

**Worcestershire
Pension Fund**



Business Plan

As at 27 02 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 **£2.94bn** 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.

Employers were given the option to make provision for McCloud provisions in their employer contributions 2020/2021 to 2022/2023 election forms. We have received 99 election forms.

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:

In advance of receiving the final GMP rectification reports from HMRC that are expected by 29 Feb, the Fund is planning to ensure that sufficient resources are available to deliver the rectification by quickly dry running results ASAP the reports are received to identify whether the total costs are within the £500,000 limit authorised by the January Pensions Committee meeting. This will size the resource requirement and determine the approach used for cases of over and under payments. For example, will it be necessary to claw back any overpayments (and if so at what level / using what approach) and what communications will be required to

support this? The Fund will investigate the taxation implications of underpayments / overpayments. The working assumption is that the Fund will write to affected members in June and implement the rectification in August.

Our Pension Administration Strategy employer consultation has supported our proposed changes from 1 April 2020.

We will be suspending 6 (out of 352) pensions relating to members who have not returned a life certificate.

As detailed in section 5, on a 2019 / 2020 year to date basis (1 April 2019 to 31 January 2020) 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**.

The employer changes that we are aware of so far in 2019 / 2020 are:

- Malvern Hills Outdoor Education Co Ltd now being 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 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 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.
- Fortis Living merging with Waterloo Housing to form Platform Housing Group and looking to consolidate into one LGPS fund
- Upper Arley (w.e.f. 01 02 2020) and St George's Kidderminster (w.e.f. 01 09 2019) joining Black Pear
- Northleigh (w.e.f. 01 02 2020) joining Mercian Educational Trust
- North Worcester Primary (w.e.f. 01 09 2019) and Sidemore (w.e.f. 01 04 2020) joining Rivers C of E MAT
- Addaction changing their name and brand in the last week of February 2020 to 'We Are With You'
- Employer 272 (St Matthias C of E Primary School Cromwell Road, Malvern, Worcestershire WR14 1NA) being expected to join Spire C of E MAT (that currently comprises the two St Johns, employers 271 / 292)
- Millbrook Healthcare Ltd becoming a new employer having been awarded HIA contracts which commence on 1 April 2020

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. It includes a bespoke area for accessing our [monthly employer newsletters](#).

We are investigating the following page view statistics, as they do not seem consistent:

- Oct 19 had 8,597 page views compared to 4,752 in Oct 18 i.e. + 81%.
- Nov 19 had 4,642 page views compared to 4,024 in Nov 18 i.e. + 15%.
- Dec 19 had 3,922 page views compared to 7,082 in Dec 18 i.e. - 45%.
- Jan 20 had 5,471 page views compared to 11,103 in Jan 19 i.e. - 51%.

We are expecting 160 members to attend our 'Thinking about retirement' seminar on 6 Mar 2020.

Our next employer forum will be on 23 March. The agenda will include a keynote briefing on the changing role of the Pension Board and the latest developments at the LGPS Scheme Advisory Board from Roger Phillips.

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 have reviewed the 'Good Governance Principles' published by the Scheme Advisory Board and have produced 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:

We have received 99 employer contributions 2020/2021 to 2022/2023 election forms. The deadline was 24 January.

We have received 62 employer covenant proformas. The deadline is 28 February.

The Fund's asset valuation as at the end of December 2019 was £2.94bn. The value of the Fund at 31 October 2019 was £2,865m.

As detailed in the next section, the Fund has generated an average annual return of 8.0% compared to its benchmark of 8.2% over the 3 years to 31 12 2019.

Over the year to 31 12 2019 the Fund generated a return of 13.5% compared to its benchmark of 17.3%.

The Fund largely completed transitioning corporate bond assets to LGPS Central Limited in Feb 2020.

We have identified the areas needed to be covered by a 2020 UK Stewardship Code report.

