

## **PENSIONS COMMITTEE – 18 DECEMBER 2020**

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

#### **Staffordshire Pension Fund Business Plan 2019/20 Outturn**

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

1. That the Pensions Committee approves the outturn position of the Staffordshire Pension Fund Business Plan for 2019/20.

##### **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 2019/20 and summarises the key achievements against that Business Plan.
3. The Business Plan that was approved for 2019/20 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 2020/21 Business Plan.
4. Key achievements during 2019/20 include:
  - (i) Pensions Administration Team
    - Completing the 2019 Actuarial Valuation;
    - Continuing to implement i-Connect with the Fund's larger Employers;
    - Reviewing the Administration Policy, the Independent Dispute Resolution Procedure (IDRP) and the Funding Strategy Statement, following the Actuarial Valuation; and
    - Promoting the use of Member Self Service (MPP) in readiness for issuing Annual Benefit Statements electronically from 2020.
  - (ii) Pensions Investment Team
    - Reviewing the Fund's Strategic Asset Allocation (SAA) in conjunction with 2019 Actuarial Valuation;
    - Continuing to monitor those Global Equity assets transferred to LGPS Central Limited; and
    - Preparing for and physically transitioning Corporate Bond 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 third year in a row, from Staffordshire Internal Audit Services and the Pensions Administration Audit maintained its 'substantial' assurance rating for the second year in a row.

The Investment Team also assisted with the Governance and Investment Audits carried out on the LGPS Central pool as part of the wider Audit Assurance Framework developed by the Auditors of the 8 Partner Funds that make up LGPS Central. 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 2019/20 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 2019/20. A summary of the position is as follows:
  - 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.
  - 2019/20 shows that a 90% performance target was achieved in 11 of the 14 published standards.
7. The 3 published standards where the performance target was not achieved in 2019/20 all relate to the area of work around Transfer Values (TV). A TV is the payment that arises when a scheme member elects to move their pension benefits between Employer schemes or alternative insurance-based schemes. The current value of the individuals pension benefits effectively follows them, and an appropriate payment is made to or from an LGPS Fund. For TV's from other public sector pension schemes and from within the LGPS, the options now available to members are more complex to process, and communicate, than for transfers from external schemes. Potentially, if this type of TV remains within the scope of the Fund's reported service standards, the internal processing deadlines may need to be reviewed to reflect the new requirements. Despite the added complexity, TV processing has remained consistent and further changes to internal processes are likely to build on this. In all TV cases, the strict statutory deadlines, prescribed within the various Pensions Schemes Acts, are always met, often well within the prescribed statutory timescales.
8. Whilst extremely pleasing to report the continued improvement, the Pensions Senior Management Team (PSMT) are cognisant of the fact that this may be in some part down to timing. The fact that we are now able to capture the 'throughput' of cases on a monthly basis is helpful in identifying any trends, and peaks and troughs. Monitoring such also enables PSMT to consider resourcing across the teams to ensure that there are sufficiently skilled officers to deal with the caseload. Throughout 2017/18 and 2018/19, Jardine Lloyd Thomson (JLT), who are now part of the Mercers Group, had been engaged in a 'backlog' project across Deferred Benefit and Aggregation cases. And whilst the project was successful, 2019/20 saw the

teams faced with absorbing any ongoing backlog work into their routine caseload. As expected, this has had an impact on some areas of performance in the short term.

