

## **PENSIONS COMMITTEE – 25 SEPTEMBER 2020**

### **Report of the Director of Corporate Services**

#### **Staffordshire Pension Fund Business Plan 2020/21**

##### **Recommendation of the Chairman**

1. That the Pensions Committee approves the Staffordshire Pension Fund Business Plan 2020/21, attached at **Appendix A** and notes the key challenges surrounding its delivery.

##### **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. Historically, if presented in March, this report would have asked the Committee to review progress against the 2019/20 financial year's Business Plan and based on that, approve a proposed Business Plan for the 2020/21 financial year. However, given the postponement of the March and June Pensions Committee meetings, as a result of the Covid-19 pandemic, this report seeks retrospective approval of the 2020/21 Business Plan only.
3. The 2019/20 Business Plan update will be presented to Pensions Committee in October 2020, as part of the Outturn Report and the Pension Fund's Annual Report and Accounts.

##### **Business Plan 2020/21**

4. The Business Plan for 2020/21 is, once again, 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. Several of last years development activities have now been re-categorised into Business as Usual activity, including the continuing review and updating of our website and our various policies.
5. Some of the areas that the Pensions Services Teams have identified as Key Development Activities in 2020/21 include:
  - Review / Undertake a Mortality / Living as Stated / Tracing Exercise, to improve the quality of the data we hold about our Deferred Members, with a focus on improving the Fund's Data Score, reported to the Pensions Regulator;

- 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;
- Assessing the output from the Scheme Advisory Board's Good Governance Review and considering how best to implement any actions identified;
- Continued promotion of My Pensions Portal (MPP), the self-service area of the Pension Fund website ([www.staffspf.org.uk](http://www.staffspf.org.uk)); including the introduction of new functionality that will be available to scheme members, as the software is developed; and
- Maintaining effective pool Governance and monitoring asset transitions into LGPS Central as more sub-funds are launched.

## **Pensions Administration – Key Development Activities**

### Tracing Services

6. 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. Whilst a previous driver for undertaking a tracing exercise would have been to ensure that we had the correct address to which we could send an Annual Benefit Statement (ABS), the fact that we now publish these on My Pensions Portal (MPP) instead, negates the need for a correct address, to some degree. However, given our Deferred Members are already less likely to engage with the Fund, regards change of address or personal circumstances etc, it is actually more important that we keep our records up to date and encourage them to help us do so, through MPP. Similarly, the Fund may not have received notification of death for a Deferred Member and therefore, it would also be useful to undertake a Mortality exercise. It is considered good practice to undertake a Tracing Exercise to pick these changes up, at least every 2-3 years. And whilst this was one of our Key Development Activities in 2019/20, the 2019 Actuarial Valuation had to take priority. This year we intend to take the opportunity to review the market and various providers of these services ahead of formally commencing a tender process.

### i-Connect

7. Work continued throughout 2019/20 and into 2020/21, with several of the larger payroll providers to enable them to submit their pensions data monthly, via the i-Connect module in Altair, the Pensions administration system. Following some initial set-backs and given a recent increase in effort, from both sides, much of the groundwork is now coming to fruition. We recognise the need to keep the momentum going and are beginning to engage with the remainder of Employers to encourage their payroll providers to sign up. 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.

#### Good Governance Review

8. In 2019, the Scheme Advisory Board (SAB) commissioned a report to examine the effectiveness of Governance in the LGPS. After initially considering various alternative delivery models, the review refocused itself on improving Governance across the LGPS and Hymans Robertson were appointed to assist. The output from Hymans review was published in November 2019 and contains a number of recommendations.

[https://www.hymans.co.uk/media/uploads/Hymans\\_Robertson\\_Good\\_governance\\_in\\_the\\_LGPS\\_July\\_2019\\_final.pdf](https://www.hymans.co.uk/media/uploads/Hymans_Robertson_Good_governance_in_the_LGPS_July_2019_final.pdf)

9. Whilst an initial gap analysis has been carried out, which indicates there are no major areas of concern relating to the Governance of the Staffordshire Pension Fund, there is always room for improvement. There will also be new statements to publish e.g. Governance Compliance Statement and in due course Peer and/or External Reviews to undertake.
10. Unfortunately, Phase III of this project, which planned to introduce further Guidance, was temporarily paused by SAB as a result of Covid-19. Whilst we understand that Phase III is to once again pick up pace, we are unsure of the exact timeframe for implementation.

