PENSIONS COMMITTEE – 25 MARCH 2022

Report of the Director for Corporate Services

Staffordshire Pension Fund Business Plan 2022/23

Recommendation of the Chairman

1. That the Pensions Committee approves the Staffordshire Pension Fund Business Plan for 2022/23 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 - 2021/22) and provides the proposed Business Plan for the following financial year (Appendix B – 2022/23).

Pensions Business Plan 2021/22 – Progress Update

3. With the previous year's disruptive impact of the Covid-19 pandemic having subsided to some degree, the world of pensions settled into its relatively new normal. 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. As well as continuing to do the 'day job' and the increasing challenges that this continues to present, the majority of the Treasury & Pensions Team faced additional challenges as they predominantly worked from home for a second year. Fortunately, morale remained high across the Team, and this enabled the ongoing delivery of a high level of service provision to all stakeholders, as well as delivering several Key Development Activities from the 2021/22 Business Plan. These include:

   - Tendering for an Administration System provider, to incorporate an external hosting platform service, and testing and implementing the new system within the same 12-month timeframe. The go-live date in March 2022 is well ahead of the original scheduled date in late 2022. This achievement is reflective of the team's hard work and persistence and also the support received from County Council colleagues, in a number of areas, including ICT, IGU and Audit.

   - After several years of back and forth between the Pension Fund and HMRC, the exercise relating to the under / overpayment of Guaranteed Minimum Pensions (GMP) has been completed. The remedial work has been undertaken by an extremely experienced member of the Team, who has saved the Fund £000's relative to what an external provider might have cost.

- Officers across the Team have put a Covenant Monitoring Process in place which brings together key pieces of financial information, about any Employer in the scheme, where there are concerns around their ongoing participation in the Fund. This will enable more informed conversations to be held with such Employers.

- A Strategic Asset Allocation and Investment Strategy review has been undertaken ahead of the 2022 Actuarial Valuation. The same investment modelling work was used to inform the development of a Climate Change Strategy for the Fund, which was published in March 2022.

5. Several planned activities for 2021/22 were brought forward from 2020/21, as the Covid-19 pandemic delayed progress. As some of these activities were also dependent on the outcome of the Administration System procurement, these will now be picked up in 2022/23. These include:

   - Living as Stated / Address Tracing Exercise;
   - Task Design in Altair for Deaths and Concurrency;
   - Use of the interactive dashboard or alternative provision in Altair Insights; and
   - Promotion of My Pension Portal (MPP) to Retired Members.

   Full details will be included in the final outturn report which will be presented to the Pensions Committee at their meeting in June 2022.

Performance Standards 2021/22

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 continued 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. Throughout 2021/22, the Treasury & Pensions Teams have been very aware of the challenges and have made excellent progress in meeting the competing demands across the service. The change in working arrangements have continued to emphasise the need to review all processes and 2021/22 has been no exception with reviews of the Transfers In / Transfers Out process and the Death Grants process being completed. Even more encouraging is that individuals are coming forward with their own ideas about how things can be made to work more efficiently, sure signs of a well-motivated Team.

8. Fortunately, staff turnover over the last 12 months has been quite low. Opportunities to promote some of the younger and newer team members

have been taken wherever possible. External and internal recruitment exercises have also been carried out and whilst the level of applicants has fallen dramatically, several successful appointments have been made. External training opportunities in Pensions have also been taken up by a number of the Team.

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

Pensions Business Plan 2022/23

10. The Business Plan for 2022/23 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 Employer Covenant Monitoring and the Employer Practitioner Workshops, which have been held virtually on several days throughout the year.

11. Several areas that the Treasury & Pensions Team have identified as Key Development Activities in 2022/23 include:

- Continuing to collect retrospective data from Employers and plan for the implementation of remedial action arising from the McCloud / Sergeant judgement (& possibly Goodwin);

- Dealing with the additional data and checking requirements arising from the 2022 Actuarial Valuation;

- Embedding the new Pensions Administration System & preparing for the Department of Work & Pensions new Pensions Dashboard;

- Developing a Cyber Security Policy; and

- Implementing the new Investment Strategy following the review of Fund's Strategic Asset Allocation.

Pensions Administration – Key Development Activities

<u>McCloud</u>

12. 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.

13. Whilst a project to collect data for the c54,000 Scheme Members who have post 2014 service has begun, it has very quickly become apparent that getting the right data and uploading it to the administration system is not going to be an easy task. Administration systems still need to be configured and whilst that will take away the need for most of the manual recalculation work, the real challenge is still around the collection of data.

