



South Tyneside Council

item 6

Local Pension Board

Date: 21st December 2016

Service Plan and Budget for 2017 - 20

Report of the Corporate Director Business and Resources

Purpose of Report

1. This report is intended to facilitate discussions with Local Pension Board on the content of the Service Plan 2017 – 20.
2. A special meeting of the Pensions Committee is to be held on 3rd February 2017 to consider and approve a Service Plan and Budget for the Pensions Service for 2017 - 20. Local Pension Board members will be invited to this meeting.
3. The Local Pension Board Members are asked for their views on the content of the Plan.

Planning process for 2017 - 20

4. A special meeting of the Committee is to be held on 3rd February 2017 to consider and approve a Service Plan and Budget for the Pensions Service for 2017 - 20. Local Pension Board Members will be invited to this meeting.
5. A draft Plan and Budget will be submitted to the meeting. These will be complete in respect of most proposed aims, objectives and actions. Amendments will be required in respect of late refinements to existing areas and further proposals by the Committee.
6. The approved Plan and Budget will be forwarded to Cabinet and Council for approval.

Service Aims

7. The Vision Statement contains four long term aims that the Service seeks to achieve.

Service Objectives

8. Whilst the existing four aims are long term in nature, the approach to their delivery develops from year to year.
9. The approach is set out in a number of objectives, of which there are twenty in the plan for 2016/17.
10. The objectives and the actions that are derived from these are shown in the first appendix to the "Monitoring of the Service Plan" report.
11. It is envisaged that the Plan and Budget for 2017 - 20 will contain proposals for:
 - Responding to the initiatives of the National Scheme Advisory Board
 - Meeting the requirements of the Pensions Regulator
 - Ongoing development of the Funding Strategy, following on from the 2016 valuation
 - managing change to the investment of the Fund's assets that will result from Governments review of the investment of the scheme and the drive towards Pooling
 - implementing any changes to the investment strategy and management structure that may arise from asset liability modelling work that is being carried out in 2016/17

- consideration of de-risking strategies
- the possible introduction of employer specific investment strategies
- further development of the pensions administration system, with particular reference to electronic transfer of data between the Fund and employers and members
- a continued focus on pensions processing, to include the Pension Regulator's data cleansing requirements
- consideration of future joint working initiatives
- managing the impact of the continued increase in the number of academies and free schools
- corporate actions that will arise out of South Tyneside Council's plans.

12. Attached is a copy of a presentation which provides further background on the Service Plan and expands on the proposals set out above. This will be used as a basis for a discussion around the Plan.

Conclusion

13. The service planning process for 2017 – 20 has commenced. There are a number of issues which will need to be included.

14. A discussion on the content of the Service Plan for 2017 – 20 will take place at the Local Pension Board. Local Pension Board Members are asked for their views.

Service Plan for 2017 - 20

The following is a list of the background papers (excluding exempt papers) relied upon in the preparation of the above report:

Background Paper	File Ref:	File Location
Planning File	N/a	Head of Pensions Office, South Shields Town Hall

Tyne and Wear Pension Fund

Service Plan and Budget for 2017 - 20



South Tyneside Council

Vision Statement

Our goal is to provide an attractive and affordable pension arrangement that is seen by employers and members as an important part of the employment package



Aims Derived from the Vision Statement

We will

- **Promote membership of the Fund**
- **Keep contributions as low and as stable as possible through effective management of the Fund**
- **Work with our partners to provide high quality services to employers and members**
- **Make pensions issues understandable to all**



Performance Indicators derived from the Vision Statement

We will know we are succeeding when

- **We are consistently achieving our investment objective**
- **There are sufficient assets to meet the liabilities**
- **We are consistently achieving our service standards**
- **We are recognised as being amongst the leading UK pension funds**



Aims and Objectives

- **Initially derived from the Vision Statement**
- **Set out in the Service Plan**
- **Objectives are set against each aim**
- **Objectives are translated into actions through Operational Plans**
- **Officers monitor progress each month**
- **Progress reported to Pensions Committee each quarter**



Approach to Planning and Budgeting

- **Three year rolling plan to cover the years 2017 - 20**
- **Set alongside a three year budget**
- **Committee to consider and approve the plan and budget at a special meeting on Friday 3rd February 2017**
- **South Tyneside Cabinet will then approve the budget**



Big Picture

- **Initiatives from the National Scheme Advisory Board**
- **The Pensions Regulator**
- **Ongoing development of the Funding Strategy**
- **Managing change resulting from investment pooling**
- **Changes to the investment strategy, including de-risking strategies and employer specific strategies**
- **Development of the pensions administration system**
- **A continued focus on pensions processing**
- **Joint Working Initiatives**



• **The Fund's budget**
South Tyneside Council

National Scheme Advisory Board

- **Constitution of administering authorities and funds**
- **Preparation of a Scheme Annual Report, to include financial indicators on financial strength of funds**
- **Key Performance Indicators for inter fund comparisons**
- **Cost management process that works alongside and complements the HM Treasury process**
- **Involved in the investment pooling**
- **Cost transparency**
- **Academies**



The Pensions Regulator

- **The Pensions Regulator sets standards for the administration and governance of public sector pension schemes**
- **No direct involvement in funding strategy or investment strategy**
 - **Guidance on assessing and monitoring covenant has been issued**
- **Public Sector Code of Practice includes requirements on**
 - **Governing the Scheme**
 - **Managing Risks**
 - **Administration**
 - **Resolving issues**
- **A Compliance and Enforcement Policy is in place**



