

**Worcestershire
Pension Fund**



Business Plan

As at 20 09 2019

1 INTRODUCTION

1.1 Our Business Plan:

- a) Outlines our (Worcestershire Pension Fund's) purpose, goals and key result areas / supporting aspirations (i.e. what is regarded as good in our eyes).
- b) Presents our targets and budget.
- c) Details our performance against our investment benchmarks and against our administration target turnarounds.
- d) Summarises the projects we have in place to achieve our large pieces of work.

1.2 Our Business Plan is refreshed and tabled at each quarterly Pensions Committee meeting.

1.3 Our governance arrangements are set out in our [Governance Policy Statement](#).

2 BACKGROUND

2.1 The Local Government Pension Scheme (LGPS) is funded principally by its constituent employers, with members also contributing.

2.2 The benefits it provides are a valuable tool for employers in attracting and retaining staff.

2.3 Unlike all other public sector pension schemes the LGPS is a funded scheme, with employer and member contributions invested in financial markets / instruments.

2.4 Although a Career Average Revalued Earnings (CARE) LGPS linked to a normal retirement age of State Pension age (min 65) was introduced on 1 April 2014, concerns remain over the long-term cost and sustainability of the LGPS.

2.5 We are one of 89 funds administering the LGPS nationally. Worcestershire County Council is the statutorily appointed Administering Authority.

2.6 We administer the LGPS for **196** employers whose **22,000 employees** are members of the LGPS; for **20,000 deferred** members; and for **17,000 pensioners**.

2.7 We manage a **£2.8bn** pension fund to pay benefits as they are due.

2.8 We face increasing complexities in both the governance and administration of the LGPS and expect the following to create pressures on our resources and workloads:

- a) The Pension Regulator (TPR) increasing its requirements re record keeping, data cleansing and covenant reviews.
- b) The national LGPS Scheme Advisory Board encouraging best practice, increased transparency and coordinating technical / standards issues.
- c) Possible changes to tax / pensions legislation.
- d) The guaranteed minimum pension (GMP) reconciliation and rectification project.
- e) New employers (from outsourcing and academy conversions).
- f) Increasing expectations from stakeholders (e.g. member online access and employer access to information).
- g) Central government asset pooling requirements (we are a partner fund in LGPS Central Limited, LGPSC).
- h) An ever-changing environment: currently there are consultations on Fair Deal; the LGPS cost cap; restricting exit payments in the public sector; and changes to the valuation cycle / the management of employer risk.

3 PURPOSE, GOALS AND KEY RESULT AREAS (KRAs) / ASPIRATIONS

3.1 Our purpose is to deliver on the benefit expectations of our members by managing investments to increase our assets and by understanding our liabilities.

3.2 Our goals are to:

- a) Achieve and maintain a 100% funding level over a reasonable period of time to pay all benefits arising as they fall due.
- b) Maintain a managed risk investment and funding strategy to achieve the first goal.
- c) Maintain stabilised employer contribution rates.
- d) Provide a high quality, low-cost, customer-focused service.
- e) Be open and honest in all decision making.

3.3 To help us to achieve our goals we have identified 5 key result areas:

- Accounting;
- Administration;
- Engagement / Communications / Member & Employer Relations;
- Governance & Staffing; and
- Investments, Funding & Actuarial.

3.4 Our 5 KRAs are underpinned by 14 supporting aspirations. A brief summary of any significant milestones and any issues that we are encountering with delivering these is provided in the commentary at the end of each KRA section.

3.5 The one-off (shown as shaded) and annually recurring (shown as unshaded) large pieces of work or projects that we are progressing to achieve these 14 supporting aspirations are detailed in the appendix called Operational Plan: Projects.

3.6 Our performance on our day to day business as usual activities is detailed in the Investment Targets and Administration KPIs sections of our Business Plan. Any business as usual issues or developments that we are encountering are included in the commentary at the end of each KRA section.

Accounting

1. To ***ensure the proper administration, accounting and reporting of all our financial affairs.***

2. To produce clear ***Annual Reports / Statement of Accounts*** that enable members and stakeholders to understand the latest and future financial position.

Accounting KRA Commentary:

Our 2019 final accounts have been signed off within the agreed timescale by external audit and our draft 2019 annual report is available from the [About us > Our annual reports](#) area of our website.

