

PENSIONS COMMITTEE – 16 MARCH 2018

Report of the Director of Finance of and Resources

Staffordshire Pension Fund Business Plan 2018/19

Recommendation of the Chairman

1. That the Pensions Committee approves the Pensions Business Plan for 2018/19 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 - 2017/18) and provides the proposed Business Plan for the following financial year (Appendix B – 2018/19).

Pensions Business Plan 2017/18 – Progress Update

3. Progress against the current year's Business Plan is detailed in Appendix A. As well as continuing to do the 'day job' and the increasing challenges that this presents, in effectively administering 3 schemes, significant successes have been achieved in a number of areas including;
 - Implementing new processes and procedures following a review of the Fund's Additional Voluntary Contribution (AVC) providers at the end of 2016;
 - Issue of the Annual Benefit Statements by 31 August 2017;
 - An initial review of compliance to The Public Service Scheme Code of Practice and Public Service Regulatory Strategy in relation to Disclosure of Data e.g Breaches;
 - Appointment of an independent Performance Measurer for the investments of the Fund; and
 - Continued support to LGPS Central Ltd in its progress towards Financial Conduct Authority (FCA) approval.

Full details will be included in the final outturn report which will be presented to the Pensions Committee at their meeting in June 2018.

Performance Standards 2017/18

5. 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.
6. Whilst performance in certain areas may not be back to the optimum target levels the Pensions Services Teams would wish for, there is a sense that things are starting to improve. Issues with recruiting appropriately skilled staff are being addressed via a recruitment exercise to 'grow our own' instead. And issues as a result of the fragmentation of the County Council's payroll are being focused on as a key area of development activity in 2018/19 with the implementation of i-Connect.
7. A full set of performance statistics will be provided as part of the Outturn reporting for the June Committee.

Pensions Business Plan 2018/19

8. The Business Plan for 2018/19 has been 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 do 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. performing data integrity checks prior to the 2019 Actuarial Valuation.
9. The areas that the Pensions Services Teams have identified as Key Development Activities in 2018/19 include:
 - Ensuring full compliance with the General Data Protection Regulations (GDPR) which come into effect in May 2018;
 - Continuing to implement i-Connect software for data collection with Fund Employers, with the aim of having 50% of Active Fund Member data submitted monthly;
 - Development of the Pension Fund website and a review of the ways in which we communicate with our Scheme Members and Fund Employers; and
 - Implementation of the new Governance Arrangements in relation to LGPS Central Limited to include the reporting arrangements and review of asset transition plans.

Pensions Administration – Key Development Activities

GDPR

10. From May 2018, the EU General Data Protection Regulation (GDPR) will replace the current Data Protection Act. GDPR is a regulation by which the

European Parliament intends to strengthen and unify data protection for all individuals within the European Union (EU). Alongside the County Council's corporate programme, the Pension Fund is working towards ensuring areas of compliance specific to Pensions Administration. This includes identifying data relationships with current and previous suppliers, putting privacy statements in place on our systems and documentation and reviewing historic data to ensure that we store, hold and manage LGPS members' personal data in line with statutory requirements going forward. We are also arranging both external and internal training for all Pensions Administration staff to raise their awareness and highlight the potential significance of any GDPR compliance breach. Given that the Fund has in excess of 100,000 individual members' records this is a huge challenge across the team, at a time when we are also endeavouring to work to close the Pension Fund accounts by 31 May, two months earlier than in previous years.

Members of the Pensions Committee will receive a short information and training session, on GDPR, following today's meeting.

i-Connect

11. The increasing number of Employers in the Fund together with the increasing number of payroll providers makes it extremely difficult 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. One of the ways in which the risks of non compliance can be mitigated is by encouraging Employers to submit monthly data using the i-Connect software, which is a module of the administration system Altair. Progress has been slow with this project thus far, as the onus is on the resource and enthusiasm of Employers who need to undertake a data mapping exercise to provide an extract from their payroll. Ultimately, doing this will benefit all concerned, not only in relation to the Disclosure of Data but also because it will improve the accuracy of pension data generally and remove the need to have a year- end process.

