

PENSION FUND BUSINESS PLAN

2017/18



Introduction

The purpose of this 2017/8 Business Plan is to outline the Funds' aims and objectives, as well as providing an Action Plan of the key priorities of the year ahead to achieve these objectives.

The Local Government Pension Scheme (LGPS) has experienced significant change over the past few years with:

- the approval of the 2016 Regulations which introduce the new Investment Strategy and Funding Strategy Statements which replaced the existing Statement of Investment Principles;
- the Tri-ennial revaluation of the Pension Fund, which took place during 2016/17 setting out the funding requirements from 2017/18 onwards;
- The Government requirement to Pool assets and the subsequent movement of assets to the London Collective Investment Vehicle;
- The requirement from the Government for all staff to be enrolled in a Pensions Scheme (by default):
- the requirement nationally for the 2016/17 financial year for Local Government to close and have accounts audited by the end of July;
- the end of the first full year of embedding of Local Pension Boards which took place in 2016/17;

The Funds are also experiencing a number of other challenges including changes to record-keeping, auto-enrolment, changes to tax allowances and Freedom of Choice implementation. All three funds now use the same Custodian (Northern Trust) and also the same Pension Provider (Surrey Council Council). Following the implementation of the Managed Service Solution across the three Councils in April 2015, Human Resources processes are now undertaken on Agresso for all three Councils.

All of these changes have increased the challenges placed upon the Funds internal resources and highlighted the need to be flexible and responsive to adapt and maintain high standards of service.

Purpose & Scope of the Fund

The Tri-Borough Pension Service supports the Pension Funds of Westminster City Council, London Borough of Hammersmith & Fulham and the Royal Borough of Kensington & Chelsea. These Funds are part of 93 Funds making up the Local Government Pension Scheme (LGPS). The LGPS is a career Average scheme, funded principally by its constituent employers and members, with assistance from investment returns. Unlike other public sector pension schemes, the LGPS is fully invested in financial markets and aims to be fully funded over the long-term.

The combined Tri-Borough Pension Funds serve 44,500 members from 88 constituent employer bodies. The combined value of assets under management at 31 March 2017

was £3.31bn and the total cost of administration in 2016/17 was £11.7M (0.35% of total assets) including investment management costs of 9.3m (0.28% of total assets).

Governance & Management of the Funds

The City of Westminster, London Borough of Hammersmith & Fulham and the Royal Borough of Kensington & Chelsea councils have combined certain parts of their operational areas to provide a more efficient service and greater resilience and this includes the Pensions Finance teams.

The combined team was formed in February 2012 and is responsible for the management of the pension fund investments across the three boroughs. The team is based at Westminster's offices. The Pension Funds continue to be managed separately in accordance with each borough's strategy and so each continues to have sovereignty over decision-making. However, officers are continually seeking to improve efficiency and resilience and to minimise the cost of running the Pension Funds, in line with the tri-borough working aims.

Stakeholders of the Funds'

The Funds' customers fall into three categories:

- a) Scheme members:
 - Actives (c11,400)
 - Deferred (c20,200)
 - Pensioners (c12,900)

- b) Employers of Scheme members
 - Scheduled (46)
 - Admitted (42)

- c) Regulatory Bodies & Stakeholders
 - LGPS Scheme Advisory Board
 - Department of Communities & Local Government (DCLG)
 - HM Revenues & Customs
 - The Department for Work & Pensions
 - Investment Managers, Actuaries & Advisers, the Custodian

Aims and Purpose of the Funds

The specific aims of the Funds as set out in the Investment Strategy and Funding Strategy Statements is to:

- Ensure that sufficient resources are available to meet the liabilities as they fall due;
- Maximise the returns from investments within reasonable risk parameters;

- Enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled and admitted bodies;
- Manage employers' liabilities effectively and in particular minimise the level of irrecoverable debt, when an employer ceases to participate.

