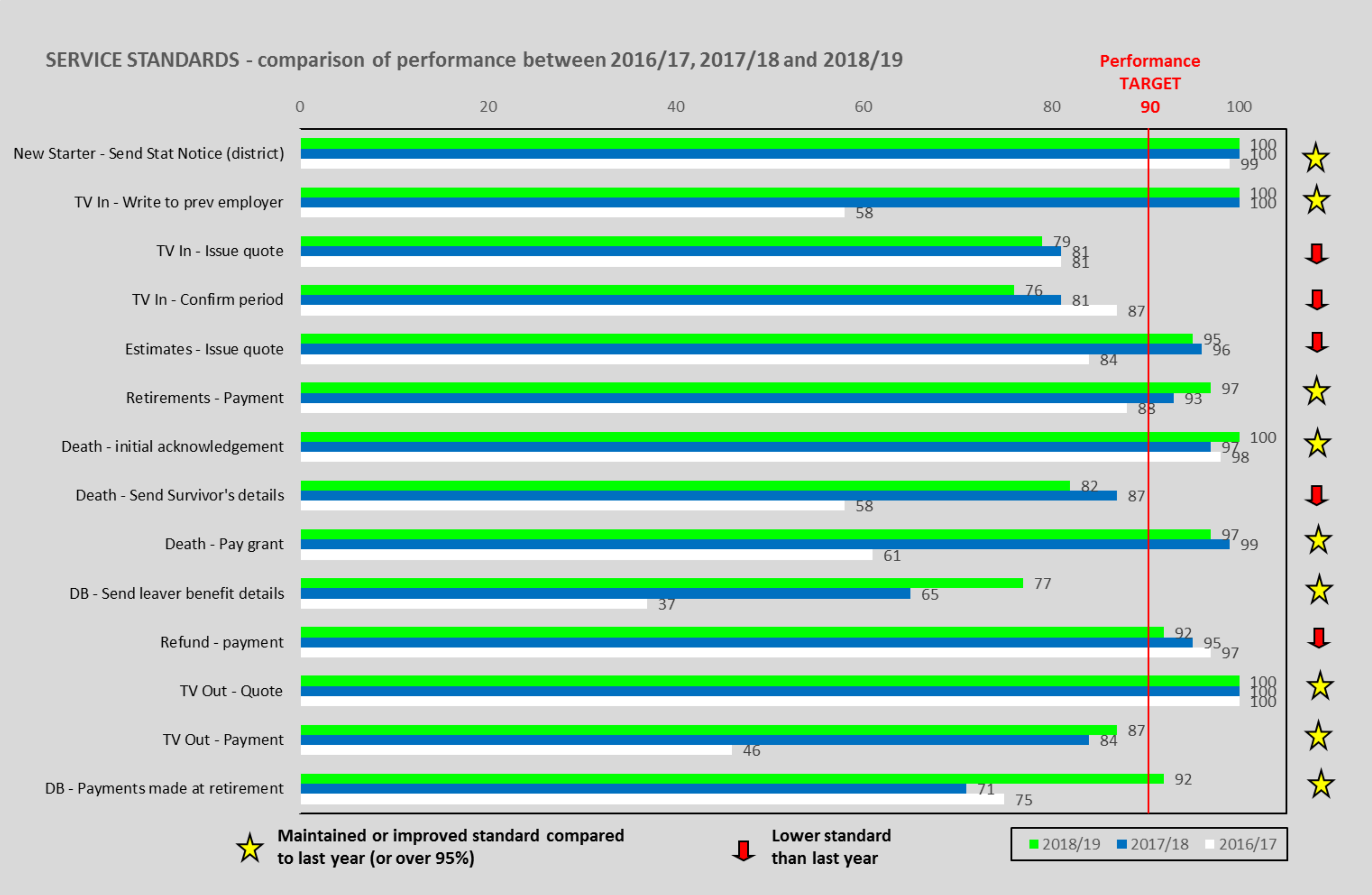
Health Impact Assessment screening – There are no health impact assessment implications arising from this report.