### Ongoing workloads and impact on Service Standards

9. Whilst the Service Standards for 2019/20 are very gratifying and something of which the teams should very proud, 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 old challenges remain and new ones come to the forefront.
10. One such new challenge, which will undoubtedly impact the Service Standards, will be the ability to undertake and resource the 'McCloud' project. This is an area that has been highlighted to the Committee at their recent meetings and whilst it is anticipated the overall number of scheme members impacted will be relatively few, there will be significantly more calculations to be undertaken, to ensure no one has been discriminated against, purely because of their age. Whilst the Government's report on the outcome of their recent consultation is eagerly awaited, particularly in relation to any expected delivery timescales, the collection of retrospective data across the Fund's wide and diverse Employer and Payroll provider base should not be underestimated, particularly if the pensions administration systems are not updated quickly.
11. Unforeseen changes in Regulations also have an impact on workload that needs to be accommodated. The recent Public Sector Regulations 2020, limit an exit payment to £95,000, where an Employee is made redundant or their employment is terminated for reasons of business efficiency. This is already having repercussions for the Pensions team, in terms of creating a backlog of actuarial strain cost quotes and assisting scheme members, who are age 55 and over, with their retirement benefit calculations. And the fact that the corresponding LGPS Regulations are not in place, means there is a period of uncertainty for administrators and scheme members, which may lead to an increase of IDRPs challenges to consider going forwards. Again, the need for software development will be paramount, to avoid a return to manual calculations.

### Other considerations

12. Not all administration processes are benchmarked but most are usually complex and time-consuming areas of work for example:
  - Combining pension records for re-joining members known as aggregation.
  - Concurrent employment cases.
  - Data cleansing.
  - Software upgrades & testing ICT infrastructure.
  - Record maintenance, including year-end member data.
  - Issue of Annual Benefit Statements.

- Attending retirement sessions and 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 and the monitoring of Employee and Employer Contributions.

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

### **Pensions Administration Team Staffing**

13. Due to the complex nature of the LGPS, recruiting experienced staff is always difficult and so the focus must be on 'training and growing our own'.
14. Following the retirement of several experienced staff in recent years, it is extremely pleasing to be able to report that the latest two recruitment exercises, which led to a cohort of 5 new staff joining the teams, over the last 2 years, has been successful. The staff have all proved to be excellent appointments and are now fully up to speed on their daily activities. As at 31 March 2020, the number of full-time equivalent staff in the Team stood at 43.90 FTE which has been the result of a gradual and measured increase in staff from 37.50 FTE over the last 5 years.
15. The backlog project with JLT came 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 aim 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. It is also extremely likely that in the short-term resources across the Teams will need to increase, to deal with the implications of McCloud.
16. Whilst there is inevitably a direct cost implication of any increase in staff numbers, as always, this will be limited and measured. 1 or 2 entry grade staff will be recruited initially, so that training on the more routine activities can be provided by team leaders, ahead of them being released to work on more complex cases and project work. The systems team will also need to be increased by 1 or 2 individuals, to cope with the large amounts of data that these projects will involve dealing with and manipulating.
17. The aim is that by recruiting now, the service will be better prepared to face the new challenges. This will not only ensure that performance against published service 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 period which included 2 potential Brexit dates, the Fund undertook its second asset transfer into the LGPS Central Global Corporate Bond sub-fund, in March 2020. Notably this was during a particularly volatile period, as markets reacted to the Covid-19 pandemic, so it is pleasing to report that, although transition costs were higher than originally envisaged, the transition was well managed and the sub-fund itself continues to perform as expected.
  - Following a preliminary review of the Fund's Strategic Asset Allocation (SAA), ahead of the commencement of the 2019 Actuarial Valuation, Officers, in consultation with the Fund's appointed Investment Consultant, Hymans Robertson, worked through the detailed structure of the Fund's SAA. As well as considering the allocations to various asset classes (E.g. equities, bonds), the implementation style was also considered (E.g active, passive) and long term 'aspirational' SAA targets were set.
  - The Team also commenced work on scoping an Infrastructure Framework for the Fund and reviewed the continued appropriateness of the Private Equity and Private Debt allocations and the way in which these were implemented.
19. In 2019/20, the Fund's investment return was -5.7% which was 0.8% lower than the return of its strategic benchmark return target. Returns across all markets were severely impacted in late February 2019, with the uncertainty and fears surrounding the Covid-19 pandemic. Markets have since recovered but some investment portfolios are still suffering negative returns from being invested in sectors and stocks that were hit severely as a result of the pandemic (e.g. Travel and Leisure) and from not having invested in the Technology sectors, where stocks continue to perform strongly.
20. Whilst also impacted by the markets falling, the Fund's longer-term annualised performance numbers, at 31 March 2020, are in excess of 7%, which is still well ahead of the long-term investment return assumptions used by the Actuary in the triennial valuation.
21. The Committee has already received a presentation from the Fund's independent performance measurer, Portfolio Evaluation Limited on the detail of the Fund's investment performance in 2019/20, when they met in October.

