

PENSION FUND COMMITTEE – 7 DECEMBER 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. Progress against each of these is set out below:

Brunel Pension Partnership

4. The first priority 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.
5. We have successfully completed the process for transitioning the passive equity mandates to the new Brunel passive portfolios managed by Legal and General. We have received the Transition Outcome report which has been compiled alongside an independent review of the transition activity and costs from InAlytics, the company appointed to support this transition.
6. The Outcome Report highlighted that the overall costs of transition were materially lower than those estimated in the Business case. The actual transition costs were recorded as £1.723m, a 42% against the initial estimate. There were further savings to the Client Funds as a result of a rebate agreed

with Legal & General Investment Management as part of their proposal for managing the portfolios.

7. In addition, the new fund manager fee level is lower than that assumed in the business case, which itself suggested significant savings to the Oxfordshire Fund. The total fee savings to Oxfordshire are over £350,000 per year.
8. As the transition was completed after the end of the first quarter of 2018/19, the first investment performance monitoring report from Brunel which includes the passive funds has just been produced covering the quarter ended 30 September 2018. This report will become more useful over time as further portfolios are transferred to the management of Brunel.
9. At the time of writing this report, Brunel are finalising the arrangements for the transition to the UK active equity portfolio. The actual transition is expected to occur before the meeting of the Committee and an update can be provided at the meeting. The tender exercise has again produced significant fee savings, both against the current fee levels paid by Funds, and the level assumed in the business case.
10. 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. Whilst Brunel has made commitments in respect of the Secured Income portfolio, at the time of writing this report, no commitments had been agreed in respect of the Private Equity and Infrastructure portfolios, and no money has been drawn down against the commitments agreed for the Secured Income portfolio.
11. Following completion of the first active equity tender arrangements, Brunel undertook a full review of the process to identify lessons learned and the implications for the remaining transitions. The results of this work were validated by the Client Group and formed the basis for the 3-year Business Plan and Budget recently presented to Shareholders.
12. The Business Plan has built in a slightly longer period over which the asset transitions will occur, with the final transitions in the core markets now expected by August 2021 rather than April 2020 as envisaged in the business case. This allows for a full open procurement process, which is seen as likely to deliver higher fee savings than expected, as well as taking into account the efficient staffing arrangements for the company. Staffing has been increased both on a temporary basis during the transition period, as well as on an on-going basis now we are clearer on the requirements of operating an FCA authorised company.

13. The proposed budget for 2019/20 has increased significantly from that agreed for the current year as follows:

	£000
Initial Budget 2018/19	7.796
Less One-Off Items	-1.367
Inflation	148
Known Increases included in Business Case	<u>636</u>
Base 2019/20 as per Business Case	7.213
Private Market Arrangements (Previous SRM)	958
Short Term Additional Portfolio Launch Costs	900
Additional Business as Usual costs	728
Additional Costs under Regulatory Framework	<u>629</u>
Proposed Budget 2019/20	10.428

14. Despite the significant increase in the proposed budget for 2019/20, the wider work on the business case review shows that the breakeven for the partnership as a whole, will still be delivered by 2023/24, with the total net savings to be delivered by 2035 increasing by over £200m, from the £550m, assumed in the business case. For Oxfordshire, the breakeven point comes forward a year to 2024/25. This reflects the increased fee savings and reduced transition costs evidenced from the initial transitions.

Cash Flow and Employer Covenants

15. 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.
16. Hymans Robertson have produced a draft long-term cashflow forecast for the Pension Fund. It is intended that the results of this will be used as the basis to develop a Cashflow Policy for the Pension Fund. The policy will set out the current and forecast cashflow position (including sensitivities), the target level of cash balances to be held, the potential to generate income from existing investment portfolios, and potential actions as the cashflow position heads towards turning negative
17. Hymans Robertson also produced an initial paper to discuss the approach to the 2019 Valuation, which set out a number of principles which could shape changes to the Funding Strategy Statement. This paper was due to be discussed at a meeting with the Directors of Finance for the major employers within the Fund on 22 November 2018, and an update from that meeting will be provided to the Committee as appropriate.

Data Quality

18. 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.

ESG Reporting

19. 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.
20. Brunel has appointed Hermes EOS as voting and engagement provider. Hermes will work in partnership with Brunel and its appointed fund managers to deliver voting and engagement services in accordance with the position set out by Brunel in their recently published Stewardship Policy. The policy covers the approach of Brunel to voting and engagement matters and was developed in consultation with clients.
21. The Pension Fund has been working with Brunel on the development of ESG reporting through its representation on the Responsible Investment subgroup. Brunel are undertaking detailed assessments of providers of ESG scoring. The reporting in this area is likely to include ESG scores as well as an analysis of trends over various time periods. It is also intended that there will be some carbon metrics reporting to assist in the assessment of climate related risks. There are no agreed standards for ESG reporting and a wide range of methods are used in producing scores; the Pensions and Lifetime Savings Association are due to undertake some work in this area to try and develop a more consistent approach. Officers will continue to work with Brunel on this topic so that ESG data can be incorporated into the Brunel quarterly reporting to clients as portfolios continue to transition over to Brunel.

Member Self-Service

22. 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.
23. 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.

24. 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

25. We have reviewed the income and expenditure of the Fund for the second quarter of 2018/19 against the budget. The latest forecast position is included in the annex to this report. On the administration side, the figures reflect the current staffing vacancies and predict an end of year underspend of just over £150,000 based on the current recruitment programme to fill vacant posts, and after allowing for the third-party payments for the various improvement and backlog projects agreed previously by this Committee.
26. On the Investment Side, fees payable to Fund Managers is currently showing a £200,000 underspend, largely reflecting the savings on fees on the passive portfolios following the tender exercise run by Brunel. There is also a £157,000 underspend showing against the Custody line reflecting an overprovision in the budget, with the costs allowed for both within the Brunel contract costs and as a standalone item. On the Brunel Contract costs, a special reserve matter regarding the private market arrangements has been agreed which is estimated to add £34,000 to our costs this year, but will deliver additional savings in future years. A further £26,000 is subject to a current special reserved matter where Brunel has sought to bring in additional resources to manage the risks to delays in the transition programme.

Training Plan

27. Following the last meeting of the Committee, 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. Subjects identified for future sessions include the Fund Valuation process, and a further presentation on managing and monitoring the ESG implications of the Fund's investments. Members are reminded that they can submit any further items to any of the Fund's Officers.

RECOMMENDATION

28. **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 they wish to be included in future training plans.**

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