

Local Members Interest	
Nil	

PENSIONS COMMITTEE – 7 JULY 2017

Report of the Director of Finance and Resources

Pensions Business Plan 2016/17 Outturn

Recommendation of the Chairman

1. To approve the 2016/17 outturn position as reported.

Background

2. The Pensions Committee approves a Pensions Business Plan annually. This report details the final outturn position for the financial year 2016/17 and summarises the key achievements against the Business Plan.
3. The Business Plan that was approved for 2016/17 is set out in Appendix 2. The final position against the plan shows that the majority of planned activities have been achieved or are in progress. Those in progress will be carried forward into the 2017/18 business plan.

Administration

4. Our key achievements during 2016/17 were reported to the March Pension Committee as:
 - 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;
5. The Pension Services performance outturn reports are attached as Appendix 3.

Performance Standards

A summary of the position is as follows:

- 2014/15 showed that a 90% performance target was achieved in 9 of the 15 published standards.
- 2015/16 showed that a 90% performance target was achieved in 6 of the 15 published standards.
- 2016/17 shows that a 90% performance target was achieved in 4 of the published 15 standards.

The Committee are asked to note that:

- 9 out of the 15 published standards have either maintained performance levels or improved compared to 2015/16 levels.
- If the target measure was set at 80% then this would mean that 8 of the published 15 standards would have been met.
- The outturn report providing monthly volumes shows that the average monthly volumes have increased in 11 areas. The largest increases are shown below:

Activity	Increase
TV In - Write to previous employer	23%
TV in - Confirm period	83%
Death - Initial Acknowledgement	20%
DB - Send details following option	27%
Refund Payment	32%
DB-Payment	30%

The Committee has previously received reports predicting that performance standards would reduce for 3 key reasons:

- The introduction of a more complex Pension Scheme on 1 April 2014;
- An increased number of Scheme employers;
- Difficulty in recruiting experienced employees;

As previously reported to the Committee the fragmentation of the County Council's payroll provision has also had a significant impact on the performance of the administration team.

6. **Staffing (administration)**

The number of full-time equivalent staff in the pension's team has increased from 37.50 in 2014/15 to 40.58 in 2015/16 to 44.8 in 2016/17. The new members of the team have been transferred from Shared Service Centre with no previous pension's administration experience. The Committee should note that it takes at least 12-18 months to train new staff. Additionally the majority of the training is in-house which creates demands on experienced staff time. The increase in staff numbers should start to show a gradual improvement in our performance figures from next year.

7. Not all administration processes are benchmarked and are usually complex and time consuming areas of work for example:

- Payment of transfers between Local Government Pension Funds.
- GMP Reconciliation Project.
- Combining Pension records for re-joining members known as aggregation.
- Record Maintenance and annual data cleansing.

- Issue of Annual Benefit Statements.
- Calculating and checking member's benefits where retirement savings may exceed Inland Revenue Limits.
- Attending retirement sessions to support members being made redundant.
- Communication projects for example Academy training sessions.
- Introducing new software to employers for the monthly transmission of data to the pension system.
- Preparation of employer's accountancy report data
- Treasury support functions.
- Production of HR costing data for employers.
- Regulatory and legal support to employers.

Investment

8. As well as undertaking their day to day accounting and contract monitoring activities, the investment team were kept busy during the year with several time consuming projects:

- Work on the creation of LGPS Central has increased significantly over the last 12 months, following the approval of the July 2016 business case, by DCLG. Several members of the team have been involved in the design and set up of the LGPS Central pool and it is envisaged that this work will continue to take up considerable time and resource, until well after the pool comes into operation on 1 April 2018.
- A decision taken in 2015/16, to disinvest from the Fund's Diversified Growth Funds and invest into an alternative asset class known as Private Debt, saw implementation work continue well into 2016/17, when commitments to several Private Debt funds were made.
- Later in the year, contracts were terminated with two of the Fund's active global equity managers, due to persistent underperformance of the benchmark. With pooling on the horizon, rather than undertake a search for new active equity managers, the Fund transitioned the assets to passive equity management. This was with a view to returning to active equity management once the LGPS Central Limited active global equity sub-fund is set up; currently planned for April 2019.

