Item no 5 on Agenda

PENSIONS COMMITTEE – 26 MARCH 2021

Report of the Director of Corporate Services

Staffordshire Pension Fund Business Plan 2021/22

Recommendation of the Chairman

1. That the Pensions Committee approves the Staffordshire Pension Fund Business Plan for 2021/22 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 - 2020/21) and provides the proposed Business Plan for the following financial year (Appendix B – 2021/22).

Pensions Business Plan 2020/21 – Progress Update

3. In a year in which the whole world changed, 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. As well as continuing to do the 'day job' and the increasing challenges that this presents ordinarily, the majority of the Treasury & Pensions Team faced additional challenges as they moved to home working during March 2020. The team have continued to work from home since then and, in addition to delivery of a Business Plan, have had to adapt many of their day to day working practices to maintain a high standard of service provision to all stakeholders. However, successes have still been achieved in several areas of the 2020/21 Business Plan including;

   - Following a scaled down promotional campaign, due to the pandemic and the wider move to home working, increasing the awareness and use of the Member Self Service / My Pension Portal and issuing most of the Annual Benefit Statements electronically by 31 August 2020;

   - Continuing to make good progress with i-Connect; and

   - Following a competitive tender process, the re-appointment of Hymans Robertson as the main Investment Advisors to the Pensions Panel.

5. Understandably, several planned activities for 2021/21 have been delayed or scaled back but good progress has still been made, for example:

- A Covenant Monitoring process has been developed which will sit alongside the Hymans on-line Funding Level Review tool; and

- Following the 2019 move to Utmost plc, scoping work and data collection has begun for the external review of Additional Voluntary Contribution providers.

Full details will be included in the final outturn report which will be presented to the Pensions Committee at their meeting in June 2021.

Performance Standards 2020/21

6. 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. Working from home has meant the Team has had new challenges to face this year and with a raft of new and changing legislation, either to implement or to plan for, there is always more to do.

7. 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, but throughout 2020/21, the Treasury & Pensions Teams have been very aware of the challenges and made excellent progress in meeting the competing demands across the service. Circumstances this year have dictated that time has had to be spent reviewing processes and a great example of one of the relatively small changes with a big impact, that working from home has pushed through, is the issuing of Retirement Packs electronically; as opposed to the printing and postage costs, not to mention the environmental impact, of sending out paper packs of 20+ pages, the documents are all being made accessible via email and on the Fund's website.

8. Several experienced staff have retired over the last 12 months and whilst their experience will initially leave a knowledge gap, it does create an opportunity to promote some of the younger and newer team members. External and internal recruitment exercises have also been undertaken and the high standard of applicants leading to successful appointments has been encouraging.

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

Pensions Business Plan 2021/22

10. The Business Plan for 2021/22 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. Once again,

several of last year's development activities have now been re-categorised into Business as Usual activity, including the continuing implementation of i-Connect, the engagement with payroll providers and producing the Annual Accounts in line with CIPFA's new reporting requirements.

11. Several areas that the Treasury & Pensions Team have identified as Key Development Activities in 2021/22 include:

- Planning for the implementation of remedial action arising from the McCloud / Sergeant judgement (& possibly Goodwin) to include collection of retrospective data from Employers;

- Re-tendering for the Administration System provider, which will include the need for an externally hosted platform service;

- Promoting and encouraging the use of Member Self Service / My Pension Portal to **Retired** Scheme Members (with the aim of issuing the majority of P60s and payslips electronically);

- Assessing the output from the Scheme Advisory Board's Good Governance Review and considering how best to implement any actions identified; and

- Developing a Staffordshire Pension Fund Climate Strategy and Climate Stewardship Plan.

Pensions Administration – Key Development Activities

<u>McCloud</u>

12. Committee Members will be aware 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 yet to publish such for the LGPS.

13. Analysis by Fund Officers indicates that there are approximately 31,000 Scheme Member records in scope, for recalculation within the Staffordshire Fund. This rises to 54,000 records, if all Scheme Members with post 2014 service are included. Whilst administration systems, when appropriately developed, will take away the need for most of the manual recalculation work, the real challenge in the first instance, is around the collection of data.

14. Since 1 April 2012, many Scheme Members will have changed their hours and possibly their Employers and many Employers will have changed their payroll providers, and sometimes more than once. Whilst the responsibility for providing the data rests with Employers, the tasks of collection, manipulation, reconciliation and uploading of data rests with the Fund. Initial

communications have been sent to all Employers about the forthcoming need for us to ask them for data but the reality now, is that collecting the data cannot wait any longer.

15. Once we have the response to the consultation, updated administration software and the data, the next challenge of recalculation and rectification will begin.

Administration System Tender

16. The contract with the Fund's existing administration system provider is not due to end until late 2022. However, due to structural changes within the IT infrastructure at the County Council, there will be a need to move to an externally hosted service (whereby the software is held on servers outside of the Council) before then. Given the time that needs to be factored in, should there be a change in the administration system provider, and the working practices that stem from that, it is considered prudent to mitigate any risk of having to do so, at relatively short notice, by bringing forward the tender process into 2021. This will not only assist with the more pressing hosting issue but also avoid the Team having to run an extremely complicated systems tender process during the same year as the triennial actuarial valuation.

