

22 March 2012

Agenda Item: 5

REPORT OF SERVICE DIRECTOR – FINANCE & PROCUREMENT

PENSIONS INVESTMENT BUSINESS PLAN

Purpose of the Report

1. To review the 2011/12 Pensions Investment business plan and agree a business plan and associated budget to support the Sub-Committee in 2012/13.

Information and Advice

2. It is considered best practice that a business plan is agreed to support the work of the Sub-Committee, including major milestones and issues to be considered during the year, appropriate provision for training and a budget to cover the estimated costs involved.
3. The Sub-Committee, at its meeting in March 2011, agreed a business plan for 2011/12 and this is reviewed at Appendix A. The majority of issues were properly considered and appropriate actions taken but outstanding items that remain relevant have been included in the business plan for 2012/13 at Appendix B.
4. The Sub-Committee also agreed a budget for trustee activities and training for 2011/12. This is shown in the table below together with relevant expenditure to end of February 2012.

Trustee Activities & Training 2011/12	Budget	Actual
	£000	£000
Meetings & training by fund managers	1	0
Conferences & other training	12	4
Property inspection	2	3
Membership fees	17	26
System fees	40	41
Audit fee	45	33
Other external services	80	76
Communications	15	10
Total	212	193

5. All Sub-Committee meetings during 2011/12 were held at County Hall and this is reflected in the cost (although the February meeting has not been included yet). No training was provided by the fund managers during the year.

6. The following conferences were attended by Members and/or officers.

Conference	Location	Date
NAPF Local Authority Conference	The Belfry	May
LGC Investment Summit	Celtic Manor	September
LAPFF Conference	Bournemouth	December

The NAPF Investment Conference 2012 in Edinburgh was not attended.

7. The property inspection, organised by Aberdeen Asset Management, covered a number of the Fund's properties including some recent purchases. This gave members the opportunity to increase their knowledge of the Fund's properties as well as the market in general and to gain an insight into Aberdeen's strategy for the Fund.
8. Membership fees include the cost of membership of the National Association of Pension Funds (NAPF), the Local Authority Pension Fund Forum (LAPFF) and the CIPFA Pensions Network. System fees include the cost of the in-house investment management system (used to record details of all the Fund's assets) and licences to access real time market data on-line. The audit fee is paid in instalments but is expected to be £45k in total. Other external services include actuarial services, independent research and advice, proxy voting and independent performance monitoring. Communications includes a share of the cost of Nest Egg as well as the annual report and meeting.
9. The proposed business plan for Pensions Investment for 2012/13 is included at Appendix B and the proposed budget to support this is below.

Budget 2012/13	£000
Conferences & Training	10
Meetings	1
Communications	10
Subscriptions	27
Audit Fees	40
Other External Fees	120
Total Budget	208

10. The proposed budget is to support the activities of the Sub-Committee in overseeing the Fund's investments and in addressing the issues contained within the business plan. All directly charged investment administration costs will continue to be included within this budget. Investment management costs are not included as these are partly dependent on asset values and so are not directly controllable. These will continue to be monitored within the Sub-Committee's quarterly performance reporting meetings.
11. It is proposed to arrange a further property inspection and to continue to attend the key pension conferences (as below).

Conference	Location	Date	Attendance
NAPF Local Authority Conference	The Cotswolds	May	3 Members 1 Officer
LGC Investment Summit	Celtic Manor	September	3 Members 1 Officer
LAPFF Conference	Bournemouth	December	1 Member 1 Officer

Statutory and Policy Implications

12. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

- 1) That the actions on the 2011/12 Business Plan be noted.
- 2) That the 2012/13 Pensions Investment Business Plan and budget be agreed.
- 3) That a further property inspection be arranged in 2012 and approval sought for attendance at the key conferences shown in paragraph 11.

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Background Papers

None

Pensions Investment Business Plan 2011/12

The key issues from the 2011/12 business plan are listed below along with commentary on the actions taken during the year.