Costs

9. At previous committee meetings Members were asked to note that instead of setting an annual budget and relying on budget monitoring to manage cost, the Committee should place more reliance on cost comparisons, benchmarking and trends to ensure that value for money is delivered. Considering comparative figures is considered a better approach to understanding and managing the cost base of the Fund, thus ensuring that value for money is consistently delivered.
10. The following table shows this year's **Administration Costs** compared to the last two years:

	2014/15	2015/16	2016/17
	£000	£000	£000
Pensions administration	2,130	2,242	2,074
Legal costs	112	84	71
Pensions Payroll Project	268	7	-
Other costs	40	13	16
Total Administration Costs	2,550	2,346	2,161

11. One off costs relating to the implementation of the new Pension payroll in 2014/15 fall away from 2015/16 and 2016/17 costs, which have reverted to more normal levels in line with those of previous years.
12. Using the latest data available (for 2015/16), the following table shows how our pensions administration costs are higher when compared to the CIPFA benchmark, however only 37 out of a possible 90 funds take part.

2015/2016	Administration costs per scheme member	
	SCC	Average
CIPFA benchmarking - pensions administration	£23.17	£18.37

13. Part of the reason for the Staffordshire costs being higher than the average is due to the additional stranded payroll costs that were paid in 2015/16, following the introduction of the new pension's payroll system. In the long run it is envisaged that this will produce savings for the Pension Fund. Admin ICT costs were also higher than average, this is due to some of the Altair set up costs being included, as they were spread over 5 years. Without these one off costs the comparative costs per member are estimated to be around £20.66 per member. Still higher than the average, but based on a very limited universe.
14. The following table shows this years **Oversight and Governance Costs** compared to the last two years:

	2014/15	2015/16	2016/17
	£000	£000	£000
Audit Fees	28	31	34
Actuarial Advice	103	152	249
Governance Expenses	186	185	187
Investment Oversight fees	257	245	150
Other	61	94	322
Total Oversight & Governance costs	635	707	942

15. Total Oversight and Governance costs have increased in 2016/17. The cost of actuarial advice has increased relative to 2015/16 due to the Triennial Valuation undertaken by the actuary. Governance expenses in 2016/17 are in line with those for 2015/16. 'Other' costs have increased

due to the Fund's share of LGPS Central set up costs; albeit a large proportion of these will be recharged back to the business in 2018/19.

16. The following table shows the comparative **Investment Management Costs** of the Fund for the past three years.

	2014/15	2015/16	2016/17
	£000	£000	£000
Investment managers	11,513*	12,246	11,524
Property costs	1,265	1,023	1,050
Consultants and advisors	7	7	9
Other	356	401	739
Total investment costs	<u>13,141</u>	<u>13,677</u>	<u>13,322</u>

*excludes £1.8m transaction costs

17. Investment management costs reduced in 2016/17. This was mainly due to the following:
- the full year effect of reduced passive equity management fees, as negotiated in the 7 Shires agreement of December 2015; and
 - negotiated fee holidays and subsequent termination of contracts with two global active equity managers, with re-investment in passive equity management at a reduced cost
18. The increase in 'Other' costs in 2016/17 relates to the costs associated with the transfer of assets from the 2 active equity managers to passive equity funds. This one-off transition cost will be recovered initially through the reduction in investment management fees (after a period of 6 months) and thereafter additional fee savings will be delivered.
19. The Investment Management Costs (IMC) in 2014/15 did not include £1.8m transaction costs which are now required to be reported within IMC to comply with CIPFA reporting guidance. The equivalent figure included in 2015/16 was £1.2m and in 2016/17, £1.6m.
20. The market value of the Fund's assets has increased over the last 12 months by over 20%; and despite the majority of the Fund's investment management fees being based on the value of the assets under management (AUM), the overall level of fees paid has reduced. This point is illustrated in the following table, which shows the growth in the assets of the Fund and reduction in fees in 2016/17, both in absolute and percentage terms. Furthermore, very few managers outperformed their benchmark in 2016/17 and as a result performance fees paid to managers have remained fairly stable.

	2014/15	2015/16	2016/17
	£000	£000	£000
IM Fees	13,313*	12,246	11,524
Fund value at 31/3	3,758,707	3,747,001	4,587,100
Fee level (%)	0.35	0.35	0.25

*includes £1.8m transaction costs to allow a like for like comparison.

