

**Worcestershire  
Pension Fund**



# Business Plan

As at 14 01 2020

## 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 87 funds administering the LGPS nationally. Worcestershire County Council is the statutorily appointed Administering Authority.

2.6 We administer the LGPS for about **200** 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 good governance, 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 KRAs:

- 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.

3.7 This Business Plan's numbering recommences on page 7 with section 4. The boldened and underlined five KRAs that follow are in alphabetical order. The (1) to (14) numbering of our 14 supporting aspirations used below is across the five KRAs. This approach is to ease cross referencing with the second and third columns of the spreadsheet that is Appendix 1 of this Business Plan.

## **KRA: 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 annual report is available from the [About us > Our annual reports](#) area of our website.

McCloud provisions were included in employers' FRS information and interim 2019 valuation results.

Setting management fees aside, as they are dependent on market fluctuations, the budget detailed in section 6 is forecast to breakeven.

We are on schedule for all payments, monitoring and elected member support / training.

## **KRA: 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 December 2019) we continue to achieve our average turnaround targets for all processes.

To date in 2019 / 2020 we have had **3 data breaches**, **4 IDRPs** and **0 complaints**.

We issued the 2019 Pension Savings Statements by the regulatory deadline.

We arranged a 'High earners tax seminar' on 29 Nov 2019.

We contacted our members with an Equitable Life AVC to remind them to make an investment choice by 13 Dec 2019.

The employer changes 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 joining DOWMAT w.e.f. 01 09 2019.
- The Redditch Vaynor Academy becoming Endeavour Schools Trust, 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 being a new employer on 01 10 2019.
- Bordesley MAT to comprising Trinity High Academy from 01 04 2019, and also Birchensale / Holyoaks from 01 05 2019.
- St Stevens 1st Redditch / Oldbury Park joining Central RSA Academy trust w.e.f. 01 09 2019 as new employers.
- Heart of Mercia MAT is being a new MAT from 01 04 2019 comprising Hereford 6th Form / Worcester 6th Form.
- St Thomas More being a new school in the Our Lady of Lourdes Academy group.
- Bishop Anthony Education Trust from 24 07 19 being called The Diocese of Hereford Multi Academy Trust.

#### **KRA: 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 new stand-alone website was launched on 22 Oct 2019.

In scheme year 2018 / 2019 to end Nov (01 04 2018 to 30 11 2018) i.e. before the content on our area of the WCC website was refreshed the average monthly no of page views was **4,463**. Following the refresh, the average monthly no of page views more than doubled to **9,100** from 01 12 2018 to 30 09 2019, with Sep 19 seeing **11,668** page views, a monthly record high.

Our first [\*\*newsletter for pensioners\*\*](#) was issued in November 2019.

We have arranged a 'Thinking about retirement' seminar on 6 Mar 2020.

#### **KRA: 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:

The transfer of pensions administration from HR & OD to Finance has been confirmed as part of the WCC whole organisation redesign and is expected to take place by 31 March 2021.

We recruited a replacement Pensions Assistant in Nov 2019.

We have reviewed the 'Good Governance Principles' published by the Scheme Advisory Board and are currently collating a position statement on how we meet these principles and the actions required.

#### KRA: 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:

Employers' 2019 actuarial valuation results, investment pot allocations and contribution rates / deficit recovery payments from 1 April 2020 have been issued.

The Fund's asset valuation as at the end of October 2019 was £2.865m. The value of the Fund at 30 June 2019 was £2.868bn.

A final draft Funding Strategy Statement was approved by the Pensions Committee on 13 Dec 2019 following an employer consultation.

As detailed in the next section, the Fund has generated an average annual return of 8.7% compared to its benchmark of 8.8% over the 3 years to 30 09 2019.

Over the year to 30 09 2019 the Fund generated a return of 6.8% compared to its benchmark of 6.9%.

The Fund has decided to reduce its asset allocation to equities by 5% to increase its allocation to property and infrastructure.

The Fund expects to transition corporate bond assets to LGPS Central Limited in Feb 2020.

The Fund is now monitoring its engagement activities using Hermes via LGPS Central Limited.

Through LAPFF, the Fund engaged with 108 companies during the quarter ending 30 September 2019 on issues ranging from human rights climate change, environmental issues, governance and board composition. Most engagements concerned climate change. Two engagements led to a substantial improvement and five engagements led to a change in process /small improvement.

## 4 INVESTMENT TARGETS

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

- a) Past service: Consumer Prices Index + 2.15% that will be reduced to 1.65% by the 2019 actuarial valuation.
- b) Future service: Consumer Prices Index + 2.75% that will be reduced to 2.25% by the 2019 actuarial valuation.

4.2 The 2016 actuarial valuation assumed annual Consumer Prices Inflation of + 2.5% that will be reduced to +2.4% by the 2019 actuarial valuation.