#### Member Communications and My Pensions Portal (MPP)

11. The Fund's new look website ([www.staffspf.org.uk](http://www.staffspf.org.uk)) was launched in late 2018 and we continue to receive many positive comments as we keep refreshing and updating pages, in line with the new look and feel. Whilst we have seen changes in the way Scheme Members use the website and indeed, the way staff use it in their interactions with our Members, we can still do so much more. Ultimately, our aim is to encourage all our Members to use the self-service portal, called My Pensions Portal (MPP) to undertake basic admin tasks, like changing their address but also to use MPP to estimate their retirement benefits payable in the future. Not only should this result in a fall in the number of phone calls, it should lead to a reduction in the number of ad-hoc and 'nice-to-know' benefit calculations being undertaken by the Benefits Team; freeing up their time to concentrate on providing a superior level of service at the point in time a Member does retire. Future MPP developments may allow members to complete their own status changes, e.g. a deferred member could potentially retire themselves online.
12. MPP is also the means by which Members now receive their Annual Benefits Statements (ABS). Through lockdown and whilst continuing to work from home, Pensions Services successfully completed the exercise of issuing 'Activation Key' letters to c40,000 Deferred Scheme Members and c45,000 Active Scheme Members, to allow them to sign up to MPP ahead of the

publication of their ABS on 31 August 2020. Whilst we had originally planned an extensive publicity campaign, across the Pension Fund website, emails, workplace signboards and posters, plus promotion through each individual Employers' workplace, this had to be scaled back considerably. However, there was still a better than expected response in the number of Scheme Members signing up. This was clearly not a one-off exercise and the process will need to be repeated annually going forward, to continually encourage new MPP users. Consideration will also need to be given to bringing our Pensioners on-line in 2021/22.

## **Pensions Investment – Key Development Activities**

### LGPS Asset Pooling

13. Over the last 4 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, in order to implement and maintain that strong Governance, through regular engagement meetings with the Company and reporting to Committee.
14. Rigorous oversight of asset transitions will also continue with the Company, as the investment offering is refined and developed, to determine the next range of sub funds in which Partner Funds wish to invest. This level of Officer commitment and engagement will need to continue throughout 2020/21, as more of the Fund's assets transfer into LGPS Central Limited and transition activity increases.

### Annual Report and Accounts

15. Whilst acceptable last year on a 'best endeavours' basis, performance reporting and refined accounting arrangements, will need to be considered and implemented in order that the Fund can be fully compliant with the new guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA).

## **Cost and Resources**

16. 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).
17. Several 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.

18. 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 2020/21. 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.
19. The indicative costs have been produced using the information we had available in March 2020, with reasonable assumptions being 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 2020-2023**

<b>Cost Heading</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Pensions Administration	2,540	2,590	2,640
Governance*	1,430	1,470	1,510
Audit	30	40	40
Actuarial Fees	130	140	290
Legal Fees	140	140	150
Investment Advice	330	340	350
Investment Management Fees**	13,710	13,490	13,280
Property Expenses (ex-legal)	2,120	2,180	2,250
Monitoring and Custody	70	60	60
Other expenses	460	480	490
<b>Total</b>	<b>20,960</b>	<b>20,930</b>	<b>21,060</b>

*\*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.*

20. The LGPS Central Limited Strategic Business Plan and Budget for 2020/21, was approved by Shareholders earlier in the financial year. Whilst the full implications of this for Partner Funds is still being analysed through the 2019 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.

21. 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.
22. 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 2019/20 will be brought to the Committee in October 2020.

### **Risk**

23. 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 elsewhere on today's Agenda.

24. **Equalities implications:** There are no direct equality implications arising from this report.
25. **Legal implications:** There are no direct legal implications arising from this report albeit LGPS Regulations do have an impact on the business.

26. **Resource and Value for money implications:** Resource and value for money implications are considered in the report.
27. **Risk implications:** There are no direct risk implications, but the report does contain some actions to address risks identified in the risk register.
28. **Climate change:** There are no direct climate change implications arising from this report.
29. **Health Impact Assessment screening:** There are no health impact assessment implications arising from this report.

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Background Docs: None