21. Whilst in previous years it has been possible to benchmark Investment Management Costs, using data taken from the SF3 Government return for the latest available three years, this service is no longer being offered by DCLG LGPS Statistics. However, the following table demonstrates that in 2015/16 (the latest year for which data is available) the cost per scheme member for Staffordshire was £117.31 which has not increased significantly compared to the previous year, reaffirming the fact that Staffordshire is generally considered to be a low cost investment scheme.

IM cost psm	2013/14 £	2014/15 £	2015/16 £
Staffordshire	99.42	116.73	117.31
Average	99.92	144.65	N/A

22. Staffordshire Pension Fund has also previously taken part in an extended benchmarking exercise with international company CEM Benchmarking Inc. CEM produce a global report, relating to 400+ pension funds with plan sizes ranging between £35m and £600bn. Unfortunately this service was not offered in 2016 but will be resurrected again in 2017, following the successful appointment of CEM to the LGPS Performance Measurement Framework. The 8 Partner Funds of LGPS Central have all agreed to sign up to the service and this will not only provide global benchmarking for each Fund but peer benchmarking across Partner Funds and also across pools.

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Background Documents: None

Equalities implications: There are no direct equalities implications arising directly from this report.

Legal implications: There are no direct legal implications arising from this report.

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 the report does contain some actions to address risks identified in the risk register.

Climate Change implications: 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.

Issue to be addressed	Key Development Activity	Timetable
LGPS Pensions Administration	Review Administration Team staffing levels and structure	ongoing
	Develop new working practices (I Connect)	Partial/ongoing
	Develop new working Practices (Payroll Interfacing)	ongoing
	Issue Annual Benefit Statements	Achieved
Fire Pensions Administration	Embed 2015 CARE Pension Scheme	Achieved
	Train additional support staff	Partial/ongoing
	Agree SLA and Budget	Achieved
	Explore provision of administration to other fire authorities	ongoing
Pensions Administration System	Implement Pension Payroll Phase 3	ongoing
	Implement I Connect Phase 1 employer group	ongoing
Reconciliation – Contracting Out	Phase 1 Deferred and Pension members	Partial/ongoing
	Phase 2 Active Members commence reconciliation	ongoing
Customer Service Excellence	To retain the Government Standard “Customer Service Excellence”	Achieved
Triennial Valuation	Pension Fund data to the Fund Actuary	Achieved
	Employer Risk Profiling	Achieved
	Develop and finalise the Fund Employer Contribution Strategy	Achieved
	Develop and Finalise the Funding Strategy Statement	Achieved
	Develop and finalise Investment Strategy Statement	Achieved
Governance	To ensure that the Pension Board members have the appropriate skills and knowledge and are able to demonstrate their level of understanding	ongoing
	To ensure that the Committee members have the appropriate skills and knowledge and are able to demonstrate their level of understanding	ongoing

Issue to be addressed	Key Development Activity	Timetable
	Conduct CIPFA skills gap analysis	ongoing
Communications	Review website content	ongoing
	Revise Employer Administration manual	ongoing
	Finalise and communicate administration strategy	Achieved
The Pensions Regulator	The Public Service Scheme Code of Practice and Public Service Regulatory Strategy – Review compliance	Achieved
	Comply with Record Keeping Regulations	ongoing
	Record Keeping -Trace unclaimed deferred benefits and frozen refunds	Partial/ongoing
	Introduce Performance Management Framework	ongoing
Additional Voluntary Contribution Providers	Review AVC Review Report – consider/accept recommendations	Achieved
	Implement key recommendations	Partial/ongoing
Pension Fund Investment	Respond to DCLG LGPS Pooling Consultation	Achieved
(see Note below)	Develop detailed pooling proposals with LGPS Central	Ongoing
	Develop and publish Investment Strategy Statement following issue of new Investment Regulations	Achieved
	Undertake Strategic Asset Allocation Review as part of 2016 Triennial Valuation and implement any changes to investments agreed by the Pensions Panel	Achieved
	Implement passive currency hedging with Custodian	Deferred - to be reviewed post asset pooling.
	Tender and appoint Independent Property Valuer	Achieved
	Tender and appoint Independent Investment Advisor	Deferred

Note: The priority of Pension Fund Investment activities may change dependent on a number of factors, e.g. manager under-performance, LGPS pooling implementation.