## 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. Using 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, as the availability of comparative figures continues to diminish, a combination of budget monitoring and benchmarking, is more beneficial.
24. The headline budget reported to Pensions Committee for 2019/20, as part of the Business Plan versus the headline Actual Outturn position is provided in the following table. A comparison to 2018/19 is also provided.

	2018/19	2019/20
	£000	£000
Initial Budget forecast	19,040	18,770
Less LGPS Central Transition Costs*	(2,030)	0
Revised Budget forecast	<b>17,010</b>	<b>18,770</b>
Actual Outturn position	20,443	20,833
Under (Over) spend	(3,433)	(2,063)

\*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 £2.1m budget 'overspend' in 2019/20 is attributable to vacant property costs. This is an area that is difficult to forecast on any consistent basis and the budget assumed around £0.933m, based on an average of previous void costs across the property portfolio. In 2019/20, four properties account for most of the increased expenditure, with the vacated Toys R Us property at Hayes, being the largest proportion, at a cost of c£500,000. This particular property is now in the process of being let, subject to local planning approval being granted. Other more recent void costs across properties in Birmingham, London and Eynsham are all in excess of £200,000 each.
26. The tables that follow break the Actual Outturn position down into more detail, as per CIPFA's reporting classification in the annual accounts. They also provide comparisons to previous years' expenditure and income, to highlight any significant changes or trends.
27. The following table shows this year's **Administration Costs** compared to the last two years:

	2017/18	2018/19	2019/20
	£000	£000	£000
Pensions administration	2,124	2,099	2,601
Legal costs	140	114	97

Other costs	163	34	161
Income	(44)	(57)	(37)
Total Administration Costs	<b>2,383</b>	<b>2,190</b>	<b>2,822</b>

28. Administration Costs have increased from 2018/2019 levels by £0.630m. Almost half of this (£0.294m) can be accounted for by increased support service charges, following a review of the internal recharging process (see also paragraph 32). Increased CLASS charges (£0.207m) and an additional one-off cost relating to i-Connect software (£0.125m) account for the balance.
29. Using the latest data available (for 2018/2019), we can compare the cost per scheme member of our Pensions Administration Team to those of the 28 other Funds (out of a possible 90) captured by the CIPFA benchmarking service. The 2017/2018 costs are provided in brackets for reference.

2018/2019	Administration Costs per scheme member	
	SCC	Average
<b>CIPFA benchmarking</b> - pensions administration	£18.57 (£21.30)	£21.34 (£21.16)

30. In 2018/19 the Fund's administration costs were significantly below the CIPFA average as a result of lower indirect costs, relating to such things as premises costs. The difference is also because the costs of employing an external company to assist with the backlog work had been allocated to indirect costs in the previous year. Going forward, we do need to ensure that we are consistent with the way we allocate our costs, but it should also be acknowledged, that with less than a third of LGPS Funds taking part in the CIPFA benchmarking, comparisons are extremely difficult; especially when LGPS Funds range in size from £0.500m to in excess of £15.0m and all have very different administrative arrangements.
31. The following table shows this year's **Oversight and Governance Costs** compared to the last two years:

	2017/18	2018/19	2019/20
	£000	£000	£000
Audit Fees	29	33	19
Actuarial Advice	97	130	232
Governance Expenses	176	180	0
Investment Oversight fees	165	137	170
LGPS Central costs	0	833	947
Other	545	427	224
Total Oversight & Governance costs	<b>1,012</b>	<b>1,740</b>	<b>1,592</b>

