



Division(s): N/A

PENSION FUND COMMITTEE – 15 SEPTEMBER 2017

REVIEW OF THE ANNUAL BUSINESS PLAN 2017/18

Report by Director of Finance

Introduction

1. This report sets out a review of the progress against the key service priorities included in the annual business plan for the Pension Fund for 2017/18. As many of these priorities directly link to the mitigation plans for the key risks within the Fund's Risk Register, the report provides more detail on the status of these risks.

Development of the Brunel Pension Partnership

2. The first of the five service priorities agreed as part of the annual business plan was to contribute to the successful establishment of the Brunel Pension Partnership such that the first transfer of assets can take place in April 2018.
3. The key actions envisaged were to be a party to the development of the legal documents, the FCA application, the recruitment of key directors/staff, the recruitment of key third parties including the Administrator/Custodian and the development of all key company policies. Separately the Committee need to review their constitution and scheme of delegation.
4. Following approval of the key legal documents at the June meeting of this Committee, all 10 founding Administering Authorities sealed the documents to enable the Brunel Pension Partnership Limited to be established on 18 July 2017. The Shadow Oversight Board which met on the morning of 18 July 2017 also ratified the appointments of the Executive Team, so that the company had a full Board of 8 at the time of its formation. The company is now in the process of recruiting to the remaining positions, with Officers from Oxfordshire amongst representatives of the Client Group who have joined interview panels.
5. At the time of writing the report, the procurement of the Administrator/Custodian is at the stage of finalising contracts with the preferred supplier. BPP Ltd is leading on the work on the Administrator contract, with the client funds supported by Osborne Clarke leading the work to conclude the standard custodian contract each of the 10 administering authorities will need to enter. Oxfordshire are also represented on the Custody Sub-Group established to oversee the transition to the new custodian, with Oxfordshire due to transition before the end of this financial year.

6. In respect of the change to the Committee's own governance arrangements, these were noted in the review of policies report to the June meeting, and will be confirmed at the March 2018 meeting in advance of the formal establishment of the new arrangements with BPP Ltd.
7. We are currently planning another engagement day where Committee and Board members from Oxfordshire, Buckinghamshire and Gloucestershire will be invited to meet together to receive presentations from Fund Officers as well as key staff from BPP Ltd on the latest developments within the Brunel Pension Partnership and the new operating model. A provisional date of 17 November in Oxford has currently been set for this session.
8. At the present time, this service objective should be achieved in line with the initial business plan.

Cash Flow Modelling

9. The second service priority was to develop a more sophisticated cash flow model, and an appropriate future investment strategy to ensure all pension liabilities can be met as they fall due. There were three key aspects to this element of the work plan:
 - working with the Fund Actuary to develop a modelling tool to allow future liability patterns to be better understood, and the impact of structural changes proposed by large employers identified
 - working with the major scheme employers to understand any changes in likely scheme membership as a consequence of their strategic plans
 - developing a clear understanding of the investment returns of the various asset classes to provide a better match to the liability profile
10. The Fund Actuary provided an updated cashflow model in mid-August 2017 following the completion of the 2016 valuation exercise. Officers are reviewing the contents of the model and assumptions used and will present a report at the December Committee meeting setting out the outputs from the model and any implications.
11. In respect of the work with major scheme employers, this is currently focussed on the work of the District Councils, with significant out-sourcings currently being planned by Oxford City Council and West Oxfordshire District Council. We are not yet in a position to complete the modelling work on the impact of these changes.
12. The work on developing the new portfolios to be offered by the Brunel Pension Partnership is a key aspect of delivering the third element of this priority. This work which begins in detail later this month now BPP Ltd have appointed the first of the key staff to their investment team, will review the initial portfolio proposals and ensure all have clearly identified investment objectives, which between them cover the needs of our investment strategy and liability profile.

13. In the short term, Officers monitor the cash flow position on a monthly basis, and this shows we are still in a healthy position with c£750,000 more resources collected each month in respect of member's benefits than paid out. This, plus the cash reserves held, provides short term protection against the risk that the Fund will have to sell assets at short notice to meet pension liabilities. The work with the Fund Actuary though needs to progress to enable this work to be more proactive in understanding future cash flow models, and develop a longer term investment strategy which enables the implementation of any required changes in a controlled and planned way.

