

Report to Pensions Committee

21 July 2021

Business Plan

Report by Director of Finance and Support Services

Summary

The Pensions Committee approved its Business Plan for 2021/22 in March 2021. 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.

The following are noted as updates to priorities within the 2021/22 Business Plan:

- Officers have been working to implement the agreed investment arrangements and the benchmarking principles from the Investment Strategy Statement.
- The main Data Improvement Project has been completed. Work in relation to the 2022 Valuation will be critical to provide assurance on the completeness of this work.
- The Pension Fund completed its draft Statement of Accounts for the Fund's auditors, EY, on 18 May 2021 and the Fund's Annual Report has been provided to this Committee for their feedback and approval.

In terms of risk:

- The Pension Fund team currently has a vacancy (1 FTE) and is therefore managing work priorities within the resource available.
- The ability for the Fund to implement its investment strategy successfully through the asset pool arrangement will be reviewed over the next few months in line with the implementation of the agreed investment arrangements.
- Proven effective arrangements in relation to remote working has resulted in this risk theme being moved to green.
- A consultation response in relation to Guaranteed Minimum Pension (GMP) Indexation and a High Court judgement in relation to Exit Credits have been provided during the quarter. The outcome of these have been considered by officers.

Recommendations

- (1) To note the updates on Business Plan activities for 2021/22.

- (2) To agree the Training Strategy as set out in Appendix A.
- (3) To note the risk matrix for the Fund as set out in Appendix B.

1 Background

- 1.1 The Pensions Committee maintains a Business Plan which sets out its key priorities. The Pensions Committee’s approach, historically, has been to review its business plan in full annually at the start of the year and consider updates during the year. The 2021/22 Business Plan was agreed in March 2021. This sets out the aims and objectives of the fund over the coming year, how the objectives will be achieved, and the risks faced by the Fund.
- 1.2 This quarterly report provides an update 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. The report is also shared with the Pension Advisory Board.

2 Update on Business Plan Items

- 2.1 An update has been provided below:

| 2021/22 Actions | 30 June 2021 Update |
|---|---|
| <p>Investment Strategy Statement: Implement strategy and develop reporting and monitoring framework.</p> | <p>A detailed report has been provided to the Committee on the progress to implement its new investment arrangements.</p> <p>The Investment Strategy Statement also includes a principle relating to its monitoring and review. Aberdeen (property) have confirmed that the Fund’s portfolio will be included as part of the GRESB ESG benchmarking with results expected in the Autumn. In addition, Officers are working with third parties to review the Responsible Investment approach by the appointed investment managers.</p> |
| <p>Changes required as a result of the McCloud judgement: Receive and validate data from employers in order to update the records of affected members whilst keeping key stakeholders informed and managing the risks inherent in a large project.</p> <p>Recalculations and possible restitution will form the next phase of the work.</p> | <p>The team have requested that employers provide data required for them to apply anticipated legislative changes to member benefits. The information provided is being worked on by the team, and employers who are yet to provide the required information are being contacted.</p> |

| 2021/22 Actions | 30 June 2021 Update |
|---|--|
| <p>2022 Valuation preparation: Work with advisers to integrate employer risk framework into the 2022 valuation and future monitoring arrangements.</p> | <p>A project plan will be developed over the next quarter for activities from 1 October onwards. It is anticipated that employer meetings will be held by March 2022.</p> |
| <p>Communications: Develop an approach to support the Communication Strategy which considers the communications documents published for stakeholders to support the understanding of the management of the Scheme and benefits provided.</p> | <p>Officers and Hampshire Pension Services are working to update areas of the website, particularly focused on the employer area.</p> <p>Officers have made representation to the Pensions Regulator (tPR) to confirm that the Fund will follow the principles of the Pension Scams Industry Group Code of Good Practice through the information it provides to members and the process which support tPR's expectations.</p> |
| <p>Data: Undertake further work to identify data improvement requirements ahead of the 2022 Actuarial Valuation and support wider service improvements such as self-service and the Data Dashboard.</p> | <p>The main Data Improvement Project has been completed but the team continue to work through outstanding historic leaver cases in anticipation of this being complete by 31 October 2021. Preparation for and the 2022 Valuation will be critical to provide assurance on the completeness of this work. Data improvement work will then be considered as a Business as Usual activity with projects scoped as appropriate.</p> |
| <p>Robust Accounting: Complete the Pension Fund's Statement of Accounts by the statutory deadline and work with the external auditors on their review.</p> | <p>Draft Statement of Accounts were provided to the Fund's auditors, EY, on 18 May 2021. It is anticipated that the audit work will complete by 31 July and the accounts will be considered by the Regulation and Audit Committee in 16 September 2021.</p> |
| <p>Annual Report: The Report will be considered by the Pensions Committee at their meeting on 21 July 2021 and by the Pension Board on 26 July 2021.</p> | <p>The Annual Report has been provided to the Committee for their comments and approval, subject to the ongoing audit work and Regulation and Audit Committee consideration on 16 September 2021.</p> |
| <p>Accounting System: Officers will continue to work with the project team to ensure the accounting system is implemented.</p> | <p>Officers continue to engage on the implementation project.</p> |

3 Update on Training

- 3.1 A Training Strategy has been established to aid the Pension Committee and Pension Advisory Board members in performing and developing personally in their individual roles and to equip them with the necessary skills and knowledge to act effectively in line with their responsibilities. This has been attached (Appendix A).
- 3.2 The Fund has purchased access to the Hymans LGPS Online Learning Academy (LOLA) for all Members of the Pension Committee, members of the Pension Advisory Board and officers. All modules should be completed before the October Committee meeting or November PAB meeting. The below shows percentage completed up to 30 June 2021:

| Module | 1 | 2 | 3 | 4 | 5 | 6 |
|---------------|--------------|-------------|--------------|----------------|----------------|-----------------------|
| | Intro | Gov. | Admin | Funding | Invest. | Current Issues |
| Cllr Donnelly | | | | | | |
| Cllr Baxter | | | | | | |
| Cllr Urquhart | 50 | 7 | | | | |
| Cllr Hunt | 33 | | | | | |
| Cllr Dennis | | | | | | |
| Ms. Taylor | | | | | | |
| Mr. Kipling | 100 | 100 | 58 | 100 | 100 | 100 |
| Cllr Jupp | | | | | | |
| Cllr Elkins | | | | | | |
| Cllr Condie | | | | | | |

- 3.3 Key additional training for the Committee have been summarised below.

