

**Pension Fund Committee**

**Date:** 9<sup>th</sup> October 2020

**Report by:** Head of Pensions

<b>Subject:</b>	<b>Pension Fund Annual Business Plan Update report 2020/21</b>
<b>Purpose of the Report</b>	To present the Business Plan Update for the period 1 <sup>st</sup> April to 31 <sup>st</sup> August 2020.
<b>Recommendations</b>	The Pension Fund Committee is asked to note the Business Plan Update to 31 <sup>st</sup> August 2020.
<b>Enquiries to:</b>	Mark Whitby, Head of LGSS Pensions <a href="mailto:mwhitby@northamptonshire.gov.uk">mwhitby@northamptonshire.gov.uk</a>

## 1. Background

- 1.1 Good governance requires that updates to the pre-agreed Annual Business Plan and Medium-Term Strategy are provided to the Committee on a regular basis. This update highlights the progress made on the key activities for the period up to the end of 2020/21 financial year.
- 1.2 A full list of the key fund activities for the 2020/21 financial year can be found in appendix 1 of this report.

## 2. Key Pension Fund Activities

### 2.1 Service Delivery (SD)

Reference	Key action/task	2020/21				Medium term	
		Q1	Q2	Q3	Q4	2021/22	2022/23
SD1	Undertake a review of the Business Continuity Plan	✓	✓	✓			
SD2	Undertake an analysis of the risks faced by the Fund as a result of cyber-crime and out in place appropriate mitigations		✓	✓	✓		
SD4	Extension of existing pensions administration and payroll software	✓	✓				

### 2.1.1 SD1 - Undertake a review of the Business Continuity Plan

**Action:** The Business Continuity Plan (BCP) covering the Fund's governance and administration is now due for a full review. This review will help ensure appropriate arrangements are being put in place to facilitate the seamless transition of shared service administration from Northamptonshire County Council to one of the two new Northamptonshire Unitary authorities and incorporate any learning points from the Coronavirus pandemic.

**Update:** Officers have been regularly reviewing the BCP ensuring staff contact information is up to date. Officers have contacted Aquila Heywood (the supplier of the administration and payroll platform) and Northamptonshire County Council (NCC) IT Services to obtain documented evidence of these organisations BCPs and disaster recovery processes to ensure that the continuity of service with minimal interruption.

Key milestones	Due for Completion	Status
Investigate current business continuity arrangements with key partners	June to July 2020	<b>Amber</b> – awaiting further information from NCC IT Services and Aquila Heywood (requested September 2020)
Update Business Continuity Plan	August 2020	<b>Amber</b> – delayed as above.
Scrutiny of Business Continuity arrangements by Local Pension Board	November 2020	Future activity
Update Pension Fund Committee on Business Continuity arrangements	December 2020	Future activity

### 2.1.2 SD2 - Undertake an analysis of the risks faced by the Fund as a result of cyber-crime and out in place appropriate mitigations

**Action:** Cyber-crime is posing increasingly sophisticated threats to the administration of the Fund. At the same time the Fund is trying to implement its digital strategy in an effective, efficient and equitable manner. This activity is therefore to analyse the risks to the Fund in the digital space and implement any appropriate actions arising from that analysis.

**Update:** This activity is running behind schedule due to the impacts of the pandemic. The Employer Services and Systems Manager attended a Cyber Security and risk management webinar held by legal firm Burgess Salmon on 16 July 2020, with other events being cancelled. Due to pressures on local IT support, it has also not been possible to consult with IT services over current arrangements within NCC's networks.

Aquila Heywood has provided a report detailing the results of a cyber-security review carried out in February 2020. This included a review by independent consultants who concluded that Aquila Heywood's security controls are "well secured" and "good standards" have been "well implemented". In relation to the application suite, the independent consultants were unable to bypass security controls and noted that the applications support strong encryption.