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 31 December 2019 v benchmark |
|---------------------------|---|--|
| Far East Developed | FTSE All World Asia Pacific Index + 1.5% | 8.9% (0.8% above benchmark) |
| Emerging Markets | FTSE All World Emerging Market index +2.0% | |
| United Kingdom | FTSE All Share Index | 7.0% (0.1% above benchmark) |
| North America | FTSE All World North America - Developed Series Index | 12.4% (= benchmark) |
| Europe ex - UK | FTSE All World Europe ex UK Index - Developed Series Index | 8.5% (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 | 10.6% (0.4% below benchmark) |
| Fixed Interest | Barclays Global Aggregate Corporate Bond Index – Hedged into GBP | 4.5% (0.5% 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 6.7% (0.4% below benchmark) Infrastructure 6.7% (1.7% 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 2019 - January 2020 | Number Processed | % Processed within target | | Av Turnaround (working days) | Target (working days) |
|--|------------------|---------------------------|--|------------------------------|-----------------------|
| Joiners notification of date of joining | 1581 | 98 | | 9 | 40 |
| Process and pay refund | 287 | 100 | | 2 | 10 |
| Calculate and notify deferred benefits | 809 | 75 | | 24 | 30 |
| Letter notifying actual retirement benefits | 382 | 99 | | 3 | 15 |
| Letter notifying amount of dependant's benefits | 57 | 96 | | 3 | 10 |
| Letter acknowledging death of member | 150 | 89 | | 3 | 05 |
| Letter detailing CETV for divorce | 63 | 100 | | 2 | 45 |
| Letter notifying estimate of retirement benefits | 901 | 97 | | 4 | 15 |
| Letter detailing transfer in quote | 262 | 94 | | 3 | 10 |
| Process and pay lump sum retirement grant | 760 | 96 | | 15 | 23 |
| Letter detailing transfer out quote | 145 | 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.

The forecast outturn for 19/20 is £12.752m, an overspend of £0.122m.

The main reason for the 19/20 variance is investment management fees increasing by £0.153m due to some commitments to property and infrastructure being drawn earlier than originally anticipated.

An increase in investment professional fees of £0.045m has also been incurred for additional independent advice on the transition of emerging markets and bonds to LGPS Central Limited and advice on capital gains tax.

Some of the GMP exercise being undertaken in 18/19 instead of in 19/20 has provided an offset of £0.066m.

The 19/20 forecast is within the £0.5m variation limit delegated to the Chief Financial Officer by the Pensions Committee.

Detailed reporting of our budget position is provided twice a year to Pensions Committee and included in [our annual reports](#).

| Fund Investment | 19/20 | 20/21 | 21/22 |
|---|-------------------|-------------------|-------------------|
| INVESTMENT MANAGEMENT FEES | 10,599,400 | 11,382,600 | 12,190,400 |
| Investment Administration Recharge | 142,300 | 142,300 | 145,100 |
| Investment Custodial and related services | 367,200 | 367,200 | 374,500 |
| Investment Professional fees | 77,900 | 81,000 | 71,500 |
| Performance Measurement | 15,300 | 15,500 | 15,800 |
| INVESTMENT ADMINISTRATION COSTS | 602,700 | 606,000 | 606,900 |
| Scheme Administration | | | |
| Pension scheme Administration recharge | 1,055,400 | 965,300 | 972,600 |
| Actuarial services | 300,000 | 240,000 | 300,000 |
| 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 | 1,427,600 | 1,277,300 | 1,344,600 |
| GRAND TOTAL (Excluding Investment Mgt Fees) | 2,030,300 | 1,883,300 | 1,951,500 |
| GRAND TOTAL (Including Investment Mgt Fees) | 12,629,700 | 13,265,900 | 14,141,900 |

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 | CEM Benchmarking Inc |
| CIPFA | Chartered Institute of Public Finance & Accountancy |
| 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 | LGPS Central Limited |
| Manag | Management |
| MHCLG | The Ministry of Housing, Communities and Local Government |
| ONS | Office for National Statistics |
| Q | Query |
| Rtn | Return |
| SAB | Scheme Advisory Board |
| Sch | Scheduled bodies |
| SF | Superannuation Fund |
| Sub | Pension Investment Sub-committee |
| TBD | To be determined |
| TPR | The Pensions Regulator |
| Y/End | Year end |

~ ENDS ~

