Item no 5 on Agenda

PENSIONS COMMITTEE – 22 MARCH 2024

Report of the Director of Finance

STAFFORDSHIRE PENSION FUND BUSINESS PLAN 2024/25

Recommendation of the Chair

1. That the Pensions Committee approves the Staffordshire Pension Fund Business Plan for 2024/25 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 1 - 2023/24) and provides the proposed Business Plan for the following financial year (Appendix 2 – 2024/25).

Pensions Business Plan 2023/24 – Progress Update

3. As in previous years the Treasury & Pensions Service has made good progress against the current year's Business Plan. The detail on this is provided in Appendix 1.

Key achievements include:

- The successful implementation of Enhanced Admin to Pay, which means that from November 2023 approximately 90% of new pensioner payroll records are automatically set up as part of the benefit calculation process. This has resulted in significant efficiency savings from reduced manual input of data.

- The appointment of an Integrated Service Provider (ISP) ahead of the Fund's connection deadline to the national Pensions Dashboard.

- The appointment of Eversheds Sutherland as an external Legal Service provider to the Fund and the reappointment of Hymans Robertson as the Fund's provider of Actuarial Services.

- The appointment of Northern Trust as the Fund's new provider of Independent Performance Measurement Services.

- The Fund also continues to promote the use of My Pensions Portal (MPP) to all scheme members. Statistical information on registration and user activity is now reported monthly via Altair Insights. Scheme employers are also being encouraged to promote the use of MPP to their employees.

4. Unfortunately, due to the impact of external factors, some key development activities were not achieved in 2023/24 and these have been carried forward into 2024/25. A few activities have also been redefined for 2024/25 and will tie into project work required for larger projects during the year, 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 in June 2024.

Performance Standards 2023/24

5. Whilst the Teams continue to provide a high level of day-to-day service provision to the Fund's many stakeholders, the Committee have been made aware in previous year's reports of the ongoing challenges in administering the LGPS, since the introduction of the 2014 scheme and the regulatory complexity that brings with it. We consider ourselves well placed to provide a high quality and sustainable pension service to our Scheme Members going forward but that doesn't come without a range of old and new challenges, which means that there will always be more for us to do.

6. And there will always be room for improvement in performance. The Teams continue to look to develop efficiencies in our current processes, using tools such as process mapping and re-engineering, which overtime we anticipate will help to alleviate some of our resource pressures.

7. In terms of resource, the Fund has experienced a small increase in staffing levels over the last 12 months. Whilst this clearly helps us to deliver business as usual, it will also help with the demands of the ever-increasing large-scale projects we need to implement. We have successfully embedded our 5-pillar Team structure, which will future proof the service and allow for succession planning. Doing this also facilitated internal promotions for our more experienced team members and has created a new wider Treasury & Pensions Management Team. We continue to 'grow our own' and have increased the entry level roles from a Grade 5 to a Grade 6, reflecting the need to both recruit and retain team members.

8. A full set of performance statistics will be provided as part of the Outturn reporting for the June 2024 Committee.

Staffordshire Pension Fund Business Plan 2024/25

9. The Business Plan presented for 2024/25 focuses on several new Key Development Activities as well as those we have had to carry forward from 2023/24. We recognise this is somewhat ambitious and will be challenging to deliver given the pressure of doing so alongside our business-as-usual activity. There will be a need to prioritise and identify activities that need delivering in a timely fashion. Our focus can then be on the activities that will drive our Service forward over the long term.

Pensions Administration – Key and Ongoing Development Activities

10. Several areas that the Treasury & Pensions Service have identified as Key Development Activities in 2024/25 include:

- Improving the quality of our Scheme Member Data - the Fund relies on accurate data to both keep in contact with our scheme members and accurately pay pension benefits at the correct time. The introduction of the National LGPS Member Data Services Framework in April 2024 will enable us to explore the most efficient and effective way to enhance our data and keep in touch with our scheme members.

- The Pensions Regulators General Code of Practice – laid in Parliament in early 2024 this comes into force on 27 March 2024. Following an initial piece of work to identify any gaps, the Fund will need to formulate a plan to comply with the code within six months of it coming into force.

- Improving our Engagement with Scheme Employers - developing a process for improved engagement with scheme employers will ensure that they are fully aware of their responsibilities to the Fund and to their employees. We have several thoughts about how to do this, including reintroducing an in-person Employer Training Day which was last held in 2019, pre-Covid.