Key milestones	Due for completion	Status
Obtain specialist advice in connection with cyber-crime	July 2020	<b>Amber</b> – rescheduled to between Sept and Dec 2020
Investigate current security and other measures designed to mitigate cyber-crime	July – September 2020	<b>Amber</b> – rescheduled to between Sept and Dec 2020
Develop action plan	October to January 2021	Future activity
Implement action plan	From February 2021	Future activity

### 2.1.3 SD4 - Extension of existing pensions administration and payroll software

**Action:** The Fund currently uses Heywood Ltd's Altair as its pensions administration and payroll software. The contract with Heywood Ltd is due to expire on 30 September 2021 and includes the option of a fixed 3-year extension. A framework has been launched by the National LGPS Framework for pensions administration and payroll software that operates from April 2020 to April 2024. The framework has 3 suppliers on it – Heywood Ltd, Civica UK Ltd, and Equiniti and contracts are for 7 years plus a maximum of 3 years.

**Update:** Complete. At the Pension Fund Committee meeting held in June 2020 it was agreed that the existing contract with Heywood would be extended by 3 years to end on 30 September 2024 with a competitive procurement process scheduled for at least 18 months in advance of this date. Heywood have confirmed their formal agreement to the extension and related i-Connect and hosting contracts have been made co-terminus.

Key milestones	Due for Completion	Status
Extend existing Aquila Heywood Ltd contract	June to August 20	<b>Green</b> – completed
Undertake competitive procurement process using the National LGPS Framework	April 2023 to September 2023	Future activity
Project to transition to new supplier (if new supplier successful)	October 2023 to September 2024	Future activity

## 2.2 Governance and compliance (GC)

Reference	Key action/task	2020/21				Medium term	
		Q1	Q2	Q3	Q4	2021/22	2022/23
GC1	Complete the Guaranteed Minimum Pension Rectification	✓	✓	✓	✓	✓	

### 2.2.1 GC1 Complete the Guaranteed Minimum Pension Rectification

**Action:** Following the end of contracting-out on 6 April 2016 it has been necessary for all pension schemes to reconcile their scheme members' contracted out liability against that recorded by HMRC. The Fund outsourced the majority of the reconciliation and rectification exercise to ITM Limited. The reconciliation stage of this completed in 2019/20 however following the delay in HMRC issuing the final file of data, the rectification stage has not been able to fully commence.

**Update:** The delay in HMRC issuing the final data file has impacted the completion of this activity. The final file of data has now been received and ITM Limited are currently undertaking a further piece of work to ensure that correct information is used when the rectification of member's records is undertaken, due to HMRC's data containing errors. Rectification of member records should commence in the autumn of 2020.

Key milestones	Due for Completion	Status
Receipt of final data file from HMRC	June 2020	<b>Amber</b> - data supplied by HMRC in July 20
ITM Limited to supply data on which member records require rectification	September 2020	<b>Green</b> – on target
Produce project plan to rectify records	October 2020	Future activity
Implement project plan	November 2020 to December 2021	Future activity

## 2.3 Communications, Systems and Employer Management (CSEM)

Reference	Key action/task	2020/21				Medium term	
		Q1	Q2	Q3	Q4	2021/22	2022/23
CSEM1	Undertake a digital strategy review	✓	✓	✓	✓		
CSEM4	Implement multiple investment strategies	✓	✓	✓	✓	✓	

### 2.3.1 CSEM1 – Undertake a digital strategy review

**Action:** The Fund is committed to delivering a service where communication is digital by default to provide an excellent customer experience for all stakeholders and to ensure that technology is used appropriately to create a high quality, efficient and modern pensions service. The review will be carried out over a 3-year period and will focus on the use of digital services across a range of work streams including member experience, communications, data collection and data processing. This will begin with a review of the current use of digital solutions and identify where digital solutions will be beneficial. A plan will then be developed, identifying priorities and setting out a schedule for introducing further digital improvements.