Summary of the Funds

The market value of Funds' assets, the most recent actuarial valuation assessment of the funding levels and the latest membership numbers are summarised in the table below based upon information available as at 31st March 2017:

	Value of assets	Funding Level	Total membership
Hammersmith and Fulham	£1,002m	88%	15,454
Kensington and Chelsea	£1,049m	103%	11,621
Westminster	£1,261m	80%	17,472

Key Policy Documents

Key policy documents which may be helpful in terms of providing additional information can be found on the Fund's individual websites:

- Annual Report & Accounts
- Triennial Valuation Report
- Funding Strategy Statement
- Investment Strategy Statement
- Funding Strategy Statement
- Communications Strategy
- Governance Compliance Statement
- Risk Register

LONDON BOROUGH OF HAMMERSMITH & FULHAM PENSION FUND

http://www.lbhf.gov.uk/Directory/Council_and_Democracy/Plans_performance_and_statistics/Statement_of_accounts/68526_Statement_of_accounts.asp#0

ROYAL BOROUGH OF KENSINGTON & CHELSEA PENSION FUND

<https://www.rbkc.gov.uk/council/how-council-manages-money/council-spending-and-finances/council-spending-and-finances#pension>

WESTMINSTER PENSION FUND

<http://www.wccpensionfund.co.uk/about-us/forms-and-publications.aspx>

Resources

This section summarises the resources available to the three Funds to undertake the planned activities.

The tri-borough funds are supported by an officer team and various other advisers detailed in the table below:

	Hammersmith and Fulham	Kensington and Chelsea	Westminster
Officers	Pete Carpenter Interim Head Tri-borough Pensions & Treasury Pension Fund Officers: Alex Robertson, Sue Hands and Nikki Parsons		
Investment adviser	Alistair Sutherland: Deloitte	Andrew Elliott: Hymans Robertson	Alistair Sutherland: Deloitte
Actuary	Graeme Muir: Barnett Waddingham		
Legal advisers	Eversheds LLP		
Custodian	Northern Trust		
Fund Managers:			
Equities		Baillie Gifford	
	Majedie		Majedie
		Longview	
	Legal & General		
Absolute Return	Ruffer	Pyrford	
Fixed Income	Insight		Insight
Private Equity	Invesco	Adams Street	
	Unigestion		
Property		CBRE	Hermes
	Standard Life	Kames	Standard Life
Secure Income	Partners Group		
	Oak Hill Advisers		
	M & G		
Cash	Legal & General		

Pensions Action Plan

Since the Pensions shared service was established, there have been several important developments to improve the effectiveness of the team and deliver some of the synergies expected from a shared service offering.

These include increased collaboration and more efficient use of resources, improved levels of skills and competencies and greater resilience in delivering the services.

This plan seeks to build further on the work done to date and identified actions to be taken to put the Tri-Borough Pensions Service as a leader amongst its peers.

The actions in this plan are split into 3 key areas;

Operational improvements which will streamline existing working practices and work towards a consistent set of outputs to be delivered by the team,

Assurance improvements which highlight ways of demonstrating the Funds are being managed effectively and within the regulatory framework, and

Financial proposals which will ensure the costs of delivering the scheme administration are understood and minimised.

The objectives of the improvements were identified as follows:

1. Operational (*doing things better*):
 - a. To ensure Pension Committees and Local Pension Boards are fully supported;
 - b. To better understand, manage and monitor the risks of the Funds;
 - c. To support an improvement in the quality of communications with Employers and scheme members.
2. Assurance (*doing things right*):
 - a. To ensure the most effective governance arrangements are in place;
 - b. To improve the level of controls assurance and reporting frameworks;
 - c. To ensure the Scheme is efficiently managed and complies with relevant regulations.
3. Financial (*being cost efficient*):
 - a. To fully understand the Funds' current and expected financial position;
 - b. To optimise the procurement of services utilised by the Funds;
 - c. To minimise the cost of administering the Funds locally;
 - d. To improve the quality and transparency of financial reporting.