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

<u>2022 Actuarial Valuation</u>

15. Any year where an Actuarial Valuation takes place will always dominate the flow and the nature of the workload across the service. Whilst many of the year end tasks are the same, they are multiplied in volume and there is a greater need to work more closely with the Actuary and the Employers to ensure the timely and efficient processing of data, which as always needs to be accurate.

16. Pensions Committee meetings will include a series of milestones for key decisions in relation to the Actuarial Valuation to be made and appropriate Training will be provided. Key documents such as the Funding Strategy Statement (FSS) will also need to be updated and consulted on, in light of the valuation outcomes.

<u>Pensions Administration System and Pensions Dashboard</u>

17. Whilst the go-live date for the new administration system was 16 March 2022, there are several enhancements, that the Team will need to familiarise themselves with, as well as some new modules that the hosted version also supports. These include Altair Insights which includes a Disclosure Reporting module. Insights will also enable detailed reporting on service standards and breaches. A My Pensions Portal (MPP) Working Group will also be set up. The group will not only promote greater use of the on-line portal across scheme membership but will also work to understand the implications of the greater functionality MPP can bring to the service i.e. subject to meeting certain criteria, there is the potential for an individual to retire themselves.

18. Committee members will likely be aware of the Department of Work and Pensions (DWP) intentions to launch their Pensions Dashboard during 2023. A consultation on this matter has recently closed and whilst the implications and onboarding date for the LGPS are still unclear, it is inevitable that this will create additional workload for the service across the different Teams.

<u>Cyber Security Policy</u>

19. Officers will work with County Council colleagues to understand more around the cyber risks the Fund is exposed to, both directly and indirectly through its

own systems and those of its third-party suppliers. The aim is to document the findings, together with the risks and the way in which they are mitigated in the form of a Cyber Security Policy for the Fund. This will hopefully provide all stakeholders with a greater level of understanding and a degree of assurance.

Pensions Investment – Key Development Activities

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

20. In 2021/22, Hymans Robertson were asked to undertake a review of the Fund's Investment Strategy alongside some preliminary Asset Liability Modelling (ALM) work for the 2022 Actuarial Valuation. This was to ensure that the types of assets the Fund might choose to invest in going forward would not have a detrimental impact on the level of contributions that Employers might be asked to pay.

21. Whilst the review concluded that the Fund's current Investment Strategy had a good chance of delivering the desired outcomes, it also demonstrated that improvements were possible. The improvement will involve the Fund moving away from Equities into more income producing assets, such as Property, Infrastructure, Private Debt and Multi-Asset Credit, which should all be considered in tandem with the Climate Change Strategy.

22. So, 2022/23 will see the start of conversations and investment activity around the implementation of the new Investment Strategy, should it be approved by Committee at today's meeting. The Team will be kept extremely busy in working through the different considerations and elements for each asset class with Hymans, and once decisions have been made by the Pensions Panel, the Team will be responsible for the practical implementation of those decisions, which will likely involve a number of asset transitions and due diligence being carried out on a number of new investment products.

Cost and Resources

23. 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).

24. 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.

25. 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 2022/23. 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.

26. 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 2022-2025

Cost Heading	**2022/23**	**2023/24**	**2024/25**
	£000	**£000**	**£000**
Pensions Administration	3,000	3,060	3,130
Governance*	1,500	1,580	1,660
Audit	90	90	100
Actuarial Fees	250	80	200
Legal Fees	260	260	270
Investment Advice	90	90	100
Investment Management Fees**	18,660	19,910	20,680
Property Expenses (ex-legal)	4,620	4,760	4,900
Monitoring and Custody	70	70	70
Other expenses	410	420	430
Total	**28,950**	**30,320**	**31,540**

**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.*

27. The LGPS Central Limited Strategic Business Plan and Budget for 2022/23, was presented to Shareholders for approval on 22 February 2022. 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. As the budget is directly linked to

inflation this may result in larger increases in the coming years. Whilst, the LGPS Central costs 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 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. Actuarial Fees have increased in 2022/23 which is to be expected given the 2022 Actuarial Valuation and the additional work required by the Actuary for that.

30. Property expenses have increased in the last few years, predominantly due to the increase in vacant property expenses caused by the Covid-19 pandemic. As restrictions are removed and new lettings are once again on the increase, the property market appears to be returning to relative normality and voids are gradually reducing. However, in order to be prudent, and to account for inflationary pressures, any cost reductions have not been reflected in the budget.

31. The increase 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.

32. Due to the uncertainty around a number of 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 2021/22 will be brought to the Committee in June 2022.

Risk

33. 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 2022 meeting of this Committee.

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

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

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

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

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

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

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Background Docs:	None