

Report to Pensions Committee

23 October 2020

Business Plan Update

Report by Director of Finance and Support Services

Summary

The Pensions Committee approved its Business Plan for 2020/21 in July 2020. The Business Plan sets out the aims and objectives of the fund over the coming year, its core work and how the objectives will be achieved.

The Pensions Committee's approach, historically, has been to review its business plan annually at the start of the year and consider the risks faced by the Fund. A report based on any emerging key business issues, any issue with the highest levels of risk identified, or any other matter the Director of Finance, Performance and Procurement wishes to bring to the attention of the Committee is then provided each quarter.

Recommendations

- (1) The update on the Business Plan is noted.
 - (2) The risk matrix for the Fund is noted.
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Proposal

1 Background and context

1.1 The Fund's overarching objectives are set out below:

Governance: Act with integrity and be accountable to stakeholders for decisions, ensuring that they are robust, and well based, ensuring sound governance, risk management and compliance and that the management of the Fund is undertaken by people who have the appropriate knowledge and expertise.

Investments and Funding: To minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return.

Administration and Communication: Deliver a high quality administration service to all stakeholders with processes and procedures to ensure that the Fund receives all income due and payments are made to the right people at the right time, clear communication and robust accounting and reports.

2 Update

2.1 The following provides an update on progress against the Business Plan deliverables:

Context and 2020/21 Actions	Update						
Pension Administration							
<p>A good performing administration function is key to our stakeholders and for ensuring the quality of information held by the Fund for calculating benefits and liabilities.</p> <p>In addition to compliance with statutory deadlines (including Annual Benefit Statements by 31 August) and completion of the data improvement plan by 31 March 2021, the roadmap for the administration team over the year reflects the greater use of technology to assist delivery of the service.</p>	<p>The table below shows the % of Annual Benefit Statements produced in line with the statutory deadline:</p> <table border="1" data-bbox="871 512 1238 647"> <thead> <tr> <th></th> <th>% Produced</th> </tr> </thead> <tbody> <tr> <td>Active</td> <td>95.1%</td> </tr> <tr> <td>Deferred</td> <td>99.9%</td> </tr> </tbody> </table> <p>Online retirement quote functionality and the use of the member Portal when a member joins or retires from the Scheme have now been implemented. The timetable of the roll out of the Employer Hub is to be confirmed following engagement with employers.</p>		% Produced	Active	95.1%	Deferred	99.9%
	% Produced						
Active	95.1%						
Deferred	99.9%						
GMP (Guaranteed Min Pension)							
<p>Following the end of contracting out each Administering Authority is required to review its records for who it pay as Guaranteed Minimum Pension to against HMRC records and update on changes. The Fund intends to complete the GMP reconciliation and rectification work by 31 March 2021.</p>	<p>Work is progressing in relation to HMRC query responses. This will inform further timescales.</p>						
Robust accounting							
<p>The Pension Fund is required to produce accounts in line with statutory deadlines. The accounts are subject to external audit review and assurance. The successful completion of external audit work by 30 September 2020 is a key priority. To ensure continuous improvements, officers will also complete full lessons learnt by 30 September 2020 and develop project and engagement plan for the 2020/21 Audit by 31 December 2020.</p>	<p>The statutory deadline for the completion of the audit was moved to 30th November for 2020/21. The accounts will be presented to the Regulation. Audit and Accounts Committee on the 20 November 2020. Lessons learnt will be completed by the 30 November.</p> <p>Full lessons learnt actions will inform 2021/22 planning and engagement with EY.</p>						
Annual Reporting							
<p>The Pension Fund is required to produce an Annual Report in line with statutory deadlines, and with regard to statutory guidance. The 2019/20 Report will be considered by the Committee at their meeting on 22 July and the Pension Advisory Board in September.</p>	<p>The Report has been approved by the Committee in July and reviewed, for compliance, by the Pension Advisory Board in September. The Board noted the exceptions to the CIPFA requirements on preparing the Annual Report and congratulated Officers on the work carried out to comply with the guidance.</p>						
Accounting system							
<p>The County Council is changing its core accounting system to Oracle. Officers will work with colleagues across the County Council to ensure processes, procedures</p>	<p>Project work is ongoing.</p>						

