

## **PENSION FUND COMMITTEE – 8 MARCH 2019**

### **BUSINESS PLAN 2019/20**

#### **Report by the Director of Finance**

##### **Introduction**

1. This report sets out the business plan for the Pension Fund for 2019/20. 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.
2. The report also reviews the progress against the key service priorities included in the 2018/19 Plan as context for setting the key priorities going into the next financial year.
3. The key objectives for the Oxfordshire Pension Fund are set out on the first page of the Business Plan for 2019/20 (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.
4. 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 2018/19**

5. The service priorities included in the 2018/19 Plan and the latest position on each is as follows:

##### Contribute to the planning and delivery of the asset transition programme for the Brunel Pension Partnership.

There were three measures of success set out in the initial business plan which were the successful transition of all public equity assets to the new Brunel portfolios by 31 March 2019, establishment of the private market portfolios to allow investment during 2018/19 and initial transitions managed in line or better than assumptions within the business case.

As previously reported, the timescale for the transition of the public equity assets has been slipped in light of the experience of the initial transition. This was to allow for a more in-depth procurement process which should lead to better outcomes, improving the overall position against the business case. Whilst the passive and UK equities have successfully transitioned, the global equity portfolios are not now expected to transition until November 2019 and March 2020.

The transitions to date have been in line or better than the business case, so successfully delivering measure three within our business plan. We have also made our initial investments to the private markets in line with the second measure of success, although work is continuing on the client assurance process to ensure that the overall arrangements are being developed in line with client expectations.

Review the Funding Strategy and Investment Strategy Statements to meet the requirements of future cash flows and employer covenants and risk appetites.

This objective required joint working with the Fund Actuary and the major employers within the scheme, with the two measures of success being around the management of cash flows to ensure all pension liabilities are met as they fall due with minimal impact on employer contribution rates and the two Statements were reviewed and aligned to feed into the 2019 Valuation process.

Following discussions with Hymans Robertson, the Actuary to the Fund, it was determined that the deadlines for this work could be slipped back into 2019/20 to better meet the requirements of the 2019 Valuation timetable.

Work though has been proceeding with initial meetings held with the major scheme employers, and more detailed follow up meetings held with Oxford Brookes University. This work will be incorporated into the report on Scheme policies to be presented to the June meeting of this Committee.

In the meantime, cashflow remains positive. Over the first 10 months of 2018/19, the total cash received in respect of members benefits exceeded the cost of payments in respect of members benefits by an average of just over £1m a month.

Develop more sophisticated management arrangements to ensure all Pension Fund data is received and stored in accordance with the requirements of the Pension Fund Regulator.

The three measures of success for 2018/19 on this objective were no issues raised by the Pension Regulator, annual benefit statements issued in accordance with statutory deadlines and reduced levels of queries and complaints received from scheme members. Delivery against these targets has been covered elsewhere on this agenda throughout the year, with significant improvements recorded relative to previous years, but some further improvements still required to bring us fully into line with the measures of success we have targeted.

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.

Whilst the quarterly report to the end of December 2018 from Brunel included a commentary section on responsible investment, the first set of portfolio level ESG reports are not now expected until the end of March 2019 quarter.

Improving scheme member communications

Work completed during 2018/19 included moving 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.

Work is now on-going to transfer more of our current paper processes to the portal, including the issuance of standard letters, and the development of the self-help facilities for members.

6. Work against the 2018/19 business plan has been undertaken inside the budget provision agreed for the year, as seen in the table below.

	Budget	YTD	%	Forecast Outturn	Variance
	2018/19	2018/19		2018/19	2018/19
	£'000	£'000		£'000	£'000
<b>Administrative Expenses</b>					
Administrative Employee Costs	1,523	1,048	69	1,304	-219
Support Services Including ICT	608	617	101	623	15
Printing & Stationary	61	90	148	105	44
Advisory & Consultancy Fees	115	20	18	30	-85
Other	40	45	112	55	15
<b>Total Administrative Expenses</b>	<b>2,347</b>	<b>1,820</b>	<b>78</b>	<b>2,117</b>	<b>-230</b>
<b>Investment Management Expenses</b>					
Management Fees	8,415	35	0	8,194	-221
Custody Fees	159	2	1	2	-157
Brunel Contract Costs	650	685	105	685	35
<b>Total Investment Management Expenses</b>	<b>9,224</b>	<b>722</b>	<b>8</b>	<b>8,881</b>	<b>-343</b>
<b>Oversight &amp; Governance</b>					
Investment Employee Costs	247	178	72	240	-7
Support Services Including ICT	11	12	108	15	4
Actuarial Fees	40	167	416	95	55
External Audit Fees	24	20	85	34	10
Internal Audit Fees	14	10	69	14	0
Advisory & Consultancy Fees	65	63	96	75	10
Committee and Board Costs	39	35	91	40	1
<b>Total Oversight &amp; Governance Expenses</b>	<b>440</b>	<b>485</b>	<b>110</b>	<b>513</b>	<b>73</b>
<b>Total Pension Fund Budget</b>	<b>12,011</b>	<b>3,027</b>	<b>25%</b>	<b>11,511</b>	<b>-500</b>

7. As previously reported the main variations have been the underspend against pensions administration staffing costs due to the level of vacancies experienced during the year, the underspend against fund management fees and the underspend against custodian fees, both of which are directly linked in to the transfer of responsibilities to Brunel.