Development of the Funding Strategy

- **Ongoing development of the funding strategy**
 - **Potential for a material increase in the number of academies**
 - **Employer restructurings, from changes to service delivery**
 - **Admission body / contractor admissions and departures**
 - **Cessation valuations and recovery of deficit**
 - **Colleges and Universities**
- **Inter fund comparisons of funding strategies and deficits**
- **GAD Section 13 review of valuation strategies**



Investment Issues

- **Managing and implementing change to the investment of the Fund's assets that will result from Governments pooling initiative**
- **Changes to the investment strategy**
 - **Implement outcome of asset liability modelling**
 - **Ensure changes are consistent with options under pooling**
 - **Potential for changes to the asset allocation**
 - **Consider de-risking strategies**
 - **Continue to offer employer specific strategies**



Pensions Administration System

- **We have implemented the CARE scheme from April 2014**
 - **GAD requirements for cost analysis to inform cost cap calculations**
 - **Some fixes required**
- **Working to take more data electronically via Web and Bulk Data Input**
- **Employer and Member self service**



Pension Processing

- **Continued focus on efficient pensions processing to achieve the requirements of the Scheme Regulations and of Disclosure Regulations**
- **Processing backlogs have arisen from the introduction of the CARE Scheme and a risk based plan is in place to manage the position**
- **Liaising with employers to achieve timely receipt of accurate data**
- **Consideration of move to monthly contributions processing**



Financial Background

- **The plan and budget is being set at a time of significant financial pressure and reductions in public spending**
- **The Pension Fund has always sought to budget responsibly, which has left limited scope for cuts**
- **The function is largely statutory**
- **The potential workload over the next few years is significant**



Managing the Budget

- **Challenge all proposals at budget setting time and then the expenditure as it arises**
- **Unspent provisions, such as the provisions for investment manager searches and overseas tax claims, have been ring-fenced as far as possible so that they are not automatically spent elsewhere**
- **Maximise use of ICT to achieve efficiencies**
- **Impact of pension processing on staffing position**
 - **Filling vacant posts**
 - **Committee approval for five temporary staff**
 - **Overtime is being worked**



Approach to Financial Planning

- **Establish budget requirement against workload for 2017/18 for**
 - **Governance**
 - **Investment Fees**
 - **Investments Office**
 - **Pensions Office**



Governance

- **Budget for**
 - **the meeting and training expenses of the Committee**
 - **the meeting and training expenses of the Local Pension Board Budget**
 - **the levy for the National Scheme Board**



Investment Fees (1)

- **The investment strategy includes seeking higher investment returns, net of fees, through**
 - **investing in alternatives such as Private Equity, Global Property and Infrastructure**
 - **use of active management for the majority of the Fund**
- **We pay performance related fees where appropriate**
- **Low cost, passive management is used for about 30% of the Fund**
- **We challenge fee proposals and achieve savings against initial quotations and in year savings**



Investment Fees (2)

- **The stated budget for 2016/17 is £74.125 million**
- **This includes**
 - **base fees on segregated mandates**
 - **performance fees**
 - **management fees that are charged in pooled products**
 - **the second layer of fees on fund of funds products**
 - **performance fees charged by the fund of funds managers**
 - **expenses charged within pooled vehicles**
 - **transaction costs**
- **This is fully compliant with CIPFA guidance**
- **An estimate of such fees is provided to the Committee in the budget report**



Investment Fees (3)

- **The investment pooling exercise may make it difficult to budget for investment fees in years 2 and 3**
- **One approach may be to budget on a like for like basis, whilst the new arrangements are developed**
 - **this allows for the current investments in alternatives to go into run off**
- **Savings are already being delivered on investment fees**



Investments Office

- **The Investments Office manages the investment structure and implements financial control over the Fund**
- **The budget for 2016/17 is £1.161 million, which is comprised of**
 - **£487,000 for performance measurement, professional fees and investment information fees**
 - **£674,000 for salaries, staff training, office accommodation, ICT systems**
- **£350,000 has already been agreed for pooling going forward**
- **Income of £336,000 from securities lending and class actions is not included in the budget figure**



Pensions Office (1)

- **Responsible for pension processing, communications strategy, valuations and the AVC arrangement**
- **Budget for 2016/17 is £3.316 million**
- **Comprised of**
 - **£2.431 million for salaries, office accommodation, staff training, ICT and payroll**
 - **£154,000 for professional fees, including actuarial fees**
 - **£89,000 for the communications strategy**
 - **£642,000 for overheads and recharges**



Pensions Office (2)

- **There is a continued pressure on costs in 2017/18**
- **The staffing budget has been increased as extra staff are required to tackle the processing backlog and administer the CARE Scheme**
- **Need to consider the potential for savings from increased electronic communication**



Joint Working / Efficiencies

- **The Fund seeks to be efficient and to manage and reduce costs**
- **Headline investment fees are expected to fall**
- **A joint approach to pensions administration continues to be encouraged and some arrangements are in place elsewhere**
- **Some joint working has taken place, e.g. on system development and communications**
- **Have made use of framework agreements for procurement, e.g. for advisors**



Your views, please



South Tyneside Council