Area of Service	Key Development Activity	Progress
LGPS Pensions Administration	Develop new working Practices with Third Party Payroll Providers including the introduction of i-Connect (see below)	**Partially Achieved**. Good progress made and continuing effort as new providers emerge.
	Full implementation of Hymans Employer Asset Tracker (HEAT) including mechanism for Ill-health self-insurance	**Achieved**
	Improve quality of data prior to 31 March 2019 Valuation	**Achieved** (albeit data quality improvement will always be of ongoing benefit)
	Ensure full compliance with new General Data Protection Legislation (GDPR)	**Achieved**
	Demonstrate a general improvement in KPI's	**Partially Achieved** (Improvement in some areas with ongoing challenges in others)
Pensions Administration System	Implement i-Connect with a range of small / larger Employers to achieve an overall target of 50% of Active Fund Membership	**Partially Achieved** (33% as at 31 March with pipeline to achieve 60% by 31 August 2019)
	Government Actuaries Department transactional data project	**Achieved**
Contracting Out Reconciliation	Phase 1 Finalise enquiries with HMRC for Deferred and Pension Members	**Achieved**
	Phase 2 Finalise enquiries with HMRC for Active Members	**Achieved**
	Finalise under/overpaid pensioner members	Ongoing, pending responses from HMRC
Governance	To develop a Training Plan for Pensions Committee Members focusing on any collective knowledge gaps identified from the Training Needs Analysis (TNA)	**Achieved** Annual review deferred to Q319 to align with appointment of new

Area of Service	Key Development Activity	Progress
		Pensions Board Members
	Review published policies e.g Governance Policy	**Partially Achieved**. Register of policies produced. Several policies reviewed with plan in place to review others during 2019/20
	Develop Covenant Monitoring Process	Outstanding. Deferred to 2019/20
Communications – Scheme Members	Review website content and structure including Member Self Service / My Pension	**Partially Achieved**. Significant progress made but due to enormity of task, work will continue into 2019/20. New version of MSS to be promoted to Scheme Members Q419
Communications - Employers	Develop Employer Administration policies / guides / practices and promote such to relevant Employers	**Partially Achieved**. Employer consultation on Administration Strategy complete. Significant progress made elsewhere but need to continue to review guides alongside website development. Work continuing into 2019/20 with ongoing review thereafter
	Run Employer Practitioner Workshop(s) E.g Breaches, Ill-health retirement, IDRP and produced focussed Newsletters	**Achieved** Second Employer Training Day scheduled June 2019. Employer Focus Newsletters and new Employer Peer Group now established. Ongoing development in 2019/20

Area of Service	Key Development Activity	Progress
Pension Fund Investment	Implement new Governance Arrangements in relation to LGPS Central to include meetings and reporting to / from the Shareholder Forum, the Joint Committee and the Practitioners Advisory Forum to Pensions Committee and Pensions Panel	**Achieved**
	Continue to review SPF Strategic Asset Allocation in the context of the Investment Offering of LGPS Central Limited	**Achieved** in year. Ongoing review as LGPSC investment offering develops. Meetings with Investment Advisors and LGPS Central as required.
	Monitor process, reconcile data and report performance impact following asset transitions into LGPS Central Limited E.g Global Equities	**Achieved** in year. Global Equity Transition February 2019. Post transition analysis and reconciliations completed for 31 March 2019 accounts. Report to June 2019 Pensions Panel.
Area of Service	**Resource Intensive – Business as Usual Activity**	**Period**
LGPS Pensions Administration	Review Pensions Services staffing levels and structure	1 April – 30 September
	Finalise Year end data	1 April - 30 July
	Issue Active Annual Benefit Statements	1 July – 31 August
	Issue Deferred Annual Benefit Statements	1 May – 30 June
	Record Keeping Data Integrity Checks (pre-2019 Valuation)	1 April – 31 March
	Management of JLT backlog project and response to resulting queries	1 April - 31 January
The Pensions Regulator (tPR)	Continually review compliance with The Public Service Scheme Code of Practice and Public Service Regulatory Strategy in	1 April – 31 March

Area of Service	Key Development Activity	Progress
	relation to Disclosure of Data	
	Maintain and review Breaches Log and improve reporting to tPR	1 April - 31 March


SERVICE STANDARDS - comparison of performance between 2016/17, 2017/18 and 2018/19
Performance TARGET 90
0
20
40
60
80
100
New Starter - Send Stat Notice (district)
100
100
99
TV In - Write to prev employer
100
100
58
TV In - Issue quote
79
81
81
TV In - Confirm period
76
81
87
Estimates - Issue quote
95
96
84
Retirements - Payment
97
93
88
Death - initial acknowledgement
100
97
98
Death - Send Survivor's details
82
87
58
Death - Pay grant
97
99
61
DB - Send leaver benefit details
77
65
37
Refund - payment
92
95
97
TV Out - Quote
100
100
100
TV Out - Payment
87
84
46
DB - Payments made at retirement
92
71
75
Maintained or improved standard compared to last year (or over 95%)
Lower standard than last year
2018/19
2017/18
2016/17