

PENSION FUND COMMITTEE – 6 MARCH 2020

BUSINESS PLAN 2020/21

Report by the Director of Finance

RECOMMENDATION

1. **The Committee is RECOMMENDED to:**
 - (a) **approve the Business Plan and Budget for 2020/21 as set out at Annex 1;**
 - (b) **approve the Pension Fund Cash Management Strategy for 2020/21.**
 - (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;**
 - (e) **delegate authority to the Director of Finance to borrow money for the pension fund in accordance with the regulations.**

Introduction

2. This report sets out the business plan for the Pension Fund for 2020/21. 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.
3. The report also reviews the progress against the key service priorities included in the 2019/20 Plan as context for setting the key priorities going into the next financial year.
4. The key objectives for the Oxfordshire Pension Fund are set out on the first page of the Business Plan for 2020/21 (contained in annex 1), 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.

5. Part A of the plan 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.

Key Service Priorities – A review of 2019/20

6. There were 5 service priorities included in the 2019/20 Plan and the latest position on each is as follows.
7. Contribute to the continued development of the Brunel Pension Partnership.
There were three measures of success set out in the initial business plan which were around the development of a comprehensive suite of client assurance reports, the continued successful transition of assets to the new Brunel portfolios and meeting the objectives set out in the business case.
8. Work has progressed throughout the year on the development of the suite of client assurance reports with those for the listed markets now signed off by the Oversight Board, and those for the private markets presented to the Client Group for the first time in February. The appropriateness of these reports will be further tested as more money is transitioned into the Brunel portfolios and the they therefore cover more assets.
9. In terms of asset transitions, these have continued broadly in line with the planned timescales, with Brunel now responsible for just under 50% of Oxfordshire's assets. Call off against the commitments to the private market portfolios has been slower than initially assumed and this continues to be reviewed.
10. The transitions to date have largely been in line or better than the business case, so successfully delivering measure three within our business plan.
11. Manage the 2019 Valuation. As reported elsewhere on this agenda, the 2019 Valuation exercise is now nearly complete, with no comments received on the draft Funding Strategy Statement and scheme employers able to agree future employer contributions with the Fund Actuary within the parameters and flexibilities set out in the Statement.
12. The final element of this objective was to review the asset allocation to ensure sufficient liquid resources to pay the pension liabilities as they fall due. Proposals to cover this aspect of the objective are covered within the Investment Strategy report elsewhere on today's agenda.
13. Delivery of the Improvement Plan to ensure all Pension Fund data is received and stored in accordance with the requirements of the Pension Fund Regulator.
Five measures of success were set for this objective and all have been delivered over the course of 2019/20. This includes the issuing of annual

benefit statements in line with statutory deadlines, data quality scores in line or better than national standards, and the delivery of business as usual activity within the performance targets set.

14. In respect of the fifth measure of success and the implementation of iConnect, whilst this has been achieved in line with the programme timescales, work will continue into 2020/21 to complete the roll out to all scheme employers including many of the larger employers who were included in the final tranches of the programme.
15. Develop a more robust approach to monitoring the performance of Fund Managers, in respect of their delivery against the Funds governance responsibilities. The measures of success targeted for this objective were to regularly publish benchmark data within the open sessions of the Committee's agenda, alongside a clear audit trail of the process for reviewing the performance of fund managers. Work has continued throughout the year on this objective in association with Brunel.
16. A key challenge in delivering this objective has been the lack of industry standard measures in this area, and a lack of a consistent approach to measuring key outputs. The Climate Change Policy elsewhere on today's agenda sets out a commitment to develop alongside Brunel a set of metrics to ensure the successful implementation of the Policy can be monitored, but much work remains to be achieved in this area.
17. Improving scheme member communications. Whilst we have now moved the default position for the publication of the annual benefit statements from paper to the electronic portal, allowing scheme members to log onto their account and view their statement as required, member engagement with the on-line service remains poor (although in line with data from other LGPS Funds who have also made the transition).
18. At the time of writing this report, the arrangements to release self-help facilities for members were being finalised, including the ability of members to obtain estimates of their future pension benefits. It is hoped that the increased functionality will improve the take up of the on-line services and this will continue to be monitored. What has been clear though is that the move of functions to the on-line portal has improved the efficiency of the Pension Services team and has contributed to the significant improvements in service levels, and a more timely service to scheme members.
19. Work against the 2019/20 business plan has been undertaken largely in line with the agreed budget with four major exceptions as seen in the table below.

	Budget	YTD	%	Forecast Outturn	Variance
	2019/20	2019/20		2019/20	2019/20
	£'000	£'000		£'000	£'000
Administrative Expenses					
Administrative Employee Costs	1,576	940	60	1,426	-150
Support Services Including ICT	634	1,075	170	1,075	441
Printing & Stationary	72	30	43	72	0
Advisory & Consultancy Fees	160	17	11	160	0
Other	60	3	4	60	0
Total Administrative Expenses	2,502	2,065	83	2,793	291
Investment Management Expenses					
Management Fees	8,484	6,500	77	9,000	516
Custody Fees	0	0	0	0	0
Brunel Contract Costs	1,043	1,164	112	1,164	121
Total Investment Management Expenses	9,527	7,664	80	10,164	637
Oversight & Governance					
Investment Employee Costs	254	174	68	254	0
Support Services Including ICT	11	9	81	15	4
Actuarial Fees	160	195	121	180	20
External Audit Fees	35	9	27	35	0
Internal Audit Fees	15	11	73	15	0
Advisory & Consultancy Fees	95	18	19	95	0
Committee and Board Costs	49	35	71	40	-9
Subscriptions and Memberships	50	25	51	50	0
Total Oversight & Governance Expenses	669	476	71	684	15
Total Pension Fund Budget	12,698	10,205	80%	13,641	943

20. It is estimated that there will be underspend against pensions administration staffing costs of £150,000 due to the level of vacancies experienced during the year. As noted above this has not impacted on performance as a result of improved efficiency through automation and the clearance of the previous backlog of work.
21. There is an estimated overspend of £441,000 on support services and ICT reflecting the requirement to renew licence fees for the pension's software as part of the renewal of the service contract following re-tendering. Unfortunately, this cost was not included in the budget prior at the start of the year.