Website and Member and Employer Communications

12. The Fund now has almost 300 Employers, all who have different levels of experience and resources available in relation to dealing with Pensions. It is becoming increasingly apparent that one of the ways in which we can begin to alleviate unnecessary telephone enquiries and email queries is to make appropriate information available, accessible and user friendly. The Staffordshire Pension Fund website is key to this and, working with the County Council's IT team, a review is being started to make the site more member and employer focussed, in terms of answering the most frequently asked questions. We also recognise that the site needs to be intuitive to use and fluid in the topical information displayed.
13. Recognising that many Employers do have a limited resource means that if we can help them to perform their roles more effectively, it will ultimately help us provide them with a better service. I-Connect is one example of this, but

we are also proposing to redesign and produce more Employer focussed newsletters, update our scheme guides and run targeted practitioners workshops on topics such as Data requirements and Breaches, Ill-health retirement, IDRPs and other such areas, on which we often spend time explaining the process several times over.

Pensions Investment – Key Development Activities

LGPS Asset Pooling

14. The Committee have been fully updated and engaged thus far with the numerous complexities surrounding LGPS asset pooling and the creation of LGPS Central Limited which was authorised by the Financial Conduct Authority (FCA) in December 2017. A vast amount of additional work has been undertaken by Officers over the past 2 years, to get LGPS Central Limited to the 1 April 2018 go-live date but, the work does not stop there. Throughout the company's first year of operation, there are Governance arrangements to implement, reporting and accounting arrangements to put in place, asset transitions to manage and monitor and there is still work to be done in conjunction with the company in developing the investment offering. Again, the Committee is asked to note that the amount of time and resource that still needs to be committed to this project should not be underestimated.

Cost and Resources

15. The Pension Fund currently has five main sources of 'resource/cost';
 - Internal resources in pension's administration and accounting
 - Advice from actuary and consultants/advisors (external);
 - Legal support either internal or external;
 - Investment management (external);
 - Custody (external).
16. A number of 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.
17. 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 2018/19. 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.
18. 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 could create significant variations from these figures.

Table 1 - Indicative Pension Fund Costs 2018-2021

| Cost Heading | 2018/19 | 2019/20 | 2020/21 |
|-------------------------------|----------------|----------------|----------------|
| | £000 | £000 | £000 |
| Pensions Administration | 2,250 | 2,290 | 2,340 |
| Governance* | 980 | 1,000 | 1,020 |
| Audit | 40 | 40 | 40 |
| Actuarial Fees | 140 | 320 | 150 |
| Legal Fees | 200 | 200 | 210 |
| Investment Advice | 190 | 200 | 200 |
| Investment Management Fees | 11,110 | 10,450 | 10,270 |
| Property Expenses (ex-legal) | 1,620 | 1,650 | 1,690 |
| Monitoring and Custody | 120 | 20 | 0 |
| Other expenses | 360 | 370 | 380 |
| LGPS Central transition costs | 2,030 | 810 | 1,540 |
| Total | 19,040 | 17,350 | 17,840 |

**Includes the running costs of LGPS Central*

19. Given the imminent date for the commencement of LGPS asset pooling on 1 April 2018, the Fund will begin to incur additional cost in relation to the ongoing governance, management and operational costs of LGPS Central Ltd. The 2018/19 budget for the company has only recently been approved by Shareholders and 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 has to 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.
20. Table 1 also includes the forecast costs of transitioning assets into LGPS Central and the offset in reduced investment management costs. This is based on the transition timetable outlined in the July 2017 Business Case Submission to Government and as and when the transition plan for assets and the timings of such transitions gets revised by the company, these costs may need to be updated to reflect any changes.
21. Because of the uncertainty around a number of costs, it is not proposed to use these estimated costs for 'budget monitoring' purposes per-se; they are purely indicative for information. To manage cost, the Committee is asked to rely on cost comparisons, benchmarking and trends to ensure that value for

money is delivered. A fuller report on comparative outturn costs for 2017/18 will be brought to the Committee in June 2018.

Risk

22. The primary risks to the continued delivery of a pension administration service to the high standards achieved are;
- The staffing resource with the right experience to cope with changes to Government Legislation and increasing fragmentation of payroll provision.
 - Pension payroll – Ensuring 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 2018 meeting of this Committee.

23. **Equalities implications:** There are no direct equality implications arising from this report.
24. **Legal implications:** There are no direct legal implications arising from this report but there is a legal requirement to implement GDPR.
25. **Resource and Value for money implications:** Resource and value for money implications are considered in the report.
26. **Risk implications:** There are no direct risk implications but the report does contain some actions to address risks identified in the risk register.
27. **Climate change:** There are no direct climate change implications arising from this report.
28. **Health Impact Assessment screening:** There are no health impact assessment implications arising from this report.

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Background Docs: None