Item no 7 on Agenda

PENSIONS COMMITTEE – 31 MARCH 2023

Report of the Director of Finance

Staffordshire Pension Fund Business Plan 2023/24

Recommendation of the Chairman

1. That the Pensions Committee approves the Staffordshire Pension Fund Business Plan for 2023/24 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 - 2022/23) and provides the proposed Business Plan for the following financial year (Appendix B – 2023/24).

Pensions Business Plan 2022/23 – Progress Update

3. With the disruptive impact of the Covid-19 pandemic behind us, we continued to settle into our new normal, with hybrid working arrangements allowing us to continue to embrace the developments that have been made in technology, and the impact these have on our operational activities. And so once again, it is extremely pleasing to be able to report good progress against the current year's Business Plan; this is detailed in Appendix A.

4. The experience, dedication and enthusiasm demonstrated across the Treasury & Pensions Team enabled the ongoing delivery of a high level of day-to-day service provision to all the Fund's stakeholders, as well as the delivery of several Key Development Activities from the 2022/23 Business Plan. These include:

- The successful collection and provision of data to the Scheme Actuary to facilitate the 2022 Actuarial Valuation at 31 March 2022 and the dissemination of results schedules to the Fund's 500+ Employers. This is a resource intensive exercise for Fund Officers, over and above the routine year end exercise. Members of the Pensions Committee will appreciate the input from the Actuary, from their attendance at meetings over the last 12 months and the decision-making process that they have been involved in. The opportunity to restructure and update the Funding Strategy Statement was also taken.

- Whilst the ask was to evaluate the viability of Digital Proof of Life, the Fund was able to go a step further and has successfully competed its first Digital Proof of Life exercise. Since there is no requirement to notify the Fund of the death of a Pensioner, who lives overseas, the Fund has mailed out a paper 'Proof of Life' document for several years. Prior to return, this had to be completed and signed by an official representative, such as a Doctor, Postmaster, or the Local Mayor, to effectively verify that the individual was still alive. The idea of digital proof of life, replaces the paper process with digital biometric facial recognition meaning that the member no longer needs to involve a third party but can use the digital system provided to confirm their identity from their computer or mobile phone.

- Following on from the Strategic Asset Allocation and high-level Investment Strategy review, which was undertaken ahead of the 2022 Actuarial Valuation, Fund Officers have been working with the Investment Consultant and the Pensions Panel to consider how best to implement the strategy across the various asset classes. Whilst the focus in 2022 has predominantly been on Equities, the pace of investment into Private Markets (e.g., Private Equity and Infrastructure), has been maintained and opportunities to invest in several funds, including those offered by LGPS Central Limited, have been taken.

5. Several planned activities which were brought forward from 2021/22 which were dependent on the procurement of the new Administration System were also completed in 2022/23. These include:

   - Task Design in Altair for Deaths and Concurrency; and
   - Use of the interactive dashboard or alternative provision in Altair Insights.

6. Unfortunately, some development activities were not achieved in 2022/23 and the opportunity to reflect on why not, and any potential barriers, was taken. As a result, a few of the activities have been redefined for 2023/24 and will tie into project work required for larger projects such as data readiness for the national Pensions Dashboard Program. Full details will be included in the final outturn report which will be presented to the Pensions Committee at their meeting in June 2023.

Performance Standards 2022/23

7. 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. Hybrid working has become the norm, and no longer presents the challenges that it did in 2020 but planning for a raft of new and changing legislation (e.g., McCloud and the national Pensions Dashboard Program), means that there will always be more to do.

8. Inevitably, there will always be room for improvement in performance and there will always be good reason why performance in certain areas may not be at an optimum level. Throughout 2022/23, the Treasury & Pensions Teams

have been very aware of the challenges they face and have made excellent progress in meeting the competing demands across the service. Morale and motivation remain high, and the Team continue to challenge themselves about working practices and processes, making incremental improvements wherever they can.

9. The Fund has experienced a small increase in staff turnover over the last 12 months which has not been helped by a challenging recruitment environment; a problem echoed nationally across the LGPS. However, our recruitment program has continued and whilst the level of applicants has fallen dramatically, several successful appointments have been made. We have finally been able to introduce our new 5 pillar team structure, which will future proof the service and allow for succession planning. This has facilitated internal promotions, to a new wider Management Team, and allowed us the opportunity to promote some of the more experienced team members. Younger and newer team members are also being offered internal and external training opportunities and these have been taken up by several of the team.