**Update:** Over 94% of employers now submit their data monthly via the new i-Connect portal as the project nears completion. Shaw Trust have completed their accessibility audit of the LGSS Pensions websites and the accessibility statements have been updated and published. Scoping work continues to help populate the digital processing plan and employers are now inputting their contribution returns directly on to an online form on the website, whilst members can now upload documents securely to their online pension account.

Key milestones	Due for Completion	Status
Complete roll out of monthly employer data collection	2020/21	Green - on target
Undertake website accessibility review	April to October 2020	Green - completed
Formulate digital processing plan	June to December 2020	Green - on target
Investigate the feasibility of using e-forms	April to December 2020	Green - completed

### 2.3.2 CSEM4 – Implement multiple investment strategies

**Action:** With an increasing number and variety of scheme employers participating in the Fund it is prudent to consider whether greater flexibility is required to meet the different funding requirements of these scheme employers, who may have different investment risk appetites and whose scheme membership may have vastly differing levels of maturity. This project will look to create a small number of “investment buckets” into which different categories of scheme employer could be allocated.

**Update:** A half day workshop was held by the Fund’s actuarial advisors for officers on 15 September to discuss appropriate options for employer categorisation, structure of the different investment buckets and asset allocations within those buckets and the next steps required to complete the implementation process. Follow up meetings will be held to complete the implementation.

Key milestones	Due for Completion	Status
Work with the Fund’s advisors to assess possible appropriate options	June to September 2020	Green –on target
Present report to the Pension Fund Committee on recommended options and seek approval to consult with employers	October 2020	Amber – rescheduled to December 2020
Publish proposed options for consultation with employers	November to December 2020	Future activity
Agree appropriate strategy for each employer	January to March 2021	Future activity
Implement multiple investment strategies	2021/22	Future activity

## 2.4 Operations (OPS)

Reference	Key action/task	2020/21				Medium term	
		Q1	Q2	Q3	Q4	2021/22	2022/23
OPS1	Resolution of undecided leavers	✓	✓	✓	✓		
OPS2	Scope and conduct potential liability reduction exercises	✓	✓	✓	✓	✓	✓

### 2.4.1 OPS1 – Resolution of undecided leavers

**Action:** The Fund has a number of unprocessed leaver records where a member has left a period of pensionable employment, is not entitled to immediate payment of pension benefits, but is entitled to either a refund of contributions, aggregation with another period of pensionable membership and/or a deferred pension award. The number of these cases has historically grown primarily due to 1) scheme employers not notifying the Fund that members of the scheme have left their employment or 2) scheme employers providing late monthly reporting.

As at April 2020 the number of unprocessed leavers had reduced from 11,082 to 9,636 inclusive of BAU volumes. The target for 2020-21 is to reduce the number of unprocessed leavers to approximately 5,000 cases by the end of the year and then down to BAU volumes during 2021-22.

**Update:** As at 31 August 2020 cases have only reduced slightly, to 9,469. This, however, hides the positive progress made in minimising the impact of the 2020/21 year end, when the Fund is notified of missing leavers, the inefficiencies and competing pressures resulting from the coronavirus pandemic, and the fact that Aon have only commenced processing tranche 2 of the backlog in August 2020, again due to the pandemic.

Key milestones	Due for Completion	Status
Baseline backlog cases for reporting purposes	April 2020	<b>Green</b> - completed
Aon clearance of approximately 1,300	By March 2021	<b>Amber</b> – started processing late
Internal clearance of cases to reduce volumes to 5,000 cases	By March 2021	<b>Amber</b> – clearance slower than expected
Internal clearance of cases to reduce volumes to circa 3,000 (including contingency for any not processed in 2020-21)	2021/22	Future activity

### 2.4.2 OPS2 – Scope and conduct potential liability reduction exercises

**Action:** The Fund has an increasing number of records belonging to members that are due a refund of pension contributions (due to having insufficient membership within the LGPS to be awarded a pension entitlement and with the member not having claimed a refund) and also a large number of pensions in payment of a very low value that could be fully commuted into a one-off payment, extinguishing the Fund from any future liability.

