

Local Members Interest	
<u>Nil</u>	

PENSIONS COMMITTEE – 17 MARCH 2017

Report of the Director of Finance of and Resources

Pensions Business Plan 2017-18

1. Recommendation of the Chairman

To approve the Pensions Business Plan 2017-18 and note the key challenges.

2. Background

The Committee approves a Pensions Business Plan annually. A brief update on progress against the plan in 2016-17 is included below.

3. Update on progress 2016-17

Progress against last year's plan is shown at Appendix A. Significant successes have been achieved in a number of areas including;

- Completion of the Triennial Valuation;
- Full Health Check against the Pension Regulators Code of Practice 14;
- Issue of the Annual Benefit Statements by 31 August 2016;
- Continued progress on asset pooling following the July 2016 submission;
- Completion of the Strategic Asset Allocation Review following the results of the Triennial Valuation.

Full details will be included in the final outturn reported to the next Committee in June 2017.

4. Business Plan for 2017-18 (Appendix B)

The key issues that the Pensions teams face in the coming year include;

- The reconciliation of contracting out data with HM Revenue and Customs;

- Implementation of I-Connect software with Fund Employers (monthly data collection)
- Continuing to provide resources to assist with the set up and implementation of the LGPS Central asset pool.

4.1 Performance Standards

Performance as previously highlighted to the committee is likely to be down on previous years. The key reasons for this are;

- Appointment and training of inexperienced staff;
- Fragmentation of the County Council's payroll;
- Increased regulatory complexity.

A set of performance statistics will be provided for the June Committee.

4.2 Administration Issues

The main focus for administration during the coming financial year will be to move to monthly data collection from our employers using the I Connect software which is a system module of our administration software Altair. Progress has been slow with this project as our employers have to provide an extract report from their payroll and we are reliant on their resource and enthusiasm to move to this new process. Two or three payroll providers are very close to providing a compliant file. The introduction of monthly data collection will ensure that the pension's administration is compliant with the Pension Regulator's requirements, improve the accuracy of the pension records in line with the Pension Record Keeping Regulations and remove the need to have a year- end process.

4.3 HMRC End of Contracting Out

From 1 April 2016, contracting out ceased for Occupational pension Schemes; this is linked to the Governments introduction of the simplified State Pension Arrangements. Contracted Out pension Schemes have 2 years to agree all of their members contracted out position which is a huge undertaking for all occupational pension schemes. This was the subject of a separate report to Committee in June 2015. Phase 1 of this project to reconcile the deferred and pensioner records is expected to be completed by September this year with Phase 2, reconciling the active member records commencing after this. The data for Phase 2 has been requested from HM Revenue and Customs.

4.4 LGPS Asset Pooling

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. As we enter the 12 month period prior to the 1 April 2018 go-live date and the 12 month period immediately thereafter, there is an ever increasing amount of work to be undertaken by all parties concerned as the company looks to appoint an asset servicer, auditor, banker etc; review its business case and draft its Strategic Plan; submit its application to the Financial Conduct Authority to become an Alternative Investment Fund Manager; appoint staff; appoint investment and transition managers. The Committee is asked to note that the amount of time and resource that needs to be committed to this project should not be underestimated, given that there is also business as usual to attend to, and this is why the Business Plan for Pension Fund Investment has been restricted.

5. Resources

5.1 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).

5.2 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.

5.3 CIPFA reporting guidance states it is good practice to produce a three year budget and the table below illustrates our best estimate of the likely budget costs for the three years commencing 2017-18. 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.

5.4 Given the impending date for the commencement of LGPS Asset Pooling (1 April 2018) the Fund will start to incur additional cost in relation to the set-up of LGPS Central Limited. These are one-off costs, which were estimated, in the July 2016 Business Case of LGPS Central, to be around £4m. As one of the 8 Partner Funds, our share (£500k) has been included as part of the Governance Costs in the table below.

- 5.5 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 set up costs of LGPS Central could create significant variations from these figures.

Indicative costs 2017-20

Heading	2017/18	2018/19	2019/20
	£000	£000	£000
Pensions Administration	2,350	2,400	2,450
Governance	280	180	100
Audit	30	30	30
Actuarial Fees	140	140	440
Legal Fees	200	210	210
Investment Advice	240	240	250
Investment Management Fees	10,750	11,070	11,400
Property Expenses (ex-legal)	1,620	1,630	1,670
Monitoring and Custody	170	170	180
Other expenses	370	380	390
Total	16,150	16,450	17,120

- 5.6 It is not proposed to use these estimated costs for 'budget monitoring' purposes, 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 will be brought to the Committee in June 2017.

6. Risk

- 6.1 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 are further analysed in the pension Fund's Risk Register, this is to be presented in full to the Committee in June 2017.

7. **Equalities implications:** There are no direct equality implications arising from this report.
8. **Legal implications:** There are no direct legal implications arising from this report.
9. **Resource and Value for money implications:** Resource and value for money implications are considered in the report.
10. **Risk implications:** There are no direct risk implications but the report does contain some actions to address risks identified in the risk register.
11. **Climate change:** There are no direct climate change implications arising from this report.
12. **Health Impact Assessment screening:** There are no health impact assessment implications arising from this report.

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Background Docs: None