Governance

Action	Link to Objectives	Purpose	Completion Date
Embed ISS and FSS Statements	1c 2a 2c	To ensure the Regulatory requirements of the Public Service Pensions Act 2016 are met in terms of embedding and scrutinizing the working of the new Investment Strategy and Funding Strategy Statements	September 2017
Update Risk Registers to reflect Financial and Member Risks	1a 1b	Update Risk registers so that risks reflect financial and member metrics to ensure decision makers are regularly aware of the risks involved and can establish mitigation as necessary.	September 2017
Knowledge & Skills Training programme	1a 2a 2c	To ensure Local Pension Boards/Pension Committees and Officers meet regulatory requirements to have the necessary knowledge and skills and to support individuals to achieve this requirements through training needs analysis and a bespoke training programme.	December 2017
Agree 'Pensions Administration' SLA between HR and Finance	1a 2a 2b	To clarify the internal roles and responsibilities involved in operating the Pension Fund in terms of regulatory requirements and key functions to ensure the quality and continuity of service is provided to employees, employers and other stakeholders.	September 2017
Update Contracts Register	2a 2c	Ensure all contractual arrangements are documented in one place and on-going procurement requirements are known and planned for.	September 2017

Scheme Administration

Action	Link to Objectives	Purpose	Completion Date
Long Term Cash Flow forecast (given negative cash flow positions)	1a 3a 3d	<ol style="list-style-type: none"> 1. Identify monthly cash flows for each fund for next 3 years 2. Highlight key drivers of cash flows and major risk areas 3. Establish monitoring and updating procedures 4. Provide regular updates to Pension Committees 5. Agree policy of actions to address shortfalls 	September 2017
Resolve	1b	<ol style="list-style-type: none"> 1. Document and Agree end to end 	October

issues on the end to end Starters Leavers Changes process	1c 2b 3a 3c 3d	<p>process and ownership at each stage.</p> <ol style="list-style-type: none"> 2. Agree monitoring and review process 3. Provide regular updates to Pension Committees 	2017
Admission Agreement Process	1a 1b 1c 2c	<ol style="list-style-type: none"> 1. Prepare standardised approach to the process of instigating an Admission Agreement 2. Agree the approach with HR and Pension Committees 3. Communicate approach internally and to all Employing Bodies 4. Provide regular updates to Pension Committees 	December 2017
Forge Closer relationship with London CIV	1b 1c	<ol style="list-style-type: none"> 1. Ensure that 3B requirements are fully articulated and understood 2. Ensure 3B have a voice on all the main working groups to shape requirements and outcomes 3. 	July 2017
Improve Fund Websites	1c 3c	<ol style="list-style-type: none"> 1. Update template webpage for new key areas 2. Work with IT to deliver user friendly interface subject to VFM including link to employee portal at Surrey 3. Ensure awareness of website to employers and employees 	December 2017
Ensure Funds Reconcile to Financial System within financial year	1b 1c 2b 3a 3c 3d	<ol style="list-style-type: none"> 1. Ensure that financial system reflects custodian records as submitted on a quarterly basis. 2. Ensure all reconciliations (other than above) signed off on a monthly basis 	June 2017
Create Key Controls Matrix	2b	<ol style="list-style-type: none"> 1. Establish matrix of all financial controls 2. Agree monitoring and reporting procedures 	June 2017

Funding & Investments

Action	Link to Objectives	Purpose	Completion Date
Investment Strategy Reviews	1a 1b 2c	To ensure each Fund's investment strategy is optimal. The Funds are currently considering the appropriateness of their strategies in light of the tri-ennial revaluation, cash flow forecasts and rebalancing policies	September 2017 As

		and further work may be required depending on the expected consultation on asset pooling. Existing Manager's underperformance or new developments in the markets may trigger a further review.	required
Improve Fund Manager Monitoring Arrangements	1a 2a	<ol style="list-style-type: none"> 1. To maximise the benefits from engagement with Fund Managers by establishing a structured meeting schedule and standard format involving Officers and Members. 2. Work with the CIV to ensure that monitoring arrangements for Funds that are transferred are to the same level 	September 2017
Investment Adviser Contract	1a 3b	To ensure each Fund secures the best possible advice and value for money in relation to its investment adviser arrangements.	2017
Actuarial Services Contract	2c 3b	To ensure each Fund secures the best value for money in relation to its actuarial arrangements.	2017
Review Fund Manager Fees	3a 3c 3d	<ol style="list-style-type: none"> 1. Given the national focus on Investment Management Costs ensure fee data is accurate and comparable using appropriate benchmarking services and demonstrates good value to the Funds. 2. Only transfer items to the London CIV if Fee reductions (ensuring performance is maintained at same level) 	2017