It has become increasingly common for pension schemes to look at ways of reducing the number of such records, communicating with these members in order to assess their eligibility and desire to receive payment of the refund or fully commute their benefits.

**Update:** The fund has formulated a plan for processing refund cases through the Operations team. The plan created has highlighted the cases which will need to be focused on and a timeline as to when these will be processed. The number of cases identified through the scoping phase of the project, as of May 2020, highlighted 6,910 cases to be reviewed. The cases will be grouped into 2 year periods and allocated to an officer to review the refund cases and either calculate and issue the award, or chase up a lack of response where an award was previously issued. Work on processing the cases highlighted has already commenced beginning in July 2020 and further figures to show progress will be communicated at the next meeting.

Key milestones	Due for Completion	Status
Scope exercise (refunds)	May 2020	<b>Green</b> - completed
Formulate project plan (refunds)	June 2020	<b>Green</b> - completed
Conduct exercise (refunds)	Thru to end of 2021/22	<b>Green</b> – on target
Scope exercise, formulate project plan and conduct exercise (small commutable pensions)	2022/23	Future activity

## 2.5 Investments and fund accountancy (INV)

### 2.5.1 INV1 – Implement strategic allocation to fixed income

**Action:** This continues the work undertaken in 2019/20 looking at Multi Asset Credit managers, reviewing both managers in the asset pool and alternative best in class managers, with a view to recommending an allocation(s) for Pension Fund Committee approval and subsequent implementation. Due to the pandemic flexible dates have been suggested.

**Update:** In July 2020 the ISC approved the selection of 2 Multi Asset Credit (MAC) funds following presentations by 5 Investment firms on 26 June 2020, the Fund's allocation to be divided equally between the 2 MAC funds. Subscriptions to the new funds were completed on 2 September 2020. At the meeting of the ISC on 3 September 2020, it was agreed to recommend an increase in the strategic allocation to MAC from 7% to 10% to be ratified by the Pension Fund Committee in October 2020.

Key milestones	Due for Completion	Status
Agree scope and allocation(s)	July to September 2020	<b>Green</b> - complete subject to additional strategic allocation
Undertake manager selection	November 2020 to February 2021	<b>Green</b> – complete
Implementation	March 2021 to June 2021	<b>Green</b> - complete subject to additional strategic allocation

### 2.5.2 INV3 - Continue development of the asset pool

**Action:** The ACCESS asset pool development is a long-term project. 2020/21 will see the Fund's final liquid assets transfer into the pool as the remaining tranches of sub-funds are established in the asset pool. In parallel, ACCESS is developing a pool level solution for investing in illiquid assets, a continuation of the project that commenced during 2019/20, which is expected to continue throughout 2020/21 and beyond. Finally, officers are supporting the launch of an Emerging Markets equities sub-fund.

**Update:** The roll-out of ACCESS sub-funds has been delayed due to resources of some ACCESS member funds being diverted to support COVID19 critical services. The liquid sub-fund programme continues to progress but at a slower pace than originally planned. The launches of Fixed Income sub-funds have hit a number of technical issues for which solutions have not been identified and therefore the time frame for completion is uncertain.

Key milestones	Due for Completion	Status
Liquid Assets – Complete remaining tranches as they arise	June 2020	<b>Amber</b> – delayed due to COVID support
Liquid Assets – Support the establishment of an Emerging Markets equities sub fund	March 2021	Future activity
Illiquid Assets – Continue to support the illiquid assets pooling solution	2020/21 to 2021/22	Future activity

### 2.5.3 INV4 - Tender for an independent investment advisor

**Action:** In September 2019 the Investment Sub-Committee resolved to procure an independent investment advisor for the Fund. The procurement commenced in quarter 4 of 2019/20, however due to COVID19 the award of contract date remains uncertain until face-to-face interviews can be undertaken

**Update:** Ten parties submitted responses to the Request for Tender (RFQ) of which seven met the benchmark requirement and were admitted to the second stage interviews which were held during September. The successful party will be introduced at the November Investment Sub Committee.