22. There is an expected overspend of £516,000 against fund management fees reflecting the increase in asset values under management and the nature of the fee structures.
23. Finally there is an overspend on the fees for Brunel of £121,000 reflecting changes in the approved Brunel budget through special reserve matters after the agreement of the initial budget for this Committee.

Service Priorities for 2020/21

24. For 2020/21 it is proposed to focus on four key priorities building on the work from the current year and picking up nationally identified issues. 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 4 key priorities is as follows.
25. In respect of Brunel, the key priority for 2020/21 is to complete the transition of all assets to the new Brunel Portfolios and to bed down the new performance monitoring and assurance arrangements, including monitoring against the initial business case. This will include developing the Brunel reporting to this Committee, including the attendance of relevant officers at future Committee meetings.
26. The second priority focusses on the implementation of the Climate Change Policy as recommended elsewhere on this agenda. The Policy sets out several ambitious targets for the Pension Fund with the priority identified within the Business Plan around the development of the implementation plans to deliver these targets and to establish the monitoring arrangements against which compliance with the Policy can be established. The actions include a number of joint actions with Brunel around the investment portfolios as well as working with the wider County Council to ensure the Funds own operations address the carbon neutral target for 2030.
27. The third priority focusses on improving the overall governance arrangements of the Fund in response to the national priority being given to the issue. The actions are consistent with the guidance coming out of the work of Hymans Robertson for the Scheme Advisory Board, and include addressing any knowledge and understanding shortfalls, ensuring a robust performance management framework is in place, and that there are clear schemes of delegations and accountability for delivering the statutory duties of the Pension Fund.
28. The fourth priority looks to improve the efficiency and effectiveness of our engagement with scheme employers and scheme members. Actions in this area include the continuation of the current projects to automate processes where ever possible, including the conclusion of the iConnect Project and the further development of the on-line portal for scheme members, as well as improving the communications with scheme employers and members around how their assets are invested.

Budget 2020/21

29. Part C of the Business Plan sets out the Fund's budget for 2020/21 and compares it with the budget for 2019/20. Overall there is an increase in the budget from £12,698,000 to £14,494,000. The main elements of this variation are explained in more detail below. A report comparing the Pension Fund budget for the full 2019/20 financial year against the actual expenditure will be produced for the June 2020 Committee meeting.
30. The administrative staffing budget has seen a reduction of £185,000 or 12% since last year. This in part reflects the removal of additional resources previously added into the budget to reflect the need to bring in agency support to clear the backlog of work. It also reflects the fact that with the removal of the backlog of work and the increased automation of processes through iConnect and Member Self Service, it has been possible to reduce the overall staffing establishment. A key caveat here is that this position will need to be reviewed once final decisions are known in providing a remedy to the McCloud judgement. At this time it is unclear what additional resource will be required to manage the impact and when that resource will be required.
31. There has been an increase in the budget for support services and ICT to allow for the final project costs associated with the Guaranteed Minimum Pension reconciliation work which should be completed during 2020/21 following final decisions by HMRC.
32. The major variation in the budget is on Fund Management Fees which have increased from £8.5m to 10.4m. Around half of this increase reflects the increase in the overall assets of the Fund and the fact that management fees are charged as a fixed percentage of assets under management. The remaining increase in fees reflects the implementation of the previous asset allocation decisions and the transition of assets to the private equity and infrastructure portfolios within Brunel. These portfolios attract higher fees than the previous allocations to equities. Part of the funding for these private market allocations were in fact held in cash during 2019/20 and therefore did not attract any fees. It should be noted that the increase in fees should be more than offset by improved investment returns as well as a reduction in the overall level of volatility within the investment performance of the Fund.
33. The variations in custody fees and cost of the Brunel contract largely cancel each other out and reflect a switch in responsibility for the payment of the custody fees relating to legacy assets. These costs were included in the Brunel contract costs last year but will be met directly by the Fund in 2020/21.
34. The only significant variation in the Oversight and Governance section of the budget is in the costs of advisory and consultancy fees. These have risen by £11,000 reflecting a new allowance of £20,000 to support the work of implementing the Climate Change Policy offset by a reduction in the fees paid this year to support the work of the strategic asset allocation review.

Training Plan

35. Part D of the Business Plan sets out the broad Training Plan for Committee Members, based on the draft Policy previously agreed by the Committee. Alongside the provision of a core training programme, we will add additional subjects relevant to the Committee's work programme, including sessions on the governance and responsible investment guidance due to be published by the Scheme Advisory Board, the revised Code of Practice expected from the Pension Regulator and the implications of the McCloud judgement if determined during 2020/21.

Cash Management

36. The final section of the business plan, Part E, 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.

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