To ensure that all the possible future costs of McCloud are sized as accurately as possible, we have recommended that our employers use calculations based on their individual active member data in their accounts.

The first LGPS Central Limited quarterly 2019/20 financial monitoring report was reviewed by the Partner Fund Finance working group at the end of July 2019.

Setting management fees aside which are dependent on market fluctuations the budget detailed in section 6 is forecast to break even at this stage.

Administration

3. To ***provide a lean, effective, customer friendly benefits administration service***, through the calculation and payment of benefits accurately and promptly in line with the targets published Pension Administration Strategy.
4. To maintain ***an effective administration system*** for the ***accurate maintenance of the records of all members*** and to continually review and cleanse our data, ensuring it meets the Pension Regulator's requirements and supporting employers to provide correct data.
5. To ***optimise the use of technology to make processes more efficient and effective*** and to continually look at developing services in the most cost-effective manner following careful consideration of business cases. This will include an increased drive towards greater self-service provision for employers and employees, as well as less paper.
6. To ***become a role model of best practice amongst LGPS Funds*** being recognised by members and employers as providing an excellent service and to work ***collaboratively and in partnership with both internal and external organisations*** to provide higher quality services at a lower cost.
7. To ***support a range of projects and business as usual activities such as the actuarial valuation***, policy reviews, committee member / officer training, contract reviews, FRS information for employers and performance monitoring for us and our employers to adhere to.

Administration KRA Commentary:

As detailed in section 5, on a 2019 / 2020 year to date basis (1 April 2019 to 31 August 2019) we achieved our average turnaround targets for all processes. To date in 2019 / 2020 we have had **2 data breaches, 2 IDRPCs and 0 complaints**.

We will be consulting our members with an Equitable Life AVC to ascertain how they wish us to vote re the transfer of Equitable Life's business to Utmost Life and Pensions (previously Reliance Life).

Following TPR's guidance, we measured the quality of our data on 8 July. The percentage of our member records without a single 'common data' failure was **92.1%** compared to our 2018 score of **92.6%**. In the core list of TPR 'common data' tests our pass rates were: National Insurance Number **100%**; Name **100%**; Sex and Date of Birth **100%**; Date Commenced and Normal Retirement Date **99.9%**; Status **100%**; and Address **95.1%**. The percentage of our member records without a single 'scheme-specific data' failure was **86.6%** compared to our 2018 score of **62.2%**. In the core list of TPR 'scheme-specific data' tests our pass rates were: Member Benefits **99.9%**; Member Details **99.9%**; CARE benefits **98.4%**; HMRC **99.6%**; and Contracted Out **90.6%**.

The employer changes (employer number in brackets) that we are aware of so far in 2019 / 2020 are:

- Malvern Hills Outdoor Education Co Ltd is now called Boundless Outdoors Ltd.
- Callow End Primary / Lower Broadheath Primary / Martley Primary are joining DOWMAT w.e.f. 01 09 2019.

- The Redditch Vaynor Academy (00281) will become Endeavour Schools Trust (00281), with existing employer Crabbs Cross joining the trust w.e.f. 01 09 2019, and new employers St George's 1st / Nursery (Redditch) joining the Trust sometime from 01 09 2019.
- Worcestershire Children First will be a new employer on 01 10 2019.
- Bordesley MAT (00280) to comprise Trinity High Academy (00280) from 01 04 2019, and also Birchensale / Holyoaks from 01 05 2019.
- St Stevens 1st Redditch / Oldbury Park are joining Central RSA Academy trust w.e.f. 01 09 2019 as new employers.
- Heart of Mercia MAT (00050) is to be a new MAT from 01 04 2019 comprising Hereford 6th Form (00050) / Worcester 6th Form.
- St Thomas More is to be a new school in the Our Lady of Lourdes Academy group.
- Bishop Anthony Education Trust from 24 07 19 is called The Diocese of Hereford Multi Academy Trust.