10. A full set of performance statistics will be provided as part of the Outturn reporting for the June Committee.

Staffordshire Pension Fund Business Plan 2023/24

11. The Business Plan presented for 2023/24 moves away from the two distinct sections of Key Development Activities (KDAs) and Business as Usual Activities (BaUAs) that have been presented as part of Business Plans over the last few years. The initial purpose of the separation was to clearly define the operational difference in the two activities, but as more of the KDAs have become BaUAs, and as BaUAs have become sufficiently bedded down within the Teams operational workplans, there is no longer a need to formalise them as part of a wider Business Plan. However, we do recognise that this does not diminish their importance or the implications on the resource needed to deliver them to a continually high standard.

12. Several areas that the Treasury & Pensions Team have identified as Key Development Activities in 2023/24 include:

- Continuing to collect retrospective data from Employers and planning for the implementation of remedial action arising from the McCloud / Sergeant judgement;

- Appointing an Integrated Service Provider (ISP) and the undertaking of a ‘data readiness’ exercise ahead of the LGPS staging date for the Department of Work & Pensions’ (DWP) new national Pensions Dashboard;

- Tendering for a provider of Actuarial Services; and

- Continuing with the implementation of the new Investment Strategy following the review of Fund's Strategic Asset Allocation.

Pensions Administration – Key and Ongoing Development Activities

McCloud

13. Committee Members will be aware from previous reports of the McCloud / Sergeant judgement and the resultant government consultation, in respect of the remedy for making good the potential for claims of age discrimination across UK Pension Schemes. Whilst the government have published their response to the consultation for unfunded schemes, they have still yet to publish such for the LGPS. And so, as the October 2023 deadline gets closer, there is still huge uncertainty about the detail of the recalculation and rectification requirements.

14. Our project to collect data for the c54,000 Scheme Members who have post 2014 service has been underway for the last 18 months. However, as the scope of the affected membership has widened and as we seek to collect another years' worth of data, it is increasingly apparent what a huge challenge this project will be for several years to come. Whilst having an appropriately configured Administration System will take away the need for most of the manual recalculation work, the real challenge is still around the collection of data and the assumptions that will need to be made when some or all of that data is missing; the evidence of which is becoming an increasing reality.

Pensions Dashboard – Integrated Service Provider (ISP) and Data Readiness

15. Committee members will likely be aware of DWP's intentions to launch their Pensions Dashboard during 2023. Whilst the resource and operational implications for the LGPS are becoming clearer, the initial onboarding date of September 2024 may yet be pushed back. However, there is still a need to prepare and appoint an ISP, which will enable the linking and the transfer of information about an individual's pension account, and their relevant data, between the national Pensions Dashboard and the local Administration System.

16. Due to the potential numbers of individuals likely to be accessing the Pensions Dashboard, there is a need to agree a set of 'matching criteria' e.g., National Insurance Number, Address etc. Whilst some of these will be in a consistent format, others will not, and the onus will be on the Fund to determine what constitutes a 'full' or a 'partial' match. Therefore, it is vitally important that our data is as clean, and as up to date, as possible. Whilst this is relatively straightforward for active members of the Fund, who are still on a payroll and known to us, it is less so for a deferred member, for example, who may have moved jobs and address several times and failed to inform the Fund. A 'Data Readiness' project aims to assist with the quality of the Common Data, such as the NI Number, which is relatively standard and the address, which is less so. However, at the same time as we need to be

dealing with the McCloud rectification program, the timing of this additional workload is most unwelcome.

Actuarial Services Provider

17. The previous contact for Actuarial Services was let in May 2017 and expires in April 2024. The seven-year contract period was to facilitate some stability in Actuarial Valuations over two valuation cycles and is likely to be replicated this time with Actuarial Valuations due in March 2025 and March 2028. The tender will be awarded through the Norfolk Framework for LGPS Actuarial Services.