Managing Pension Fund Data

14. The third service priority within the 2017/18 business plan was to develop more sophisticated management arrangements to ensure all Pension Fund data is received and stored in accordance with the requirements of the Pension Fund Regulator.
15. The business plan identified four key elements to this work:
 - (a) Further training to fully understand the requirements of the Pension Regulator
 - (b) A review of current data collection processes looking to automate these wherever possible, and standardise them in line with best practices across other Funds.
 - (c) Development of more meaningful management reports on data quality
 - (d) Work with scheme employers to ensure responsibilities are fully understood, and to address any key concerns within the current arrangements.
16. We are currently looking to agree a training session with the Pension Regulator as part of a full days' training session for Committee and Board members.
17. We have had initial meetings with Aquila Heywood (the system supplier to the majority of LGPS Funds) regarding the automation of data collection and a greater standardisation of current processes. We will now look to kick off a formal project to look at the implementation of iConnect as the time pressures associated with the requirement to issue the Annual Benefit Statements by the end of August have reduced.
18. At present incoming data is reviewed manually with returns being sent back or queried by exchange of emails. This is cumbersome to manage as well as making the collating of data for management reporting more difficult than necessary. As part of the implementation of iConnect the fund will be working with the software suppliers to ensure that there is robust reporting around the monthly data collection processes.

19. Following the passing of the end of August deadline for the issuing of the Annual Benefit Statements we are now looking to run a number of review meetings to look at what went well and what needs further improvement. The Pension Board has expressed a wish to be involved in this process and to invite scheme employers to future Board meetings to discuss both best practice and areas for improvement.

Monitoring Fund Manager Performance against Committee Policies

20. The fourth service priority was to develop a more robust approach to monitoring the performance of Fund Managers, in respect of their delivery against the Funds responsible investment and stewardship policies. This priority was added to the business plan in light of a number of concerns expressed by scheme members about the lack of transparency of the current arrangements, and in particular the need to measure the success of fund Manager engagements with the companies they have invested in on our behalf.
21. The first part of delivering this priority was the publication of our first Investment Strategy Statement which sets out the Committee's approach to managing the environmental, social and governance (ESG) risks associated with the Fund's investments. The Statement made it clear that this Committee expects its Fund Managers to integrate the consideration of all ESG risks including climate change into their investment decisions.
22. We are now working with our current Fund Managers and with our partners in the Brunel Pension Partnership, including the Environment Agency who are an accepted leader in the ESG field, to develop reporting tools that can evidence that Managers are successfully implementing our policies. The issue was included as a key element in the due diligence meetings with the potential Administrators/Custodians, and work has already started with the preferred supplier to develop their reporting tools. Oxfordshire have a member on the Stewardship sub-group that was been set-up for Brunel where ESG issues are being discussed and potential actions discussed.
23. During 2016/17 Officers have met with a number of the Fund's investment managers and have discussed their ESG engagement and voting activity. This has included ways in which managers can better articulate the activities they are undertaking and how the success of these activities are measured and reported. Officers have also been exploring with third parties ways to monitor and report on ESG related activity at the Fund level.

Scheme Member Communications

24. The final priority identified in the 2017/18 Business Plan was improving scheme member communications through the full implementation of members self-service. This would enable scheme members to log into their own pension account to amend personal data, and view key information in respect of their own pension.

25. The roll out of member self-service to pensioner members was successful undertaken during April 2017. A total of 3643 pensioners were happy to move to the new on-line service representing just under 23% of pensioner membership. Since this date beneficiaries have made just over 800 data amendments. Following a review of this first stage of the project, we are now planning the next stages to bring both active and deferred members onto the new arrangements.

RECOMMENDATION

26. **The Committee is RECOMMENDED to:**

- (a) note the progress against the key service priorities identified in the 2017/18 Business Plan, and**
- (b) agree the date of the next Brunel Engagement Session as 17 November 2017 at County Hall, Oxford.**

Lorna Baxter
Director of Finance

Contact Officer:
Sean Collins; Tel: 07554 103465

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