4.3 The 2016 actuarial valuation therefore set annual return on investment targets of 4.65% (for deficit recovery payments) / 5.25% (for future service contributions). These will be reduced to 4.05% / 4.65% by the 2019 actuarial valuation. The main reason for this is the actuary has a more prudent outlook on investments returns over the next 3 years.

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 September 2019 v benchmark
Far East Developed	FTSE All World Asia Pacific Index + 1.5%	8.8% (0.5% above benchmark)
Emerging Markets	FTSE All World Emerging Market index +2.0%	10.0% (0.3% above benchmark)
United Kingdom	FTSE All Share Index	7.0% (0.2% above benchmark)
North America	FTSE All World North America - Developed Series Index	15.2% (0.1% above benchmark)
Europe ex - UK	FTSE All World Europe ex UK Index - Developed Series Index	9.9% (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	12.2% (0.5% below benchmark)
Fixed Interest	Barclays Global Aggregate Corporate Bond Index – Hedged into GBP	3.6% (0.6% above benchmark)
	EQT Corporate Private Debt - Absolute Return 6.5%	Not available as only invested May 2018
Property / Infrastructure	Various absolute benchmarks for different fund managers	Property 6.9% (0.2% below benchmark) Infrastructure 7.6% (0.7% below bmark)

## 5 ADMINISTRATION KPIs

5.1 We measure our performance against CIPFA industry standard targets for our key pension administration processes. We have regular meetings that review how we are performing on a case by case basis (% processed within target) and our average performance for all the cases of a process (average turnaround). This informs our resource allocation between processes and highlights which processes to seek to improve.

Activity / Process April - December 2019	Number Processed	% Processed within target		Av Turnaround (working days)	Target (working days)
Joiners notification of date of joining	1387	99		8	40
Process and pay refund	257	100		2	10
Calculate and notify deferred benefits	771	74		25	30
Letter notifying actual retirement benefits	355	99		3	15
Letter notifying amount of dependant's benefits	51	96		3	10
Letter acknowledging death of member	133	89		3	05
Letter detailing CETV for divorce	59	100		2	45
Letter notifying estimate of retirement benefits	783	97		4	15
Letter detailing transfer in quote	231	93		4	10
Process and pay lump sum retirement grant	718	96		15	23
Letter detailing transfer out quote	129	95		3	10
Letter detailing PSO implementation	0	n/a		n/a	15

## 6 BUDGET

Our budget for 2019 / 2020 to 2021 / 2022 is summarised below. Detailed reporting of our budget position is provided twice a year to Pensions Committee and included in [our annual reports](#).

<b>Fund Investment</b>	19/20	20/21	21/22
INVESTMENT MANAGEMENT FEES	<b>10,599,400</b>	<b>11,041,500</b>	<b>11,496,200</b>
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	15,300	15,600	15,900
INVESTMENT ADMINISTRATION COSTS	<b>602,700</b>	<b>639,100</b>	<b>650,900</b>
<b>Scheme Administration</b>			
Pension scheme Administration recharge	1,055,400	1,015,700	1,039,800
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	11,200	11,000	11,000
SCHEME ADMINISTRATION COSTS	<b>1,427,600</b>	<b>1,327,700</b>	<b>1,351,800</b>
GRAND TOTAL (Excluding Investment Mgt Fees)	<b>2,030,300</b>	<b>1,966,800</b>	<b>2,002,700</b>
GRAND TOTAL (Including Investment Mgt Fees)	<b>12,629,700</b>	<b>13,008,300</b>	<b>13,498,900</b>

## Appendix 1 – Operational Plan: Projects

This appendix summarises the work that we are doing to achieve particular aims. For us a project is a piece of work that is something that we would not do on a daily basis like processing a retirement. Some of our projects recur annually.

It uses the following acronyms / abbreviations:

AA	Asset allocation
A/C	Accounting
Ac	Academies
Admit	Admitted
BCP	Business Continuity Plan
Bods	Bodies
CARE	Career average revalued earnings
CB	Corporate bonds
CEM	<a href="#">CEM Benchmarking Inc</a>
CIPFA	<a href="#">Chartered Institute of Public Finance &amp; Accountancy</a>
Coll	Colleges
Config	Configuration
Covs	Covenants
Cttee	Pensions Committee
EM	Emerging markets
Engage	Engagement
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	<a href="#">LGPS Central Limited</a>
Manag	Management
MHCLG	<a href="#">The Ministry of Housing, Communities and Local Government</a>
ONS	<a href="#">Office for National Statistics</a>
Q	Query
Rtn	Return
SAB	<a href="#">Scheme Advisory Board</a>
Sch	Scheduled bodies
SF	Superannuation Fund
Sub	Pension Investment Sub-committee
TBD	To be determined
TPR	<a href="#">The Pensions Regulator</a>
Y/End	Year end

~ ENDS ~