Item
<p>1. Impact of revised investment regulations</p> <ul style="list-style-type: none"> - set up separate Fund bank account and associated system and process changes - continue arrangements for investing pension fund cash within these new processes <p><i>The Pension Fund bank account has been implemented to timetable and processes are in place to manage the account effectively in accordance with regulations.</i></p>
<p>2. Implementation of the Business Management System</p> <ul style="list-style-type: none"> - continue work to ensure the pension fund is set up as a separate accounting entity within the BMS and that its functionality and processes enable the Fund to meet its accounting and administration needs. <p><i>The Pension Fund has been set up as a separate company within the BMS although a number of procedural issues remain to be resolved. Pensions payroll is due to go live in April 2012 and the BI reporting should be available early in 2012/13.</i></p>
<p>3. Impact of the recommendations of Lord Hutton's report</p> <ul style="list-style-type: none"> - monitor implementation of recommendations - consider the possible effects on the Fund <p><i>A report was presented to the Sub-Committee on 22 December 2011 examining the potential impact on the fund from proposed increases to employee contributions. This proposal is unlikely to be implemented as other options are being considered to make the required savings. Detailed revisions to the scheme are still awaiting confirmation.</i></p>
<p>4. Triennial Valuation</p> <ul style="list-style-type: none"> - present the valuation report to the Sub-Committee - revise the Funding Strategy Statement - consider the need for an Investment Strategy Review including an explicit assessment of the strategic risk inherent in the strategy (actions from Risk Register) <p><i>Report to sub-committee on 7 July 2011 on the valuation and revised Funding Strategy Statement.</i></p>
<p>5. Outstanding actions from the revised Myners Principles</p> <ul style="list-style-type: none"> - produce a medium term business plan for the Fund - prepare a review of existing benchmarks - consider the CIPFA Knowledge and Skills Framework - consider a performance framework for the Investment Sub-Committee - report on transaction related costs - ensure relevant audit reports are presented to the appropriate Sub-Committee <p><i>The majority of these actions are still outstanding. A separate report has been prepared on CIPFA's new code of practice on Knowledge and Skills. Outstanding actions will be considered during 2012/13.</i></p>

6. Pension fund accounts

- produce accounts in line with the new CIPFA Code requirements and prescribed timescales
- liaise with external audit

The pension fund accounts were produced in line with the prescribed timescales. External audit made positive comments about the quality of the accounts and reported only two non-material errors.

7. Annual report

- produce the pension fund annual report in line with regulatory requirements
- include updated detail on the risk management strategy and risk register

The annual report was produced in line with regulatory requirements and was updated to include the risk register and risk management strategy.

8. Allocation of cash

- take decisions on allocating net cash from contributions to new investments or existing managers
- consider appropriate private equity and infrastructure investments

Long term investments in infrastructure were approved by Pensions Committee in February 2011 and suitable investments are under consideration. A separate report on estimated cash flow and potential allocations to investments is being brought to the Sub-Committee.

Pensions Investment Business Plan 2012/13

The key issues to be considered during 2012/13 are listed below. Appropriate plans will be made to implement any actions required.

Item	Key dates
1. Business Management System <ul style="list-style-type: none"> - continue work to ensure that BMS functionality and processes enable the Fund to meet its accounting and administration needs - provide support to ensure pensions payroll transfers successfully to BMS 	Ongoing April 2012
2. Pension fund accounts <ul style="list-style-type: none"> - produce accounts in line with International Financial Reporting Standards and prescribed timescales - liaise with external audit as required 	1 June 2012 May-July 2012
3. Annual report <ul style="list-style-type: none"> - produce the pension fund annual report in line with regulatory requirements 	31 August 2012
4. Impact of the revised LGPS <ul style="list-style-type: none"> - assess detailed proposals as announced in 2012/13 	Autumn 2012
5. Triennial Valuation <ul style="list-style-type: none"> - prepare for Triennial Valuation as at 31 March 2013 liaising with Pensions Office and the actuaries as appropriate 	Spring 2013
6. Outstanding actions from the revised Myners Principles <ul style="list-style-type: none"> - consider a medium term business plan for the Fund - consider a performance framework for the Investment Sub-Committee - prepare a review of existing benchmarks - report on transaction related costs - ensure relevant audit reports are presented to the appropriate Sub-Committee <p>A number of these issues may be affected by decisions taken in respect of Knowledge and Skills and the Committee structure of the Council.</p>	December 2012
7. Allocation of cash <ul style="list-style-type: none"> - take decisions on allocating net cash from contributions to new investments or existing managers - continue to consider appropriate private equity and infrastructure investments 	As appropriate