Context and 2020/21 Actions	Update
and reporting are in place within the core accounting system implemented to replace the current SAP system by no later than 31 December 2021.	
<p>AVC Provider</p> <p>The Fund has 244 AVC members with a value of £2.4 million (invested through Standard Life and Utmost Life). The Fund intends to complete a review AVC provision and implement recommendations by 31 December 2020.</p>	Update covered in Agenda Item 13.
<p>Respond to Scheme Changes</p> <p>The Fund must ensure it complies with all legislative requirements, statutory guidance and requirements of the Pensions Regulator and communicates matters appropriately. There are a number of relevant Scheme changes being implemented which officers and the Committee will consider, respond to and communicate with stakeholders on changes.</p>	<p>The Exit Credit Policy has been adopted for inclusion in the Funding Strategy Statement following a period of consultation with employers.</p> <p>Other aspects are covered under Agenda Item 8.</p>
<p>Ensure appropriate contractual terms</p> <p>The Fund must ensure it has appropriate terms are in place with all service providers. Officers will review agreements with service providers in line with contract end dates.</p>	<p>Actuarial - the Actuarial agreement with Hymans is due to expire at the end of October. Director of Finance and Support Services has agreed a three year extension after which the contract will be retendered.</p> <p>External Valuer – proposal for future arrangements being considered by relevant officers.</p> <p>Property: Update covered in Agenda Item 17.</p> <p>Balanced Mandate: Update covered in Agenda Item 16.</p>
<p>ACCESS Pool</p> <p>The ACCESS Pool has been set up to meet the Government’s investment reform criteria. A revised Inter Authority Agreement between participating ACCESS Authorities will be completed by the Authority and training on ACCESS Governance will be provided to the Pensions Committee and Pension Advisory Board.</p>	Update covered in Agenda Item 16.
<p>Investment Strategy</p> <p>It is important to ensure that the investment strategy remains aligned to meet the Pension Committee’s long term objectives. The Committee will consider recommendations following the completion of the Asset Liability Modelling work and review the Fund’s Investment Strategy Statement document by 30</p>	Update covered in Agenda Item 14.

Context and 2020/21 Actions		Update
	<p>September 2020. It is also anticipated the Fund will make its first investment in the ACCESS Authorised Contractual Scheme by 30 September 2020 following the completion of appropriate due diligence. Further investment will be taken following consideration of the sub-funds available to meet West Sussex's requirements.</p>	
	<p>Responsible Investment</p> <p>There is continued focus on LGPS stakeholders on as to how they can best address and manage Responsible Investment (RI) issues such as Environmental, Social and Governance matters. The Committee will agree and publish the Fund's Responsible Investment Policy by 30 September 2020 and implement the strategy, taking advice as appropriate.</p>	<p>Update covered in Agenda Item 14.</p>
	<p>Competition & Markets Authority</p> <p>Under the CMA Order the Fund was required to set objectives for providers of investment consultancy services. It is necessary to review these each year. The Fund will undertake a review to be completed by 31 December 2020.</p>	
Funding	<p>2019 valuation</p> <p>The Fund completes a full valuation every three years (latest at 31 March 2019). Amendments will be made to the Funding Strategy Statement as required and a full lessons learnt exercise to further improve future valuation exercises will complete by 30 September 2020.</p>	<p>Work has been carried out to improve the process going forward. This includes improved co-ordination with the administration team to provide member data to the Actuary and clear ownership over the process and individual tasks. Additional steps will also be taken as part of future valuation exercises to provide appropriate training and engagement with employers, particularly around admission bodies.</p>
	<p>Employer risk framework</p> <p>The Pension Fund has a growing employer population from a variety of sectors. The Fund will development a framework to monitor and take steps to mitigate risk presented to the Fund in respect of participating employer liabilities to be developed and implemented by 31 December 2020.</p>	<p>The Committee considered Employers and risks posed to the Fund due to changes in financial covenant as part of its July meeting. External advice has been commissioned to complete due diligence on some employers financial position and business plans. The Director of Finance and Support Services will consider the review and recommendations and take steps (where appropriate) to manage risk.</p> <p>Employer exits continue to be managed in discussions with the admission bodies and its related employer.</p>
Work by the Scheme Advisory Board		

	Context and 2020/21 Actions	Update
Other	Responsible Investment and the Good Governance project are key work items for the SAB during the year. The Fund will engage as appropriate.	
	Priorities of the Pensions Regulator	
	The 2019 Governance and Administration survey results are due to be published shortly and will inform tPR priorities for the coming year. Cyber security and data quality are expected to main high profile areas of interest.	

3 Risk

- 3.1 The Committee received a full report when they met in July about the impact of Covid-19 on the Pension Fund. The key risks from the report have been noted below with updated comments.

Impact on investments and funding level: The Funding level has returned to the 2019 valuation position (113.6% estimated at 9 October 2020 v 111.6% at 31 March 2019).

Employers and risks posed to the Fund due to changes in financial covenant: In addition to the items referred to within the main business plan commentary, there have not been any further approaches from employers to consider a deferment to their contribution payments but one employer has entered into insolvency. The Fund is working to complete its exit position. The Fund is aware of some re-structuring activity by employers which could result in a reduction in active membership and / or additional retirements (either voluntary or as a result of redundancy). Currently this relates to relatively small employers.

Impact of death rates emerging: The increased death rates due to COVID-19 that is currently unfolding in the UK and globally will inevitably affect all pension schemes. Data is still being collected and analysed but there are no particular spikes or notable impacts for the Fund currently.

Impact on cashflow: There is a potential for reduction in employer contributions and investment income, alongside a potential increase in benefit payment. The analysis below compares 2019/20 figures to the first six months of 2020/21.

