

Agenda Item:

Pension Fund Committee

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Dorset County Council



Date of Meeting	24 June 2015
Officer	Pension Fund Administrator
Subject of Report	Pension Fund Business Plan
Executive Summary	The Myners principles on good governance introduced the recommendation that Pension Funds operate to a Business Plan. In order to be fully compliant the Dorset County Pension Fund developed its first Business Plan for the years 2011 to 2014. This report presents a new Business Plan for the three years covering 2015 to 2018. Appendix 1 contains the Business Plan for the Dorset Fund, and highlights those areas where work will be particularly focussed over the next 3 years. The document also contains the Fund Risk Register.
Budget/Risk Implications	None
Recommendation	That the Committee agree the proposed Business Plan for the next 3 years
Reason for Recommendation	To ensure that the Fund has the appropriate governance arrangements in place, and to ensure that the Fund complies with recommended best practice.
Appendices	<ol style="list-style-type: none"> 1. Business Plan (including Action Plan) 2. Risk Register
Background Papers	CIPFA guidance on compliance with the revised Myners Principles

Report Originator and Contact	Name: Nick Buckland Tel: 01305 224763 Email: n.j.buckland@dorsetcc.gov.uk
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DORSET COUNTY PENSION FUND
BUSINESS PLAN 2015-2018

INTRODUCTION

The Purpose of the Dorset County Pension Fund Business Plan 2015 to 2018 is to outline the Fund's goals and objectives, as well as providing an Action Plan of the key priorities over the three years in order to further these objectives. However, the document first of all gives some useful background information in the following sections.

PURPOSE & SCOPE OF THE FUND

The Dorset County Pension Fund (DCPF) is one of 100 funds making up the Local Government Pension Scheme (LGPS). Dorset County Council is the statutorily appointed Administering Authority for the DCPF. The LGPS is a final salary scheme, funded principally by its constituent employers and employees, with assistance from investment returns. Unlike other public sector pension schemes, the LGPS is fully invested in financial markets and aims for those assets to match the fund liabilities and obligations over the long-term.

The Dorset County Pension Fund has more than 61,000 members from over 200 constituent employer bodies. The value of the investment assets currently under management at 31 March 2015 was £2.325bn. The cost of administering the Dorset County Pension Fund in 2014/15 was £X.XM, with costs of fund investment of around £X.Xm per annum.

Contribution inflows into the Fund were £111.2m in 2013/14 and benefits outflows were £97m.

GOVERNANCE & MANAGEMENT OF THE FUND

The Dorset County Pension Fund Committee is responsible for the administration of the Fund in all aspects. The Committee has its delegation direct from the County Council, rather than the Cabinet (ie. the Executive), to avoid potential conflicts of interest. The Committee is responsible for overseeing all aspects of the Pension Fund, including governance, administrative performance and setting the investment strategy. This latter responsibility focuses particularly on the asset allocation and the appointment and monitoring of investment managers, of which there are currently 16 (including the internal manager) managing the investment portfolio.

The Committee is made up of 5 County Council members, 1 member each from Bournemouth and Poole Councils, 1 District Council representative and 1 scheme member representative, who is nominated by the unions. The Fund's Investment Adviser also attends the Committee meetings as an Independent member of the Committee.

The Chief Financial Officer of Dorset County Council, in his role as Pension Fund Administrator, has express authority to take all necessary actions to implement Committee decisions and has delegated authority to take operational decisions, within agreed policies. This responsibility for the Pension Fund service is delegated, in the main, to the Chief Treasury and Pensions Manager, who has a team of around 40 people solely dedicated to working on Pension Fund matters. This includes investment management, in particular the in-house UK Index tracker portfolio, and associated services, governance, accounting, benefits administration and operations (which is done entirely in-house), communications and funding.

With effect from 1 April 2015 the Fund has established a Pension Board. The Public Sector Pensions Act and the LGPS regulations require Fund's to create the Board, with a role of assisting the Pension Fund Committee in overseeing the administration and governance of the Fund. The regulations specify that the Board must contain equal numbers of Employer and Scheme Member representatives and the Dorset Board contains three of each. The first meeting of the Board is on 24 June 2015, and the Board will meet regularly throughout the year.

CUSTOMERS OF THE FUND

The Fund's customers fall into three categories.

Scheme Members:

- Contributors/Actives (c24,000)
- Deferred Pensioners (c19,500)
- Pensioners (c17,000)

Employers of the Scheme Members (c200):

- At present the employee contributions are fixed according to salary level, so the effect of variations in costs and investment returns are felt by the employers. Coupled with this, the Fund is also very dependant on information from the employers in order to provide an effective service to members, so they are also a very important customer group.

Regulatory Bodies, principally:

- The (Department for) Communities and Local Government – the regulatory body responsible for the LGPS
- HM Revenues & Customs
- The Department for Work & Pensions
- The Pensions Regulator (from 1st April 2015)

OVERALL GOAL OF THE FUND

The overall goal of the Dorset County Pension Fund is to provide high quality responsive pensions services to our customers in the most cost effective manner.