Scheme Member Communications and My Pensions Portal (MPP)

17. The benefits of MPP both from a Scheme Member and fund administration perspective are clear. Over time, as Members become more familiar with undertaking basic admin tasks in MPP and using it as a source of information about their pension benefits, then we expect to see 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.

18. 2020 saw our large-scale plans for the promotion of MPP, to active and deferred Scheme Members, revisited, as the majority of Scheme Employers closed their offices and workplaces due to the pandemic. The promotion of MPP that did happen was far more subtle; restricted to email footers and requests to Employers for email promotions and content in newsletters etc. as opposed to the posters, sign board's and workplace visits that were envisaged originally.

19. Despite the challenges, we did receive a better than expected response and now have around 20% of the Fund's active and deferred Scheme Members signed up to use MPP. Whilst we acknowledge that there is still more work to do in this space, new Scheme Members are signed up at the outset and therefore a biennial promotional campaign, for those still yet to sign up, strikes a balance between cost and resource.

20. Our aim in 2021/22, is to encourage our Retied Members to use MPP to access their payslips and annual P60 notifications. We do recognise that this

will be more challenging for those who either do not have access to, or are less familiar with, technology, so we do expect a much lower level of individuals signing up and we will not be withdrawing the more traditional method of posting paper copies of these documents on request. However, over time, as Retirement Packs, which reference signing up to MPP, are issued electronically, then MPP will become the primary source of information for our Retired Scheme Members.

Good Governance Review

21. 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 refocussed itself on improving Governance across the LGPS and Hymans Robertson were appointed to assist. The final report was published in February 2021 and the SAB Chair will soon be submitting the action plan to the local government minister, with a view to government amending scheme regulations or issuing statutory guidance in respect of those matters that would fall to MHCLG to implement. A copy of the repost is available on the SAB website via the link below:

https://www.lgpsboard.org/images/Other/Good_Governance_Final_Report_February_2021.pdf

22. Whilst an initial gap analysis has been carried out, which indicates there are no major areas for concern within the Staffordshire Fund, there will be a need to make some changes to the Fund's governance arrangements. There will also be new statements to publish e.g. Governance Compliance Statement and in due course Peer and/or External Reviews to undertake.

Pensions Investment – Key Development Activities

Climate Strategy

23. As well as continuing to focus on their day to day accounting, investment monitoring and stewardship activities, the key development activities for the Pensions Investment Team throughout 2021/22 will focus on Responsible Investment (RI) and particularly reporting around Climate Change.

24. The Fund already does a great deal in the RI arena and acknowledges such, within its Investment Beliefs. Officers recognise that there is an increasing focus on Climate Change and the challenge and impact that Pension Fund investments in this area both create and solve. LGPS Central Ltd have recently produced the Fund's first Climate Risk Report, which will be presented to Members later in today's meeting. This gives a real insight into the 'green' data that sits behind the Fund's current investments and the metrics on the Fund's Carbon Footprint and its weight in Fuel Reserves, as well as its weight in Clean Technology. It also gives a strong indication that going forwards, doing nothing is clearly no longer an option.

25. Working with LGPS Central Ltd and Hymans Robertson, Officers will use the data from the Climate Risk Report, alongside further analysis, as a baseline from which to develop a Climate Strategy. The work will consider the impact of different investment strategies for the Fund, with Paris-aligned carbon targets and the delivery of a Net Zero Commitment in a stated future timeframe.

26. Alongside the Climate Strategy, the Fund will also look to develop a Climate Stewardship Plan. This will help Fund Officers to focus their engagement on the specific investments and investment managers who are contributing most to climate risk.

Cost and Resources

27. 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).

28. 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 it 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 going forwards.

29. 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 2021/22. 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.

30. 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 2020-2023

Cost Heading	**2020/21**	**2021/22**	**2022/23**
	£000	**£000**	**£000**
Pensions Administration	2,720	2,770	2,830
Governance*	1,100	1,270	1,300
Audit	30	30	30
Actuarial Fees	170	170	320
Legal Fees	280	280	290
Investment Advice	60	80	80
Investment Management Fees**	11,850	12,880	13,440
Property Expenses (ex-legal)	4,080	4,200	4,320
Monitoring and Custody	60	50	50
Other expenses	370	390	400
Total	**20,720**	**22,120**	**23,060**

**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.*

31. The LGPS Central Limited Strategic Business Plan and Budget for 2021/22, was presented to Shareholders for approval on 10 February 2021. Whilst the full implications 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. 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.

32. 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.

33. 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 2020/21 will be brought to the Committee in June 2021.

Risk

34. 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;
- 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 in full to the June 2021 meeting of this Committee.

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

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

37. **Resource and Value for money implications:** Resource and value for money implications are considered in the report.

38. **Risk implications:** There are no direct risk implications, but the report does contain some actions to address risks identified in the risk register.

39. **Climate change:** There are no direct climate change implications arising from this report.

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

John Tradewell
Director of Corporate Services

Contact:	Melanie Stokes, Head of Treasury & Pensions
Telephone No:	(01785) 276330
Background Docs:	None