	6 month comparison based on 2019/20 Outturn	6 month as at 30 September 2020	Difference	Difference
	£'000	£'000	£'000	%
Income				
Contributions	-69,042	-67,211	1,831	-3%
Property	-8,269	-8,618	-349	4%
Total	-77,311	-75,829	1,482	-2%
Expenditure				
Pension benefits	49,050	50,889	1,840	4%
Death benefits	1,294.00	1,316	22	2%
Lump sums	6,944	7,405	461	7%
Total	57,288	59,610	2,323	4%
Net Position	-20,023	-16,219		

Impact on the administration team: The administration team continue to fully support business as usual activity and project work.

3.2 The latest risk register for the Pension Fund is summarised below with the status previously reported to the Committee included for comparison:

	Risk Theme	Action	RAG Jul-20	RAG Oct-20
1	Increased likelihood of employer insolvency/restructuring impacting on the Fund cashflows in via contributions and out via benefits paid/early retirement lump sums and death benefits, resulting in the Fund becoming cash flow negative earlier than expected. Also, risk of employers not being able to meet liabilities at exit.	Communication with employers to ensure they are aware of Deferral of Employer Contributions policy and to invite early discussion with regards to any workforce changes. <i>Communication with ceding employers to understand the impact and support being provided to pass through employers.</i> Implement cashflow monitor and projections and review on a monthly basis. Review employer covenant and take appropriate action. <i>Liaising with legal advisers to understand actions following insolvency</i>	Amber	Amber
2	Remote working results in increased pressure on the Fund, Council and partner organisations.	Continue to discuss resourcing and business continuity arrangements with partner organisations to ensure they meet expectations and requirements. Business priorities to be kept under review.	Amber	Amber

	Risk Theme	Action	RAG Jul- 20	RAG Oct- 20
3	Political and/or employer pressure results in change to investment strategy due to ESG factors resulting in the Fund being required to restrict Fund Manager investments and/or the Fund being challenged on fiduciary duty.	Ensure active engagement by Fund Managers with companies in all areas. Regular dialogue with Fund Managers regarding reasoning behind the stock being held. Keep up to date with Scheme Advisory Board and Government guidance. <i>Engagement with employers to inform them of the Fund approach to ESG and RI and to enable them to respond to any queries.</i>	Amber	Amber
4	Insufficient funds to meet liabilities resulting in increased contributions required from employers or changing to a higher risk investment strategy	Prudent assumptions adopted by the Fund Actuary. Monitor, maintain and review the Investment Strategy Statement and Funding Strategy Statement. Regularly review investment performance and funding levels. <i>Monitor and review the cash flow of the Fund.</i>	Green	Green
5	Insufficient resources to comply with the Administering Authority's Regulatory responsibilities, particularly in the context of scheme changes.	Develop and monitor Business Plan on a regular basis. Ensure service contracts are clearly specified and obligations met. Scope the potential impact of scheme changes. Implement appropriate remote working to ensure business continuity and review third party business continuity plans.	Amber	Amber
6	Poor quality data resulting in error and misstatement.	Implement and monitor the Data Improvement Plan to completion. Work proactively with administration team and employers as part of the end of year process. Maintain robust accounting records. <i>Good progress made against data improvement plan.</i>	Red	Amber
7	Officer, Committee and Board knowledge and understanding resulting in poor decision making and disengagement on key issues.	Training strategy under review to ensure fit for purpose. Work with external organisations to understand how training is going to be delivered in current circumstances and communicate with Committee and Board members. Papers for Committee and Board drafted to provide training on key issues including scheme changes.	Amber	Green
8	The introduction of asset pooling impacts on the Fund's ability to implement its investment strategy successfully or the Administering Authority is considered to not	Continued strong involvement in the work of the ACCESS Group at officer and at Fund Chairman level. Working closely with the Access Support Unit and Operator in	Amber	Amber

	Risk Theme	Action	RAG Jul- 20	RAG Oct- 20
	comply with the relevant statutory guidance.	respect of future requirements.		
9	Failure to secure value for money through managing contracts with third parties	Strong contract management. Compliance with procurement requirement and standing orders for provision of services to the Fund.	Green	Green
10	Political environment (locally or nationally) impact on investment markets and legislative requirements.	Investment manager and adviser framework in place to assist in considering the potential impact. Work closely with investment managers, other suppliers and advisers to understand potential impacts and responses.	Amber	Green
11	Conflict of interest for members and employers	Clearly defined roles and responsibilities for those working for the Pension Fund. Maintenance of Conflict of Interest policy and register by the County Council.	Green	Green
12	Increase in variety and number of employers participating in the Scheme resulting in risk of non-compliance with obligations.	Clear Admission Agreements in place. Guidance published and reviewed relating to the Scheme requirements. Proactive engagement with employers. Development of employer risk framework to monitor and take steps to mitigate risk presented to the Fund in respect of participating employer liabilities.	Amber	Amber
13	Cyber crime resulting in personal data for members being accessed fraudulently.	Strong IT environment for administration system and web-based Portals but remote working and experience at other Authorities means that this needs to be kept under close review.	Green	Amber

4 Consultation, engagement and advice

N/A

5 Finance

N/A

6 Risk implications and mitigations

N/A

7 Policy alignment and compliance

N/A

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Appendices

None

Background papers

None