Engagement / Communications / Member & Employer Relations

8. To ***continue to engage with our stakeholders***, maximising self-service and digitisation, seeking feedback, developing approaches which support our goals and developing a ***robust engagement strategy*** with employers and members.
9. To ***communicate the key benefits of the LGPS, ensuring increased awareness amongst the eligible membership of their benefits***. This includes effective communication to members and employers
10. To have in ***place effective, documented business relationships with all our employers*** and to ensure regular reviews are carried out to assess the risk and strength of their covenants.

Engagement / Communications / Member & Employer Relations KRA Commentary:

Our benefit statements (21,600 employee and 15,300 deferred) were issued in line with statutory deadlines.

Our [newsletter for deferred members](#) and our [newsletter for employee members](#) are available from our website.

In scheme year 2018 / 2019 to end Nov (01 04 2018 to 30 11 2018) i.e. before the website content was refreshed the average monthly no of page views was **4,463**. From 01 12 2018 to 31 08 2019 the average monthly no of page views doubled to **8,815**. Aug 19 had **7,444** page views compared to **4,763** in Aug 18 i.e. + 56%.

[Monthly employer newsletters](#) are now embedded.

Governance & Staffing

11. To ensure the ***effective management and governance*** in a way that strives for continuous improvement through improved value for money, the promotion of excellent customer service and compliance with all regulatory / best practice requirements.
12. To ***recruit, train, nurture and retain highly motivated staff with the necessary professional, managerial and customer focus skills*** to deliver on the ever-increasing complexities of the LGPS.
13. To ***continually review the effectiveness of our committees and advisers*** and our

decision-making.

Governance & Staffing KRA Commentary:

We have added a Good Governance project to our list and produced a first draft Business Continuity Plan. The Scheme Advisory Board has established two Good Governance Working Groups.

We are recruiting a replacement Pensions Assistant.

Investments, Funding & Actuarial

14. To **achieve a relatively stable “real” investment return above the rate of inflation** over the long term, in such a way as to minimise and stabilise the level of contributions required to be paid by employers in respect of both past and future service liabilities and **to achieve a 100% funding level over a suitable timescale**. This includes setting of appropriate investment strategies, the appointment of capable investment managers, and the monitoring and reporting of investment managers’ performance, with appropriate action being taken in the event of underperformance.

Investments, Funding & Actuarial KRA Commentary:

Ongoing discussions have been taking place with the actuary on the 2019 actuarial valuation. Preliminary results have been discussed with WCC, Herefordshire and the Districts. An Administration Forum to present the preliminary results for consultation is taking place on 14 October.

The value of the Fund at 30 June 2019 was £2.868bn compared to the previous quarter of £2.725bn, an increase of £143m.

As detailed in the next section, the Fund has generated an average annual return of 10.7% compared to its benchmark of 10.6% over the last 3 years.

Over the year to 30 June 2019 the Fund generated a return of 5.5% compared to its benchmark of 6.3%.

The Fund has transitioned emerging markets assets to LGPS Central Limited.

Through LAPFF, the Fund engaged with 62 companies during the quarter on issues ranging from human rights climate change, environmental issues, governance and board composition. Most engagements concerned climate change. Four engagements led to a substantial improvement and ten engagements led to a change in process /small improvement. Most engagements were conducted by meetings with specialist staff or the company Chair. The issues are set out in the Quarterly Engagement Report which is available on LAPFF’s website together with the previous quarterly engagement reports:

<http://www.lapfforum.org/publications/qrtly-engagement-reports/>

4 INVESTMENT TARGETS

4.1 The 2016 actuarial valuation set the following real annual discount rates:

- a) Past service: Consumer Prices Index + 2.15%.
- b) Future service: Consumer Prices Index + 2.75%.

4.2 This means that we need to achieve a Consumer Prices Index + 2.5% annual real rate of

return.

4.3 If Consumer Prices Index inflation is at the Bank of England's target rate of 2%, we require a 4.5% annual return on our assets.