### Service Priorities for 2019/20

8. For 2019/20 it is proposed to take all five of the key priorities from the current year forward and amend the actions and measures of success to reflect the progress during the current year. 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 5 key priorities is as follows.

9. In respect of Brunel, the key priority for 2019/20 is seen as the development of comprehensive client reports, which will provide assurances on the processes and performance of the Brunel company, as well as on the investment performance itself. This is seen as increasingly important as more assets are transition to the Brunel portfolios and Brunel takes on its full responsibility for the selection and monitoring of the underlying fund managers. We have retained measures of success relating to the transition of the outstanding assets and for monitoring delivery against the initial business cased.
10. The second priority focusses on the 2019 Valuation, including the need to manage the risks associated with cash flow and employer covenants, and to develop funding and investment strategies which reflect these factors as well as the risk appetites of individual scheme employers. The work will build on that undertaken during 2018/19, leading to a revised funding strategy statement, and the publication of the 2019 Valuation results. Key to success will be maintaining good communications with scheme employers, so that final Valuation results are published on a timely basis, with no major shocks.
11. The third priority focusses on delivery of the Improvement Plan as discussed elsewhere on this agenda. The measures of success are set as compliance with our statutory targets and those included in our service level agreements with scheme employers, meeting our data quality target scores and the successful implementation of iConnect. If we are successful in delivering these, then we should also be successful in delivering the final measure of success of having no issues raised by the Pension Regulator.
12. The fourth priority maintains the focus on 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.
13. The final priority proposed in the 2019/20 Business Plan is the continued development of Member Self Service. 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.

### **Budget 2019/20**

14. Part C of the Business Plan sets out the Fund's budget for 2019/20 and compares it with the budget for 2018/19. Overall there is an increase in the budget from £12,011,000 to £12,698,000. The main elements of this variation are explained in more detail below. A report comparing the Pension Fund budget for the full 2018/19 financial year against the actual expenditure will be produced for the June 2019 Committee meeting.

15. The administrative staffing budget has simply been increased for the impact of inflation. The support services budget for administration has increased from £608,000 to £634,000 due to an allowance for the replacement of scanners and printers.
16. There has been an increase in the budget for printing and stationary to allow for additional printing requirements arising from the annual address chasing exercise and letters to scheme members on the activation of member self-service.
17. The advisory and consultancy fees budget for administration has increased by £45k, this includes address tracing services, retendering of the software contract, and the latest stage of the Guaranteed Minimum Pension reconciliation exercise.
18. The increase in the budget for Brunel contract costs reflects the increase in work being undertaken by Brunel as more portfolios are set-up and Brunel continues to progress its services as per the business plan. The contract costs are based on the 2019/20 Brunel budget that has been signed off by all client funds. Custody fees are now paid by Brunel and form part of the contract cost for the Fund.
19. The budget for actuarial fees has been increased by £120k as during 2019/20 the actuary will undertake the triennial valuation of the Pension Fund including work on scheme employer covenants.
20. External audit fees have been increased as the Fund is now charged a separate fee for assurance work undertaken on the provision of data to the actuary for the production of accounting reports for scheme employers.
21. A separate line has been added for subscriptions and memberships and includes the Local Government Association, Pensions & Lifetime Savings Association, Chartered Institute of Public Finance Accountants (CIPFA) Pensions Network, and the Local Authority Pension Fund Forum.

### **Training Plan**

22. A Training Plan for Committee Members has not been included within the Business Plan. A training programme will be developed through the year to include topical subjects which are likely to include further training on the 2019 Valuation and on interpreting the new ESG reporting data from Brunel.

### **Cash Management**

23. The final section of the business plan, Part D, 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**

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

- (a) approve the Business Plan and Budget for 2019/20 as set out at Annex 1;**
- (b) approve the Pension Fund Cash Management Strategy for 2019/20;**
- (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; and**
- (e) delegate authority to the Director of Finance to borrow money for the pension fund in accordance with the regulations.**

Lorna Baxter  
Director of Finance

Contact Officer: Sean Collins, Tel: 07554 103465

February 2019