

## **PENSION FUND COMMITTEE – 8 JUNE 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 results of the recent training needs survey and the proposed training day, plus an update on the latest budget position.
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, the process for transitioning the passive equity mandates is nearing completion with the assets from all 10 Funds due to transition across to Legal and General during June. For Oxfordshire, our passive equity Funds are already with Legal and General, though we are moving from a global fund excluding UK to a developed only fund including UK. This will therefore involve a degree of re-balancing to ensure the overall weight to the UK remains constant. In the short term, we will be underweight on our allocation to the Emerging Markets, until Brunel have established the active emerging market equity portfolio.
5. Once the transition to the passive portfolios has been completed, there will be a 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.

6. Brunel have also started the process to appoint 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. The Private Markets Team at Brunel is also looking to identify initial investment opportunities across the five private market portfolios. Oxfordshire has indicated commitments to the Secured Income, Infrastructure and Private Equity portfolios in line with the Committee's previous asset allocation decisions.
8. The second key service priority focuses 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. 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.
10. The third priority focuses 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.
11. As discussed elsewhere on the agenda, the various project plans are proceeding well, and at this point it is expected that we will meet the regulatory requirements in respect of issuing the 2017/18 Annual Benefit Statements by the statutory deadline of 31 August 2018. Good progress is also being made in looking at the gaps identified in the recent data quality audits, with the aim of re-running the reports at the end of June and achieving the target levels of performance at that time.
12. 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.

13. 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.
14. In respect of the benefits of joining the Local Authority Pension Fund Forum, this is an item later on today's agenda recommending that this Committee does join the Forum, alongside 8 of the other 9 Funds within Brunel.
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. The invitation to deferred members to activate their on-line accounts went out at the end of April, and at the time of writing this report, around 13% of deferred members have activated their account. This number will be kept under review and updates provided to future meetings, along with numbers of those members wishing to opt out of the on-line service and continue to receive paper versions of all communications.
17. The invitation to active members will activate their on-line accounts will be sent out in June, with the aim to getting as many active members as possible signed up to be able to view their Annual Benefit Statement on-line by the end of August.
18. 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.

### **Budget 2018/19**

19. At this early stage of the year it is difficult to make any meaningful forecasts of variations against the approved budget for the year, particularly given the dependence on the timescales for transitions to the new Brunel portfolios, and the movement in market values. A fuller review will be presented to the next Committee.

### **Training Plan**

20. Following the last meeting of the Committee, Hymans Robertson were commissioned to undertake a training needs assessment of the Pension Fund and Pension Board members, and to develop a programme for a full days training workshop.

21. 7 of the 10 Pension Fund Committee members and 4 of the 6 Pension Board members completed the survey. The overall results were higher for the members of the Pension Board, though both groups showed areas of strengths and weakness.
22. The strongest scores were obtained in respect of the questions of pensions governance, followed by the questions on financial markets, investment performance, procurement and relationship management. Whilst the members of the Pension Board score well on the questions in respect of Pensions Administration, this was one of the weakest areas for the members of the Pension Committee. The weakest scores overall were in respect of pensions legislation, actuarial matters and issues relating to accounting and audit.
23. Following completion of the survey, Hymans Robertson have worked with officers to develop the outline of an initial day's training programme.
  - Introduction: context of day and training programme
  - Session 1: Governance overview including LGPS stakeholder role and their responsibilities (particularly the Committee's role and focus post-pooling)
  - Session 2: Pension administration focussing on their responsibilities, tPR role, data quality and improvement plans
  - Lunch
  - Session 3: Investment and Actuarial including basics but introducing more holistic thinking on strategy and Committee's role in this
24. Hymans Robertson are currently producing the detailed programme for the day, and all members of the Committee and the Board have been canvassed for a suitable date.

## **RECOMMENDATION**

25. **The Committee is RECOMMENDED to:**
  - (a) note the progress against the key service priorities within the Business Plan 2018/19; and**
  - (b) agree the outline programme for the training day and confirm the date for the session.**

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