Pensions Investment – Key Development Activities

Strategic Asset Allocation Review and Implementation

18. 2022/23 saw the start of conversations with the Fund Investment Advisers at Hymans Robertson about the detail and the implementation of the Fund's new Strategic Asset Allocation and Investment Strategy, which was approved by the Pensions Committee at its meeting in March 2022. A high-level timetable was agreed which focusses on one asset class at a time, allowing due consideration to be given to all aspects and elements of investing in each of them.

19. Whilst the focus for the Investment Team in 2023/24 will be the continuation of the review of the equity portfolio and in particular the factor-based equity allocation, which will be followed by a review of the Defensive allocation (Gilts and Corporate Bonds), there are a number of dependencies that need to be worked through. Once recommendations have been approved by the Pensions Panel, the Team will be responsible for the practical implementation of those decisions, which will likely involve several asset transitions and due diligence being carried out on a number of new investment products.

20. As the implementation timetable is spread over three financial years and is only likely to be fully implemented by the end of 2026, it will remain a KDA for the Team for some time.

Pensions – General

21. There are many other smaller development projects, such as Enhanced Admin to Pay and the continued promotion of the My Pension Portal that will drive efficiencies within the service. There are other activities that will be undertaken, such as the letting of the contract for an Independent Performance Measurer that may mean we change the way we think about and present information. And there are some development projects that are yet unknown; these will only come to light following published guidance from DLUHC on Asset Pooling in the LGPS and the Pensions Regulators Single Code of Practice. Flexibility to prioritise will be of paramount importance given the limited resource and increasingly competing demands across the service.

Cost and Resources

22. The Pension Fund currently has six main areas of 'resource/cost':

- Pension's administration and accounting (internal);
- Governance (internal and external);
- Advice from actuary and consultants/advisors (external);
- Legal support (internal and external);
- Investment management (external); and
- Custody (external).

23. 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 value 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. The level of Investment Manager fees paid is also likely to increase, as the Fund's Strategic Asset Allocation moves away from more traditional asset classes e.g. equities into more expensive alternative asset classes e.g. Infrastructure, and this has been reflected in the budget estimates going forwards.

24. 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 2023/24. 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.

25. 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 2023-2026

Cost Heading	2023/24	2024/25	2025/26
	£000	£000	£000
Pensions Administration	3,110	3,130	3,190
Governance*	1,270	1,300	1,340
Audit	60	60	60
Actuarial Fees	180	180	240
Investment Oversight fees	410	420	430
Investment Advice	130	130	140
Investment Management Fees**	18,530	19,590	20,670
Property Expenses (ex-legal)	4,070	4,190	4,310
Monitoring and Custody	90	90	90
Other expenses	360	370	380
Total	**28,210**	**29,460**	**30,850**

**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.*

26. The LGPS Central Limited Strategic Business Plan and Budget for 2023/24, was presented to Shareholders for approval on 28 February 2023. Whilst the full implication 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. As the budget is directly linked to inflation this has resulted in a larger forecast increase in 2023/24 and this may continue in future years should inflationary pressure persist.

27. Whilst, the LGPS Central costs include an element of fixed cost that the Fund must pay by virtue of being a Shareholder of the company, (e.g. in relation to the governance and the operation 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. This is in addition to the investment management fees payable for Fund assets invested in the sub-funds being offered by the Company.

28. Transition costs arising from changes in asset class or investment manager are not included in the table above, as these are deducted from the capital value of the assets being transitioned.

29. The ongoing increases in Investment Manager Fees is as a direct result of increasing the Fund's allocation to alternative asset classes, such as Infrastructure, Private Equity and Private Debt, as opposed to low fee Passive Equities. As always, value for money from investment management is more important than simple minimisation of costs.

30. Property expenses are forecast to decrease slightly, from current levels, in 2023/24 because of the increase in new lettings and reduction of voids across the property portfolio, following the Covid-19 pandemic. However, to be prudent, and to account for inflationary pressures, the budget shows a slight increase over the coming years from the current level.

31. Due to the uncertainty around several costs, which has been 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 2022/23 will be presented to the Committee in June 2023.

Risk

32. 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 e.g., McCloud and the Pensions Dashboard.
- 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.
- the current geopolitical and inflationary environment; 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 2023 meeting of this Committee.

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

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

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, but the report does contain some actions to address risks identified in the Fund's Risk Register.

Climate change: 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.