

Report to Pensions Committee

25 January 2021

Business Plan Update

Report by Director of Finance and Support Services

Electoral division(s): N/A

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 and Support Services wishes to bring to the attention of the Committee is then provided each quarter.

The following are highlighted:

- The Pension Fund's Statement of Accounts for 2019/20 were approved by Regulation, Audit and Accounts Committee on 20 November 2020.
- The implementation of the Fund's new AVC arrangement is behind the original 31 December 2020 scheduled go live date but on track to complete by 31 March 2021.
- There have been several significant Scheme changes and developments that impact the Fund and steps have been taken to ensure that the Fund responds appropriately.
- A consultation with stakeholders on the Fund's Investment Strategy Statement has been launched following the approval of the draft Statement by the Committee in October 2020.
- During the quarter the Fund has made its first investment in the ACCESS Authorised Contractual Scheme and made commitments to two private debt funds. A further commitment to an infrastructure fund is due to complete by 31 January 2021.

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:

Original Business Plan Objective as agreed by the Pensions Committee July 2020	Update	RAG
Pension Administration		
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.	95.1% of active Annual Benefit Statements and 99.9% of deferred Annual Benefit Statements were produced in line with the statutory deadline (31 August 2020).	● Green
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.	The roadmap for the administration team is well progressed. Between July and 31 December 2020, 1,358 retirement quotes had been run online and between April and 31 December 2020, 17% of new starters were contacted electronically and asked to log into the Member Portal. The electronic retirement process was introduced in October, so it is too early to provide any meaningful analysis on its implementation. These three initiatives should improve members access to information about their pension benefits and reduce casework for the administration team over time and	

Original Business Plan Objective as agreed by the Pensions Committee July 2020	Update	RAG
	<p>the team are working with employers to increase adoption.</p> <p>The Employer Hub, which will provide online functionality for employers providing information to the team and reviewing membership information, is due to be rolled out to all employers by August 2021.</p>	
GMP (Guaranteed Min Pension)		
<p>Following the end of contracting out each Administering Authority is required to review its records for who it pays a 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 on the GMP reconciliation. Further information will be provided to the Director of Finance and Support Services shortly. The work is due to complete in May 2021.</p>	<p>● Amber</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 Pension Fund's Statement of Accounts for 2019/20 were approved by Regulation, Audit and Accounts Committee on 20 November 2020. At the meeting the external auditors (EY) explained there was an unqualified opinion. The risks that had been investigated concerned management override, property valuations and ongoing concerns. EY were satisfied that correct approaches had been taken and all disclosures were complete.</p> <p>The 2020/21 project plan has been updated to reflect lessons learnt from the 2019/20 close and officers have engaged with EY in preparation for the forthcoming audit work.</p>	<p>● Closed</p>
Annual Reporting		
<p>The Pension Fund is required to produce an Annual Report in line with statutory deadlines and considering 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 was approved by the Committee in July. The Pension Advisory Board subsequently reviewed the document for compliance.</p>	<p>● Closed</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 and reporting are in place within the core accounting system implemented to</p>	<p>Project work is ongoing.</p>	<p>● Green</p>

Original Business Plan Objective as agreed by the Pensions Committee July 2020	Update	RAG
replace the current SAP system by no later than 31 December 2021.		
AVC Provider		
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.	The implementation is behind the original 31 December 2020 scheduled go live date but on track to complete by 31 March 2021. Update covered in Agenda Item 16.	 Amber
Respond to Scheme Changes		
The Fund must ensure it complies with all legislative requirements, statutory guidance and requirements of the Pensions Regulator and communicates matters appropriately. There are several relevant Scheme changes being implemented which officers and the Committee will consider, respond to and communicate with stakeholders on changes.	There have been several significant developments that impact the Fund. A full report on the issues and the Fund's response is covered in Agenda Item 9.	 Green
Ensure appropriate contractual terms		
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.	Of the arrangements subject to review, agreements have been put in place with Hymans Robertson (Actuarial Services) and Savills (External Valuer). The Fund's property mandate is covered in Agenda Item 20 and the Fund's balanced mandate is covered in Agenda Item 14.	 Green
ACCESS Pool		
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.	The revised Inter Authority Agreement has been agreed by each of the participating Authorities. Training for the Pensions Committee and Pension Advisory Board is scheduled for February 2021.	 Closed
Investment Strategy		
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 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.	<p>The Fund's Investment Strategy Statement was agreed by the Pensions Committee in October 2020. A consultation with stakeholders concludes on 22 January 2021.</p> <p>In terms of implementation, the Fund made its first investment in the ACCESS Authorised Contractual Scheme on 15 December 2020 and (following the Committee's decision in October 2020) made commitments to</p>	 Amber

Original Business Plan Objective as agreed by the Pensions Committee July 2020	Update	RAG
Further investment will be taken following consideration of the sub-funds available to meet West Sussex's requirements.	Goldman Sachs Broad Street Partners Fund on 21 December 2020 and ICG's Senior Debt Partners Fund on 31 December 2020. A further commitment to an infrastructure fund is due to complete by 31 January 2021.	
Responsible Investment		
There is continued focus on LGPS stakeholders on as to how the Fund 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.	The Pension Committee's policy in relation to Responsible Investment forms part of the Investment Strategy Statement which is covered above.	● Closed
Competition & Markets Authority		
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.	The Fund is completing its initial certification to the CMA.	● Red
2019 valuation		
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.	During 2021/22 the Fund will develop a clear project plan based on its lessons learnt to improve co-ordination with the administration team, provide clear ownership over the process and individual tasks and to engage early with employers, particularly around admission bodies.	● Closed
Employer risk framework		
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.	External advice has been provided on employers considered to be a higher risk to the Fund due to changes in financial covenant. The Director of Finance and Support Services will consider the review and recommendations and take steps (where appropriate) to manage risk during the next quarter.	● Amber
Work by the Scheme Advisory Board		
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		