Key milestones	Due for Completion	Status
Launch tender	June 2020	<b>Green</b> – complete
Complete tender	September 2020	<b>Green</b> – complete



## 2.5.4 INV5- Reviews the Fund's Responsible Investment Policy

**Action:** Following significant developments in stakeholder expectation with regards to Responsible Investment (RI), the Fund will undertake training on current issues and best practice and reassess the RI beliefs of the current Pension Fund Committee and Pension Fund Board. This will inform the development of the Fund's RI Policy and subsequent incorporation of this Policy into the Fund's Investment Strategy. The amended Investment Strategy will then be subject to consultation with stakeholders.

Due to the coronavirus pandemic the training will be provided remotely via suitable media applications to maintain momentum with regard to this initiative.

Concurrently the Fund will obtain an RI report to commence the journey to better understand where the Fund benchmarks across a spectrum of ESG and Carbon foot printing, the key aspects of which will be presented in the July training event.

**Update:** Further to the Responsible Investment (RI) information day on 15th July 2020 attendees from the Committee and Local Pension Board completed a survey of RI beliefs from which a RI beliefs statement has been drafted and presented to the September meeting of ISC. The statement and eventual RI policy will be incorporated in the Fund's Investment Strategy Statement when reissued during 2021.

Key milestones	Due for Completion	Status
Production of ESG and Carbon foot-printing benchmarking report	May 2020	<b>Green</b> – complete
Deliver responsible Investment Training (Information Day)	July 2020	<b>Green</b> – complete
Undertake Responsible Investment beliefs survey	July 2020	<b>Green</b> – complete
Develop Responsible Investment Policy	August to December 2020	<b>Green</b> – on target
Incorporate Responsible Investment Policy into Investment Strategy	March 2021	Future activity
Consultation on revised Investment Strategy	April 2021 to June 2021	Future activity

### 2.5.5 INV7 - Re-tender collaboratively with ACCESS partners to procure a global custody services provider

**Action:** The Pension Fund Committee approved in principle the collective procurement of a global custodian, alongside ACCESS partners, in time to transition the Fund's custody arrangements to the chosen provider (if not the existing provider) before the expiry of the Fund's extended contract with Northern Trust. Delivery of this activity is firstly, dependent upon collaboration with fellow LGPS funds in the creation of a procurement framework and secondly with ACCESS partners in calling off the new framework. Note the Fund has extended its existing global custody arrangements until 30<sup>th</sup> September 2021.

**Update:** Officers have worked with the wider LGPS Frameworks community, which has been supported by Mercer, to develop a specification for the procurement, which has included market engagement sessions with potential suppliers to refine requirements

Key milestones	Due for Completion	Status
Work with other LGPS funds to create a framework	April 20 to January 21	Green - ongoing
Work with ACCESS partners to call off a common custodian	December 2020 to June 2021	Future activity
Complete transition to the new Custodian (if required)	July 2021 to September 2021	Future activity

## 3. Relevant Fund objectives

- 3.1 To continually monitor and measure clearly-articulated objectives through business planning.

## 4. Risk Management

- 4.1 The Pension Fund Committee approves the Annual Business Plan and Medium-Term Strategy every March for the upcoming year. The plan highlights the key activities of the Fund and the progress of these activities are reported through the Business Plan Update reports provided to the Pension Fund Committee and Pension Fund Board at every meeting.
- 4.2 The risks associated with failing to monitor progress against the Business Plan have been captured in the Fund's risk register as detailed below:

Risk No.	Risk	Residual risk rating
8	Those charged with the governance are unable to fulfil their responsibilities effectively	Green
14	Failure to administer the scheme in line with regulations and guidance	Green
16	Pension Fund objectives not defined and agreed	Green

- 4.3 A full version of the Fund risk register can be found at the following link – [Pension Fund Risk Register Hyperlink](#)

## 5. Communication Implications

<b>Direct Communications</b>	The Business Plan Update will be presented to the Pension Fund Committee at each meeting.
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## 6. Finance & Resources Implications

- 6.1 Any updated financial implications are set out in the relevant activities.

