Division(s):N/A

PENSION FUND COMMITTEE – 11 MARCH 2016

BUSINESS PLAN 2016/17

Report by Chief Financial Officer

Introduction

1. This report sets out the business plan for the Pension Fund for 2016/17. The Plan sets out the key objectives of the Fund, details the key service activities for the year, and includes the proposed budget and risk register for the service. Members are also asked to consider their own training needs in light of the business plan and agree items to add to their training plan.

Key Objectives and Activities

2. The key objectives for the Oxfordshire Pension Fund are set out on the first page of the Business Plan for 2016/17, 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 Pensons 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.

3. Part A of the plan (contained in the annex) sets out the broad service activity undertaken by the Fund. 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.

4. The service priorities follow those set out in the future work programme item discussed at the December meeting of the Committee. These are:
    - Develop collaboration proposals in line with the requirements and timetable set by Government
    - Manage the 2016 Valuation process
    - Develop a more sophisticated cash flow model, to include greater understanding of the key actions of the large employers within the Fund
    - Develop a more robust risk management model
    - Strengthen the approach to employer management to improve the quality and timeliness of receipt of all pension data

Budget 2016/17

5. Part C sets out the Fund's budget for 2016/17 and compares it with the budget for 2015/16. Overall there is an increase in the budget which is primarily due to an increase in the management fees budget which is explained in more detail below. A report comparing the Pension Fund budget for 2015/16 against the actual expenditure will be produced for the September 2016 meeting.

6. The investment team and administrative team staffing budgets have been amended to reflect the new structure agreed by the Committee at its meeting in December 2015.

7. An amount of £45,000 has been included in the budget for advisory and consultancy services under Oversight & Governance, as the estimate for fees relating to the investment pooling work and the fundamental asset review that is due to take place in 2016/17.

8. The management fees budget has increased significantly from the previous year. The reason for the large difference is presentational and relates to the Fund adopting best practice in reporting management fees. The change has no net impact on the Fund. In previous years management fees have only included those that are invoiced to the Fund. Some of the Fund's investments deduct fees at source so that they are reflected within the price of the asset. In-line with best practice the Fund will now include all management fees the fund is directly and legally responsible for in the budget. This has the effect of increasing the management fees budget. The Fund does not budget for investment income but when recording the additional management fees in the accounting records they will be offset by recognising an equal amount of investment income meaning the net effect is nil.

9. Administration support service charges have been increased to reflect additional work introduction of member self-service and further software improvements.

10. The budget for printing and postage (other) has increased to ensure that the fund meets the requirement of the disclosure regulations in advising members of the introduction of member self-service.

11. Advisory and consultancy fees included under Administrative Expenses have been increased to fund additional work in respect of GMP reconciliation.

Risk Register

12. Part D of the Business Plan covers the Risk Register for the Pension Fund. As covered in the service priorities for 2016/17, this is an area which needs to be strengthened during 2016/17, having been highlighted as an area of weakness when completing the Key Performance Indicator framework produced by the Scheme Advisory Board.

13. The main concern with risk management to date has been that there has been no active review of risks, and no clear action plans to drive a reduction in risk levels. The format of the latest risk register has therefore been amended to include a target level of risk, and an action plan column to detail actions to be taken where risk is currently higher than its target level. It is accepted that some level of risk will always be required, and in some circumstances the Committee will be happy to accept a higher level of risk, where the costs of further mitigation are deemed excessive in relation to the remaining risk.

14. The key risks that are currently not at target level are:

- Investment Strategy not aligned with the Pension Liability Profile
- Employer Default
- Inaccurate or out of date Pension Liability data
- Insufficient Skills and Knowledge amongst Officers and committee Members

Training Plan

15. Part E of the business plan is the training plan for Committee Members. This is another area which has been highlighted under recent reviews as an area needed improvement.

16. The Governance Compliance Statement records that we are only partially complaint with best practice, in that whilst the Committee considers each year the allocation to be provided as part of the annual budget to be spent on Committee member training, it does not adopt a specific training programme.

17. At the present time, the only specific item included in the 2016/17 training programme is a training session on the 2016 valuation, to be provided by the Fund Actuary immediately prior to the June committee meeting. The programme also includes training delivered by way of attendance at conferences and seminars. We are currently aware of three requests to attend conferences and these are included in the training plan

18. Individual Committee Members need to consider their own training needs in light of the business plan for the year, and add items to the Training Plan as appropriate. It should be noted that the training records of all Members are disclosed annually as part of the Annual Report and Accounts.

Cash Management

19. The final section of the business plan, Part F, 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

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

(a) approve the Business Plan and Budget for 2016/17 as set out at Annex 1;
(b) note the risks that are currently not at target level and keep these under review during 2016/17;
(c) add items as appropriate to the 2016/17 training plan and to continue to review during 2016/17;
(d) approve the Pension Fund Cash Management Strategy for 2016/17;
(e) delegate authority to the Chief Finance Officer 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;
(f) delegate authority to the Chief Finance Officer to open separate pension fund bank, deposit and investment accounts as appropriate; and
(g) delegate authority to the Chief Finance Officer to borrow money for the pension fund in accordance with the regulations.

Lorna Baxter
Chief Finance Officer

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February 2016