Internal

- September 2021 – RAAC Financial Accounts Briefing
- October 2021 – LINK Fund Solutions
- October 2021 – Completion of LOLA modules
- November/December 2021 – The Actuarial Valuation process
- January 2022 – Employer Risk / Employer Management

External

- 7th July 2021 – Scheme Advisory Board LGPS Live (Virtual)
- 1st September 2021 – Scheme Advisory Board LGPS Live (Virtual)
- 9th-10th September 2021 – LGC Investments and Pensions Summit (Leeds)
- 6th October 2021 - Scheme Advisory Board LGPS Live (Virtual)
- 12th October 2021 – LGA Fundamentals I (London or Virtual)
- 9th November 2021 – LGA Fundamentals II (London or Virtual)

- 2nd December 2021 – LGA Fundamentals III (London or Virtual)
- 18th November 2021 – SPS Local Authority Pension Funds Sustainable Investment Strategies (London)

4 Update on Risks faced by the Fund

4.1 A full risk register was provided to the Pensions Committee in March 2021. The update on risks by theme are attached (Appendix B). The following are highlighted:

- a) The register includes the risk of insufficient resources to comply with the Administering Authority's Regulatory responsibilities. The Fund currently has a vacancy and is therefore managing work priorities within the resource available. Currently the risk score remains amber.
- b) The register includes the risk of asset pooling impacting on the Fund's ability to implement its investment strategy successfully. This will be reviewed over the next few months in line with the implementation of the agreed investment arrangements. Currently the risk score remains amber.
- c) The register includes the risk that remote working results in increased governance pressure within the Fund, Council and partner organisations. Proven effective arrangements in relation to remote working has resulted in this risk theme being moved to green.
- d) The register includes the risk that the political environment (locally or nationally) impact on investment markets and legislative requirements. In its response to the Guaranteed Minimum Pension (GMP) Indexation in Public Service Pension Schemes consultation the Government have directed public service pension schemes to provide full indexation to members with a guaranteed minimum pension, reaching state pension age beyond 5 April 2021. This will increase the Fund's liability for these members and some minor additional work by the administration team. However, it is not considered that this is material and the risk score remains amber.
- e) The register includes the risk of an increase in variety and number of employers participating in the Scheme resulting in risk of non-compliance with obligations. On 27 May 2021, the High Court provided its judgement in the case of [EMS & Amey v Secretary of State for MHCLG](#). The case relates to the non-payment of a £6.5m exit credit by the Northamptonshire Pension Fund. Whilst the judge agreed with the position taken by Northamptonshire he provided instructions about what an Administering Authority can and cannot do when considering an exit credit, particularly around pre-determination and giving primacy to any single factor. In line with its risk mitigations, the Fund has sought actuarial advice on the current Funding Strategy Statement, and it is considered that the Fund's Strategy to consider "representations" from parties avoids the issues associated with this case. It is considered that the mitigations in place remain appropriate and the risk score remains amber.

5 Update on Audit and Controls

5.1 Internal audit work should ensure that adequate internal controls are in place and operate effectively. To supplement its own audit framework the County

Council receives internal audit reports from its administration provider, Hampshire County Council.

5.2 Audit work completed and planned for the year has been summarised below:

| Key area | Update |
|---|---|
| <p>Pensions, payroll and benefit calculations: Annual review to provide assurance that systems and controls ensure that lump sum and on-going pension payments are calculated correctly, are valid and paid to the correct recipients; all changes to on-going pensions are accurate and timely; and pension payroll runs are accurate, complete, timely and secure with all appropriate deductions made and paid over to the relevant bodies.</p> | <p>Audit work completed for 2020/21 providing a “substantial assurance” opinion. This reflects the sound system of governance, risk management and control, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited. There were no suggested areas for improvement recommended.</p> <p>The audit for 2021/22 will be underway by 31 December 2021.</p> |
| <p>Pension Starters: Review of the control framework to support appropriate, complete, and prompt admission of new starters to the various pension schemes administered by Hampshire Pension Services (HPS).</p> | <p>Audit outline provided. It is anticipated that work will be completed by the end of September 2021.</p> |
| <p>National Fraud Initiative: Full exercise undertaken October 2020 and completed within 6 months and to be undertaken again in October 2022.</p> | <p>The Cabinet Office’s National Fraud Initiative ran in October 2020. This project provides potential inappropriate payment because of a member being deceased. Of the 199 cases identified from this exercise the pensions administration team had suspended all pensions payments and so no overpayments had occurred.</p> |

5.3 Additional internal audit work is also proposed to include accounting for pension payroll, recoveries and contribution receipts, employer assets and cashflows, governance and investments.

6 Consultation, engagement and advice

N/A

7 Finance

7.1 An allowance for the Fund’s administration expenses is included within employer contribution rates.

8 Risk implications and mitigations

N/A

9 Policy alignment and compliance

N/A

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Appendices

Appendix A – Training Strategy

Appendix B – Risk Themes

Background papers

None

Recommended Training

Hymans LGPS Online Learning Academy – Module 2 – Business Planning