- Preparing for the 2025 Actuarial Valuation of the Fund – this will include reviewing the need for multiple investment strategies, reviewing the ongoing need for a stabilisation approach to contribution rate setting for Academies and delivering appropriate Pensions Committee Training.

11. One of the biggest projects that will take up a significant amount of time during 2024/25 has been in the planning for several years already:

McCloud

- Amendments to the LGPS regulations came into force on 1 October 2023 to enable LGPS funds to deal with the pensions remedy.
- DLUHC have provided guidance on prioritising cases, communications, and calculations.
- As the McCloud remedy is a material change to the LGPS regulations all in scope members had to be informed within three months.

Operationally the Fund has now carried out the following;

- Identified circa 30,000 Scheme Members in scope for a McCloud underpin protection test.
- Carried out the required communication exercise in December 2023 contacting all in scope Scheme Members.

- Collected missing contractual hours and service breaks from Scheme Employers

Next steps in the project will be to load the missing data, bulk calculate rectification, recalculate past cases and plan how we produce the 2025 Annual Benefit Statements which must reflect any impact of McCloud.

<u>Pensions Dashboard – Integrated Service Provider (ISP) and Data Readiness</u>

12. This is another area of increased focus for the Teams in 2024/25, following the Government having to reset the clock for the Department for Work & Pensions' new national Pensions Dashboard Program. The expectation is that all public sector schemes, including the LGPS, will have until September 2025 to connect to the digital infrastructure.

13. Having successfully appointed Heywood's as the Fund's ISP, the next challenge is to undertake a 'Data Readiness' exercise ahead of the LGPS staging date. Due to the potential number 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 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 standard and the address, which is less so.

Pensions Investment – Key Development Activities

<u>Strategic Asset Allocation Review and Implementation</u>

14. 2023/24 saw further progress in 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. Continuing with the high-level timetable agreed, one asset class at a time has been reviewed (equity, fixed income, property) allowing due consideration to be given to all aspects and elements of investing in each of them.

15. Whilst the focus for the Investment Team in 2024/25 will be the continuation of the implementation of the remaining actions from the Strategic Asset Allocation Review carried out in 2022, work will also begin on the next Strategic Asset Allocation review, in preparation for the 2025 Actuarial Valuation. This will be carried out in conjunction with the Fund's Investment Consultant and is not expected to result in any major changes, as a comprehensive review was carried out only two years ago. A review of the Fund's Climate Change metrics and targets will also be incorporated.

16. Finally, the Team will be integral to the review of the need for multiple investment strategies.

Appointment of a second Independent Investment Adviser to the Pensions Panel

17. The procurement to appoint a second Independent Investment Adviser to the Pensions Panel has almost concluded. The Fund has traditionally had two Independent Advisers but following a retirement in 2020 the second Independent Adviser was not initially replaced. It is anticipated that the procurement will be successful, and a second Independent Adviser will be in place in time for the June Pensions Panel. This will enable further challenge to be given to the current Investment Consultant / Adviser at Pensions Panel meetings.

Cost and Resources

18. 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).

19. 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 forward.

20. 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 2024/25. 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.

21. 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 2024-2027

Cost Heading	2024/25	2025/26	2026/27
	£000	**£000**	**£000**
Pensions Administration	3,170	3,230	3,330
Governance*	1,570	1,620	1,670
Audit	50	50	50
Actuarial Fees	180	240	180
Investment Oversight fees	670	690	700
Investment Advice	110	120	120
Investment Management Fees**	19,230	20,250	20,950
Property Expenses (ex-legal)	3,680	3,790	3,900
Monitoring and Custody	90	90	90
Other expenses	10	10	10
Total	**28,760**	**30,090**	**31,000**

**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.*

22. The LGPS Central Limited Strategic Business Plan and Budget for 2024/25, has not yet been approved by Shareholders and discussions between Partner Funds and the Company remain ongoing. However, within the Governance costs section in the table above, the proposed LGPS Central budget has been included for 2024/25 with assumptions about future increases included in 2025/26 onwards. Members will be updated via the outturn report presented at the June Pensions Committee, on any agreed position on Governance costs for 2024/25 onwards.

23. The LGPS Central costs included in Governance 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). However, 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.

24. 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.

25. 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, net value for money from investment management is more important than simple minimisation of costs.

26. Due to the uncertainty around several costs, which have 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 2023/24 will be presented to the Committee during 2024.

Risks

27. The primary risks to the continued delivery of a pension's administration, accounting and investment monitoring service to maintain the high standards currently being 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 performance of investment markets generally and the Fund's investment managers, 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 2024 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.