

PENSION FUND COMMITTEE – 9 MARCH 2018

BUSINESS PLAN 2018/19

Report by the Director of Finance

Introduction

1. This report sets out the business plan for the Pension Fund for 2018/19. The Plan sets out the key objectives of the Fund, details the key service activities for the year, and includes the proposed budget and cash management strategy for the service.
2. The report also reviews the progress against the key service priorities included in the 2017/18 Plan as context for setting the key priorities going into the next financial year.
3. The key objectives for the Oxfordshire Pension Fund are set out on the first page of the Business Plan for 2018/19, and remain consistent with those agreed for previous years. These are summarised as:
 - To administer pension benefits in accordance with the LGPS regulations, and the guidance set out by the Pensions Regulator
 - To achieve a 100% funding level
 - To ensure there are sufficient liquid resources to meet the liabilities of the Fund as they fall due, and
 - To maintain as near stable and affordable employer contribution rates as possible.

Key Service Priorities

4. Part A of the plan (contained in the annex) sets out the broad service activity undertaken by the Fund. As with the key objectives, these are unchanged from previous years. The service priorities for the forthcoming financial year are then set out in more detail in Part B. These priorities do not include the business as usual activity which will continue alongside the activities included in Part B.
5. The service priorities included in the 2017/18 Plan and the latest position on each is as follows:
 - Contribute to the successful establishment of the Brunel Pension Partnership such that the first transfer of assets can take place in April 2018 – Significant progress has been made on the development of the Partnership and subject to the receipt of approval from the Financial Conduct Authority, everything should be in pace to meet the Government's timescales.

- 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 – work was initially started with Barnett Waddingham as the Fund Actuary at the beginning of the financial year, but this was put on hold when the initial model was unable to produce all the detail required. With the change in Fund Actuary, this priority needs to be carried forward to 2018/19.
 - 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 – a lot of work has been undertaken during the year to improve the data quality being received from employers, with earlier notification of issues back to employers to allow timely resolution of issues. Work has also been outsourced to ITM to address long standing issues with previous leaver records. The work was not sufficient though to avoid the requirement to report statutory breaches to the Pension Regulator in respect of the issuance of Annual Benefit Statements and Deferred Benefit Statements to leavers.
 - 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 – work has progressed on this issue with our Fund Managers and was included as a key feature in the assessment of the tenderers for the new Administrator/Custodian for Brunel. This work is on-going and will need to be taken forward in the 2018/19 Plan.
 - Improving scheme member communications through the full implementation of members self-service – the service was successfully rolled out to pensioner members of the Fund, though take up was not very high. Roll out to deferred and active members was delayed whilst issues with the pensioner roll out were ironed out.
6. For 2018/19 there is a requirement to take all five of the key priorities from the current year forward. The detail of the key actions and measures of success are set out in Part B of the Business Plan. A summary of each of the 5 key priorities is as follows.
 7. In respect of Brunel, the key priority for 2018/19 is to manage the successful transition of the initial asset classes which should include all equity assets, and potentially the investment of new money into the private markets.
 8. The second priority focusses on the need to manage the risks associated with cash flow and employer covenants, and involves working with Hymans Robertson to develop the cash flow model to show the timing of payment of pension liabilities going forward. Delivery of this priority will also involve working with employers within the scheme to understand their strategic direction of travel, and their risk appetite, and developing the funding strategy statement and investment strategy statement to meet their requirements and the requirements of the Fund.
 9. The third priority focusses on data quality and the need to ensure the current issues with data quality are addressed and processes and reporting

arrangements are put in place to improve the data collection arrangements going forward. A key element of the work in this area includes the preparation for the General Data Protection Regulations and dealing with the cyber security risks.

10. The fourth priority addresses the growing importance of Environmental, Social and Governance (ESG) issues within investment decision making. The actions include building on the current work with the responsible investment team at Brunel to develop a suite of reports which demonstrate the effectiveness of the ESG policies and the impact of company engagement by our Fund Managers. The actions also include a review of the benefits of joining the Local Authority Pension Fund Forum.
11. The final priority proposed in the 2018/19 Business Plan is the roll out of Member Self Service to deferred and active members. This should allow scheme members access to their records to undertake amendments to their core data and view key information on their pension benefits, so releasing pension administrator time to focus on the other priorities.

Budget 2018/19

12. Part C of the Business Plan sets out the Fund's budget for 2018/19 and compares it with the budget for 2017/18. Overall there is an increase in the budget from £10,383,000 to £12,011,000. The main elements of this variation are explained in more detail below. A report comparing the Pension Fund budget for 2017/18 against the actual expenditure will be produced for the September 2018 committee meeting.
13. The administrative team staffing budget has increased by £283,000 as it is anticipated that full staffing will be reached in the near future.
14. The support services budget for administration has increased due to the move to the new Kingsgate office where the Pension Fund is directly responsible for the premises costs including business rates, utilities and property services.
15. There has been a small increase in the budget for printing and stationary as additional printing is likely to be required for correspondence with scheme members in relation to the move to member self-service.
16. The advisory and consultancy fees budget for administration has increased by £85k to reflect additional project work including work related to the new General Data Protection Regulation and Guaranteed Minimum Pension reconciliation.
17. The increase in the budget for management fees of £979,000 compared to the previous year is predominantly due to the increase in the value of the assets under management which the majority of fees are based on. There has also been a small impact from forecast fees on new private equity funds that have been committed to since the 2017/18 budget.

18. The budget for custody fees has increased based on estimates of the cost of the new contract with State Street who have been appointed as the administrator for the Brunel Pension Partnership. The additional cost reflects the increased level of services that State Street are providing compared to the Pension Fund's previous arrangements, including the provision of performance data for the Fund.
19. The budget for Brunel contract costs is based on the most recently provided estimate.

Training Plan

20. A Training Plan for Committee Members has not been included within the Business Plan. Following discussions with Hymans Robertson, it is intended to ask all Committee and Pension Board Members to complete an on-line assessment tool. Hymans Robertson will analyse the results and work with Officers to develop a training plan to address the identified shortfalls in the overall skills and knowledge of the Committee and Board, including pre-Committee sessions and a full day's training.

Cash Management

21. The final section of the business plan, Part D, provides the annual cash management strategy for the Fund. The Strategy is based on the Treasury Management Strategy for the Council, but has a significantly reduced number of counter-parties reflecting the lower sums of cash involved, and the wider set of alternative investment classes open to the Pension Fund.

RECOMMENDATION

22. The Committee is **RECOMMENDED** to:
 - (a) approve the Business Plan and Budget for 2018/19 as set out at Annex 1;
 - (b) approve the Pension Fund Cash Management Strategy for 2018/19;
 - (c) delegate authority to the Director of Finance to make changes necessary to the Pension Fund Cash Management Strategy during the year, in line with changes to the County Council's Treasury Management Strategy;
 - (d) delegate authority to the Director of Finance to open separate pension fund bank, deposit and investment accounts as appropriate; and
 - (e) delegate authority to the Director of Finance to borrow money for the pension fund in accordance with the regulations.

Lorna Baxter
Director of Finance

Contact Officer: Sean Collins, Service Manager, Pensions; Tel: 07554 103465

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