32. Total Oversight and Governance costs have decreased in 2019/2020 as a result of the review of the re-allocation of support charges, as previously outlined in paragraph 28 (£0.180m in 2018/19 to £0.0m in 2018/19).
33. The following table shows this year's **Investment Management Costs** compared to the last two years:

	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Investment managers	11,763	13,940	13,077
Property costs	1,301	2,349	3,158
Custody costs	136	130	110
Other	155	93	74
Total investment costs	13,355	16,512	16,419

34. Whilst Investment Managers fees have reduced overall in 2019/20, there are some large variances within the total. Savings from investing in Emerging Market Equities have been offset by a move from passively investing in Global Equities, to actively investing in Global Equities through LGPS Central Limited. Private Equity costs were lower in the year (£0.500m) as were transaction costs (£0.233m). The increase in property costs has been explained previously in paragraph 25.
35. As a result of the unprecedented falls in equity markets in February 2019, the market value of the Fund's assets fell back to below its 2017/2018 levels by the end of 2019/2020, a decrease of over 7.5% on its 2018/2019 position. This has had the short-term impact of increasing the Fund's average Investment Management Fee level by 1bps, whereas it would have been slightly lower at 0.24% had markets not fallen, in the final quarter of the year.

	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
IM Fees	11,763	13,940	13,077
Fund value at 31/3	4,775,829	5,128,319	4,731,370
Average Fee level (%)	0.25	0.27	0.28

36. The Fund is already beginning to see the impact of investing in Alternative assets classes, such as Private Debt, in the cost benchmarking data (see following section). Looking forward, with an increased allocation to Alternative asset classes, such as Infrastructure, 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**



37. 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. However, with the focus on getting pools up and running, and transitioning assets, over the last 3 years, this piece of work is still yet to be developed.
38. 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 300+ global pension funds with total assets of £7.2 trillion (average £24bn, median £6bn).
39. The 2019/2020 survey grouped Staffordshire Pension Fund with 18 LGPS and international funds ranging in size from £2.3bn to £8.6bn (a median size of £4.6bn versus our £4.4bn). Based on a comparative cost base and taking into account embedded costs, our Fund's costs of 67.0 basis points (bps) was 7.3bps above the peer median of 59.7bps. This was predominantly because our Fund invests in Alternative asset classes, such as Private Equity, using a 'Fund of Fund' approach, where there are multiple layers of fees payable. However, Private Equity has been a strong performing asset for the Fund over the period and has delivered returns well in excess of its benchmark. This illustrates the point that whilst cost is an important consideration, it must be viewed versus any out-performance it delivers.
40. Measuring trends is also important and the Fund's costs have increased from 55.8bps in 2014/2015 to 67.0bps in 2019/2020. The reasons for this are predominantly down to changes in asset allocation and the way in which we choose to implement those decisions. Over the last 5 years, the Fund has increased its allocation to active Global Equities (away from cheaper passive Global Equities) and to Private Debt. A new asset class introduced in 2017, Private Debt has been invested in via a Fund of Funds approach, like Private Equity. Early indications are that the asset class is performing ahead of its benchmark and delivering 'net' positive returns and so, once again, cost is only one factor to be considered.

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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
<b>LGPS Pensions Administration</b>	2019 Actuarial Valuation – work with Actuary and Employers to ensure all valuation work is carried out in a timely, informative and efficient way	<b>Achieved</b>
	Undertake a Mortality / Living as Stated / Tracing Exercise prior to issue of 2020 Deferred Annual Benefit Statements	<b>Deferred until 2020/21</b> Discussion with potential suppliers indicates tender process will be necessary.
	Continue to develop new working practices with Third Party Payroll Providers following the introduction of i-Connect	<b>Partially achieved.</b> Good progress continues to be made. Ongoing into 2020/21
	Demonstrate a general improvement in KPI's	<b>Achieved.</b> KPI's continue to improve generally but need to recognise additional resource will be required in certain areas going forward for them to be maintained.
<b>Pensions Administration System</b>	Continue to implement i-Connect with a range of smaller / larger Employers to achieve an overall target as close to 100% of Active Fund Membership data being submitted monthly	<b>Partially achieved.</b> Progress continues despite some resistance from payroll providers. c50% of Active Membership data now received monthly with pipeline to increase this to as close to 100%
	Review task design in Altair	<b>Partially achieved.</b> Review of refund and deferred workflow