4.4 To achieve this, we are a partner in LGPSC, have set benchmarks for our sectors and have achieved the 3-year returns shown in the right column:

Sector	Benchmark	Average annual Performance over the 3 years to 30 June 2019 v benchmark
Far East Developed	FTSE All World Asia Pacific Index + 1.5%	11.7% (0.4% above benchmark)
Emerging Markets	FTSE All World Emerging Market index +2.0%	14.1% (1.6% above benchmark)
United Kingdom	FTSE All Share Index	9.2% (0.2% above benchmark)
North America	FTSE All World North America - Developed Series Index	15.9% (0.1% above benchmark)
Europe ex - UK	FTSE All World Europe ex UK Index - Developed Series Index	12.6% (0.2% below benchmark)
Global (alternatives)	40% GPAAE - FTSE-Research Affiliates Fundamental Index (RAFI) Dev 1000 Equity Fund, 30% GPBK - MSCI World Mini Volatility Index, 30% STAJ - CSUF - STAJ	12.7% (0.5% below benchmark)
Fixed Interest	Barclays Global Aggregate Corporate Bond Index – Hedged into GBP	3.5% (0.6% above benchmark)
	EQT Corporate Private Debt - Absolute Return 6.5%	Not applicable as only invested May 2018
Property / Infrastructure	Various absolute benchmarks for different fund managers	7.4% (0.2% below benchmark)

5 ADMINISTRATION KPIs

5.1 We measure our performance against target turnarounds for our key pension administration processes:

Activity / Process April - August 2019	Number Processed	% Processed Within KPI		Av Turnaround (working days)	Target (working days)
Joiners notification of date of joining	1060	99		7	40
Process and pay refund	115	100		2	10
Calculate and notify deferred benefits	360	64		3	30
Letter notifying actual retirement benefits	206	100		3	15
Letter notifying amount of dependant's benefits	29	97		3	10
Letter acknowledging death of member	80	89		3	05
Letter detailing CETV for divorce	34	100		2	45
Letter notifying estimate of retirement benefits	460	97		4	15
Letter detailing transfer in quote	128	88		4	10
Process and pay lump sum retirement grant	408	93		16	23
Letter detailing transfer out quote	75	91		3	10
Letter detailing PSO implementation	0	n/a		n/a	15

6 BUDGET

Our budget for 2019 / 2020 to 2021 / 2022 is:

Fund Investment	<u>19/20</u>	<u>20/21</u>	<u>21/22</u>
INVESTMENT MANAGEMENT FEES	10,599,400	11,041,500	11,496,200
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Investment Administration Recharge	142,300	180,700	184,300
Investment Custodial and related services	367,200	374,500	382,000
Investment Professional fees	77,900	68,300	68,700
Performance Measurement	<u>15,300</u>	<u>15,600</u>	<u>15,900</u>
INVESTMENT ADMINISTRATION COSTS	602,700	639,100	650,900
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Scheme Administration			
Pension scheme Administration recharge	1,055,400	1,015,700	1,039,800
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Actuarial services	300,000	240,000	240,000
Audit	27,500	27,500	27,500
Legal Fees	33,500	33,500	33,500
Committee and Governance recharge	<u>11,200</u>	<u>11,000</u>	<u>11,000</u>
SCHEME ADMINISTRATION COSTS	1,427,600	1,327,700	1,351,800
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GRAND TOTAL (Excluding Investment Mgt Fees)	2,030,300	1,966,800	2,002,700
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GRAND TOTAL (Including Investment Mgt Fees)	12,629,700	13,008,300	13,498,900

Appendix 1 – Operational Plan: Projects

This appendix summarises the work that we are doing to achieve particular aims.

It uses the following acronyms:

A/C	Accounting
Ac	Academies
BCP	Business Continuity Plan
CARE	Career Average Revalued Earnings
CB	Corporate Bonds
CEM	CEM Benchmarking Inc
CIPFA	Chartered Institute of Public Finance & Accountancy
Coll	Colleges
Cttee	WPF Pensions Committee
FI	Fixed Interest
FRS	Financial Reporting Standards
FSS	Funding Strategy Statement
GMP	Guaranteed Minimum Pension
Gov	Governance
Inv	Investments, Funding & Actuarial
KRA	Key Result Area
LGPS	Local Government Pension Scheme
LGPSC	LGPS Central Limited

MHCLG The Ministry of Housing, Communities and Local Government
ONS Office for National Statistics
SAB [Scheme Advisory Board](#)
Sch Scheduled bodies
SF Superannuation Fund
Sub Pension Investment Sub-committee
TBD To Be Determined
TPR The Pensions Regulator

~ ENDS ~