Original Business Plan Objective as agreed by the Pensions Committee July 2020	Update	RAG
<p>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.</p>	<p>The Pensions Regulator published the results to their 2019 Governance and Administration Survey in November 2020. The survey covers eleven different areas including Annual Benefit Statements, Reporting Breaches, Managing Risk and Cyber Risk. The main items of note were –</p> <ul style="list-style-type: none"> • Most key administration processes were automated to at least some extent with the main barriers to this relating to integration of existing systems, lack of technology and costs. • Schemes had a greater range of cyber risk controls in place than in 2018. • The majority of schemes had completed a data review in the previous 12 months, had identified issues and were taking action to address them. • Scheme complexity and the volume of changes required to comply with legislation were seen as the top barriers to improving scheme governance and administration in the next 12 months. The McCloud judgement was also a major (and new) concern. <p>The Fund will consider the observations from tPR when drafting its priorities for 2021/22.</p>	

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 remains strong (119.9% estimated at 31 December 2020 v 111.6% at 31 March 2019).

Employers and risks posed to the Fund due to changes in financial covenant: External advice has been provided on employers considered to be a higher risk to the Fund due to changes in financial covenant as a result of the pandemic. Whilst the Fund is aware of some re-structuring activity by employers these are not considered to present a risk to the Fund. One employer has entered insolvency.

Impact of death rates emerging: The case work for the Fund remains in line with prior year trends and there are no 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 forecasted first nine months of 2020/21.

	9 months based on prior year (average for 2019/20)	9 months for current year (01/04/20 to 31/12/20)	Difference	Difference
Income	£'000	£'000	£'000	%
Contributions	-103,562	-105,051	-1,489	1.44%
Property	-12,404	-12,893	-490	3.95%
	-115,966	-117,944	-1,978	1.71%
Expenditure	£'000	£'000	£'000	%
Pension benefits	73,574	75,880	2,306	3.13%
Death benefits	1,941	2,158	217	11.18%
Lump sums	10,416	10,935	519	4.98%
	85,931	88,973	3,042	3.54%
Net Position	-30,035	-28,971	1,064	

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	October 2020	January 2021
<p>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.</p>	<p>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. Communication with ceding employers to understand the impact and support being provided to pass through employers. Implement cashflow monitor and projections and review on a monthly basis. Review employer covenant and take appropriate action. Liaising with Legal to understand actions following insolvency</p>	<p> Amber</p>	<p> Amber</p>
<p>Remote working results in increased governance pressure within the Fund, Council and partner organisations.</p>	<p>Discuss governance arrangements with partner organisations to ensure they meet expectations and requirements. Scheme of delegation under review to ensure fit for purpose in current climate. Impact of restrictions on end of year processes and staff availability being assessed and reviewed.</p>	<p> Amber</p>	<p> Amber</p>
<p>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.</p>	<p>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. Engagement with employers to inform them of the Fund approach to Environmental, Social and Governance matters and Responsible Investment and to enable them to respond to any queries. Updated ISS to reflect RI strategy. Consultation with members and employers to get feedback on the Investment Strategy Statement.</p>	<p> Amber</p>	<p> Amber</p>
<p>Insufficient funds to meet liabilities resulting in increased contributions required from employers or changing to a higher risk investment strategy</p>	<p>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. Monitor and review the cash flow of the Fund.</p>	<p> Green</p>	<p> Green</p>

Risk Theme	Action	October 2020	January 2021
Insufficient resources to comply with the Administering Authority's Regulatory responsibilities.	Develop and monitor Business Plan on a regular basis. Ensure service contracts are clearly specified and obligations met. Implement appropriate remote working to ensure business continuity and review third party business continuity plans.	● Amber	● Amber
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. Data improvement plan largely completed.	● Amber	● Amber
Officer, Committee and Board knowledge and understanding resulting in poor decision making and disengagement on key issues.	Develop, implement and monitor a Training Strategy. Work with external organisations to understand how training is going to be delivered in current circumstances and communicate with Committee and Board members. Training strategy under review to ensure fit for purpose. Training plan for the year to be included in 2021/22 Business Plan	● Green	● Green
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 comply with the relevant statutory guidance.	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 respect of future requirements.	● Amber	● Amber
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
Political environment (locally or nationally) impact on investment markets and legislative requirements.	Work closely with investment managers, other suppliers and advisers to understand potential impacts and responses. Implement and monitor the Training Strategy.	● Green	● Amber
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

Risk Theme	Action	October 2020	January 2021
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
Cyber crime resulting in personal data for members being accessed fraudulently.	Strong IT environment for administration system and web-based Portals. Officers are taking appropriate advice in considering how risk can be managed/mitigated.	● Amber	● Amber
<i>Fund not able to implement changes required as a result of McCloud judgement due to insufficient resources or incomplete information held by employers</i>	The Fund has contacted all employers to update them on the information required and timescales for the McCloud data capture and is engaged with the administration software providers on the changes required to support the project. A project plan and project manager has been put in place by the administration team and recruitment is underway to ensure that the team are sufficiently resourced. The team continue to engage with the LGA and SAB to keep up to date with developments and best practice guidance.		● Amber (NEW)

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