Area of Service	Key Development Activity	Progress
		processes undertaken with further process reviews to be carried out in 2020/21
	Review use of interactive dashboard in Altair	<b>Partially achieved.</b> Initial review undertaken with implementation in 2020/21
<b>Contracting Out Reconciliation</b>	Finalise under/overpaid pensioner members following responses to enquiries with HMRC	<b>Partially achieved.</b> Reconciliation process completed but response from HMRC awaited in order to complete rectification process.
<b>Governance</b>	Run appointment process for 4 Members of the Local Pensions Board	<b>Achieved.</b>
	Continue to review published policies e.g. Administration Policy	<b>Achieved.</b> All major policies now reviewed. Routine review going forward.
	Review need for and develop Covenant Monitoring Process	<b>Partially Achieved.</b> Initial review carried out as part of 2019 Actuarial Valuation. Data to inform further review in 2020/21
	Review of Funding Strategy Statement following Actuarial Valuation and consultation with Employers	<b>Achieved</b>
<b>Communications – Scheme Members</b>	Promote the use of Member Self Service / My Pension	<b>Achieved.</b> New version of 'My Pension Portal'

Area of Service	Key Development Activity	Progress
	(with the aim of issuing all Annual Benefit Statements electronically in 2021)	launched January 2020 with wider promotion planned throughout 2020
	Continue to review Website content	<b>Achieved.</b> Excellent progress with continuing development of structure and content. New pages, forms and guides published plus general website clean-up
<b>Communications - Employers</b>	Further develop and run Employer Practitioner Workshop(s) e.g Breaches, Ill-health retirement, IDRPs	<b>Achieved.</b> 90+ attendees at 2019 event.
	Further develop the role of the Employer Focus Peer Group and the Employer Focus Newsletters	<b>Achieved.</b> Group is well attended and input extremely valuable to both sides. Monthly newsletters being produced with mailing list to be expanded.
	Further develop Employer Administration policies / guides / practices and promote such to relevant Employers	<b>Achieved.</b> New Administration Strategy and Independent Dispute Resolution Process (IDRP) Guide published
<b>Pension Fund Investment</b>	Review of Strategic Asset Allocation (SAA) in conjunction with 2019 Actuarial Valuation and the Investment Offering of LGPS Central Ltd	<b>Achieved</b>
	Review of the Investment Strategy Statement following the SAA review	<b>Achieved</b>

Area of Service	Key Development Activity	Progress
	Continue to monitor processes, reconcile data and report performance impact following asset transitions into LGPS Central e.g. Corporate Bonds	<b>Achieved</b> - Substantial input has been required on transitions to date and remains ongoing.
	<b>Resource Intensive – Business as Usual Activity</b>	<b>Period</b>
<b>LGPS Pensions Administration</b>	Management of JLT backlog project and continued response to resulting queries	1 April - 30 June
	Review Pensions Services staffing levels and structure	1 April – 30 September
	Finalise Year end data	1 April - 30 July
	Issue Deferred Annual Benefit Statements	1 May – 30 June
	Issue Active Annual Benefit Statements	1 July – 31 August
	Record Keeping Data Integrity Checks (pre-2019 /post 2019 Valuation)	1 April – 31 March
	Continue to improve quality of data generally across the Scheme	1 April – 31 March
	Assess the impact of any Regulatory Changes and communicate such to all interested parties and stakeholders	1 April – 31 March
<b>The Pensions Regulator</b>	Continually review compliance with The Public Service Scheme Code of Practice and Public Service Regulatory Strategy in relation to Disclosure of Data	1 April – 31 March
	Improve common and conditional data scores	1 April – 31 March
	Maintain and review Breaches Log and improve reporting to tPR	1 April - 31 March