## 7. Legal Implications

- 7.1 Not applicable

## 8. Consultation with Key Advisers

- 8.1 Consultation with the Fund's advisers was not required for this report.

## 9. Alternative Options Considered

- 9.1 Not applicable

## 10. Background Papers

- 10.1 Annual Business Plan and Medium Term Strategy 2020/21 – [Annual Business Plan and Medium Term Strategy Hyperlink](#)

## 11. Appendices

- 11.1 Appendix 1 – Full list of Key Fund Activities for the 2020/21 financial year.

### Checklist of Key Approvals

Is this decision included in the Business Plan? Not applicable.

Will further decisions be required? If so, please outline the timetable here Not applicable.

Is this report proposing an amendment to the budget and/or policy framework? No.

Has this report been cleared by the Head of Pensions? Mark Whitby – 14<sup>th</sup> September 2020

Has this report been cleared by the Section 151 Officer / Director of Finance? Sarah Heywood – 24<sup>th</sup> September 2020

Has the Chairman of the Pension Fund Board been consulted? Councillor Rogers – 24<sup>th</sup> September 2020

Has this report been cleared by Legal Services? Fiona McMillan – 18<sup>th</sup> September 2020

## Appendix 1 – Full list of Key Fund Activities for the 2020/21 financial year.

### Service delivery

Reference	Key action/task	2020/21				Medium term	
		Q1	Q2	Q3	Q4	2021/22	2022/23
SD1	Undertake a review of the Business Continuity Plan	✓	✓	✓			
SD2	Undertake an analysis of the risks faced by the Fund as a result of cyber-crime and put in place appropriate mitigations		✓	✓	✓		
SD3	Retender/extend contract for actuarial, benefits and governance consultancy services					✓	
SD4	Extension of pensions administration and payroll software	Completed					
SD5	Re-tender/extend contract for mortality screening and address tracing services			✓			

### Governance and Compliance

Reference	Key action/task	2020/21				Medium term	
		Q1	Q2	Q3	Q4	2021/22	2022/23
GC1	Complete the Guaranteed Minimum Pension rectification	✓	✓	✓	✓	✓	
GC2	Obtain Pensions Administration Standards Association (PASA) accreditation						✓
GC3	Conduct market testing and procure a supplier of independent data auditing services				✓	✓	

## Communications, Systems and Employer Management

Reference	Key action/task	2020/21				Medium term	
		Q1	Q2	Q3	Q4	2021/22	2022/23
CSEM1	Undertake a digital strategy review	✓	✓	✓	✓		
CSEM2	Scope requirements for data collection in respect of the LGPS Transitional Protections			✓	✓		
CSEM3	Prepare for the 2022 Valuation of the Pension Fund					✓	✓
CSEM4	Implement multiple investment strategies	✓	✓	✓	✓	✓	

## Operations

Reference	Key action/task	2020/21				Medium term	
		Q1	Q2	Q3	Q4	2021/22	2022/23
OPS1	Resolution of unprocessed leaver records	✓	✓	✓	✓		
OPS2	Scope and conduct potential liability reduction exercises	✓	✓	✓	✓	✓	✓

## Investments

Reference	Key action/task	2020/21				Medium term	
		Q1	Q2	Q3	Q4	2021/22	2022/23
INV1	Implement strategic allocation to Fixed Income	✓	✓	✓	✓	✓	
INV2	Re-tender for investment consultancy services			✓	✓	✓	
INV3	Continue development of the asset pool	✓	✓	✓	✓	✓	✓
INV4	Tender for an independent investment adviser	✓	✓				
INV5	Review the Fund's Responsible Investment Policy	✓	✓	✓	✓	✓	
INV6	Review the Real Estate strategy				✓	✓	
INV7	Re-tender collaboratively with ACCESS partners to procure a global custody services provider	✓	✓	✓	✓	✓	