

PENSION FUND COMMITTEE – 14 SEPTEMBER 2018

REVIEW OF THE ANNUAL BUSINESS PLAN 2018/19

Report by the Director of Finance

Introduction

1. This report reviews progress to date against the key service priorities set out in the annual business plan for the Pension Fund for 2018/19. The report also contains details on the Fund's budget for the year and the training requirements for Committee Members.
2. 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

3. The 2018/19 Business Plan contained 5 key service priorities. The first of these relates to the Brunel Pension Partnership and 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.
4. At the time of writing this report, we have successfully completed the process for transitioning the passive equity mandates the new Brunel passive portfolios managed by Legal and General. The process is on-going to complete the full report on the costs of the transition and the new fees payable, including a comparison to the estimates included in the Business Case. Initial indications are that there will be further savings to those initially assumed.
5. As the transition was completed after the end of the first quarter of 2018/19, the first investment performance monitoring report from Brunel will not be due until the next meeting of this Committee. Officers are currently finalising the detail of that report with Brunel and State Street (to Administrator to the Partnership), as well as a series of KPI's and reports which will be used to monitor the performance of Brunel in delivering services under the Services Agreement.
6. Brunel are also finalising the appointment of Fund Managers to the first two of the active equity portfolios, being the UK mandate and the low volatility mandate. Brunel expects assets to transition towards the end of 2018.

Oxfordshire will transition money to the UK portfolio (from the allocation currently managed by Baillie Gifford), but does not have an allocation to the low volatility portfolio.

7. As part of the finalisation of these first two active equity mandates, Brunel have reviewed the processes followed, and the resources required to determine the feasibility of the remainder of the transition timescale. Reports are currently being considered by the Client Group and the Oversight Board to consider any potential changes to the timescales and/or the resources needed to deliver the transition.
8. The Private Markets Team at Brunel is also looking to identify initial investment opportunities across the five private market portfolios. Oxfordshire has provided commitments to the Secured Income, Infrastructure and Private Equity portfolios in line with the Committee's previous asset allocation decisions.
9. It is planned to hold further Engagement Days at the beginning of November, where Officers from Brunel and the Partner Funds can update members of the 10 Pension Fund Committees and Pension Boards on progress. Provisional dates have been set as 5 November in Oxford, 6 November in Bristol and 7 November in Exeter, and invitations confirming details should be sent out shortly.
10. The second key service 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.
11. Initial discussions have taken place with Hymans Robertson to understand how their current tools will support this priority and a work programme is being put in place. It was always expected that there would be limited work on this priority during the first quarter of 2018/19 to allow resources to focus on the closure of the pension fund accounts. More detailed reports on the outcome of this work will be presented to future meetings of this Committee.
12. 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. This issue is covered fully in the separate report on the administration improvement plan elsewhere on this agenda..
13. 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.

14. Work continues to progress in this area alongside the team at Brunel, with Oxfordshire also now representing the client side at Brunel on the national cross pool collaboration sub-group on responsible investment. This work includes on-going discussions with State Street as Administrator for the Brunel Pension Partnership as to how ESG scores can be built into the standard reporting suites to be presented to all 10 Pension Fund Committees going forward.
15. 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.
16. All deferred and active members have been invited to activate their on-line account. It is expected that take up of this facility will increase significantly now we have uploaded the 2018/19 Annual Benefit Statements to members on-line accounts.
17. Pensioner and Deferred Members who have already activated their accounts have taken advantage of the on-line tools to amend their beneficiary nominations for death grants, and to submit on-line queries to Pension Services. Further functionality will be added going forward.

Budget 2018/19

18. We have reviewed the income and expenditure of the Fund for the first quarter of 2018/19 against the budget. On the administration side, the figures reflect the current staffing vacancies and predict an end of year underspend of £400,000 based on current levels of expenditure. However, this has been offset by the overspends on third party payments for the various improvement and backlog projects agreed previously by this Committee. More detailed analysis of these figures will be completed as part of the development of the further Improvement Plan discussed elsewhere on this agenda, and be reported to the December meeting of this Committee.
19. On the Investment Side, whilst the fees payable to Fund Managers is currently showing a marginal underspend, it is not possible to project an end of year position as the majority of fees are directly related to market values which could move significantly between now and March 2019. These costs will be further impacted by the transition of assets to the new Brunel Portfolio's. On the Brunel Contract costs, a special reserve matter has been agreed which could add a potential £34,000 to our costs this year, but will deliver additional savings in future years. The final position for 2018/19 will very much depend on the timing of the transitions of assets to Brunel.

Training Plan

20. Following the last meeting of the Committee, Hymans Robertson ran a full Training Day for Members of the Committee and Pension Board. This provided a broad introduction into scheme governance, pensions administration and the valuation process. Members were invited to submit proposals for further training sessions, as well as attend externally run sessions, where details had been provided through the Pensions Investment Team.
21. At the present time, no firm proposals have been submitted for further training sessions, and Members are reminded that these can be submitted to any of the Fund's Officers.

RECOMMENDATION

22. **The Committee is RECOMMENDED to:**
 - (a) note the progress against the key service priorities and budget included within the Business Plan 2018/19; and**
 - (b) agree any further subjects it wishes to see included in future training plans.**

Lorna Baxter
Director of Finance

Contact Officer: Sean Collins, Service Manager, Pensions

Tel: 07554 103465

May 2018