BUSINESS OBJECTIVES OF THE FUND

1. To ensure the effective management and governance of the Fund in a way that strives for continuous improvement through improved value for money, the promotion of excellent customer service and compliance with all regulatory and best practice requirements.
2. To achieve a relatively stable "real" investment return above the rate of inflation over the long term, in such a way as to minimise and stabilise the level of contributions required to be paid into the Fund by employer bodies in respect of both past and future service liabilities. This implies:
 - The setting of appropriate investment strategies;
 - The appointment of capable investment managers;
 - The monitoring and reporting of investment managers' performance, with appropriate action being taken in the event of underperformance.
 - The appointment of the Fund's Actuary.

3. To provide a lean, effective, customer friendly benefits administration service, which implies:
 - The calculation and payment of scheme benefits accurately and promptly;
 - The accurate maintenance of the records of all members of the Fund; and
 - Effective communication, as well as fair explanation and support to the Fund's scheme members and employer bodies.
4. To ensure the proper administration, accounting and reporting of all the Fund's financial affairs.
5. To recruit, train, nurture and retain highly motivated staff with the necessary professional, managerial and customer focus skills.

KEY POLICY DOCUMENTS

There are a number of key policy documents available on the Pension Fund's website (www.yourpension.org.uk/dorset):

- Funding Strategy Statement
- Statement of Investment Principles
- Communications Strategy
- Governance Compliance Statement
- Governance Policy Statement
- Business Plan
- The Fund's Triennial Actuarial Valuation
- Administration Strategy

ACTION PLAN FOR 2015 to 2018

The Action Plan for the period 2015 to 2018, which seeks to drive forward the business objectives, is given in the following pages.

RISK REGISTER

The Pension Fund Risk Register is appended to the Action Plan

MEMBERS TRAINING LOG

The Members Training Log is regularly updated and presented to the Committee.

DORSET COUNTY PENSION FUND – Action Plan 2015 to 2018

	<u>Activity</u>	<u>Deadline</u>	<u>Purpose</u>
<u>GOVERNANCE/STAFFING</u>			
1	Members' training a) Specific Issues b) General	As required	To provide training on specific issues as required To provide general training opportunities to all members
2	Regularly monitor and update key policy documents		To seek member approval and formally publish
3	Prepare and monitor Contracts Register and Risk Register for the Fund		To ensure that best practice business processes are in place for the Fund
4	Continue to develop a high performing team	On-going	As a continuation of the combining of the Pension Fund function to form the Treasury and Pensions Team, continue the aim of having a highly motivated staff team to provide an excellent service.
5	Co-locate the Treasury and Investments team with the Pensions Admin Team	December 2015	To create an integrated Treasury and Pensions Team and cleaner management structures.
6	To restructure the Pensions benefits team	To implement new structure by 1 October 2015	To ensure that the structure and the staff roles correctly reflect the demands of the service and customers. To help the Fund deliver its aim of a providing a high quality responsive pensions services to our customers in the most cost effective manner.
<u>FUNDING & ACTUARIAL MATTERS</u>			
7a	Full Actuarial Valuation	May to October 2016	To identify the Funding Level at a whole Fund and Employer level and the associated Employer Contribution Rates. To engage with the Fund's Employers during the process to avoid any last minute "surprises".

	<u>Activity</u>	<u>Deadline</u>	<u>Purpose</u>
7b	Discuss & agree Actuarial Valuation results with Committee and employers	November 2016 – February 2017	To have the Actuarial Valuation formally signed off by 28 February (a month before the statutory deadline)
8	Refresh Funding Strategy Statement	February 2017	To have an up-to-date Funding Strategy Statement, which is a statutory document required to set out the longer term view of how the scheme's liabilities will be funded.
9	Review the Legal Contract	June 2016	To collaborate with South West funds to jointly procure through the National Frameworks contract.
<u>INVESTMENT & ACCOUNTING</u>			
9	To keep the Investment Strategy under review, and prepare for formal review in 2017 after Actuarial Valuation results	July 2014 to March 2015 Ongoing	To conclude current phase of review; to implement revised strategy and appoint appropriate managers for each mandate. To continue to keep under review the Fund's overall strategy and performance, and to regularly monitor each manager's performance and take action if required.
10	Review of Investment Managers	Ongoing	To ensure that each of the Fund's appointed Investment Managers are formally reviewed at least triennially in accordance with the on-going timetable. There will be a particular focus on concluding the Global Equity manager searches, and implementing the new arrangements. Following on from the conclusion of this exercise the Diversified Growth arrangements will be reviewed followed by UK Equity.
11.	Review Accounting/Finance function, and review processes for accounting for Pension Fund costs, with a view to preparing a "Pension Fund budget".	On going	To review the existing accounting arrangements for the Fund, looking at the needs of the Fund, and ensuring there are appropriate succession plans in place. There will be a much greater scrutiny over the costs of running the Fund, both at a local and national level, with the Pensions Regulator, the Scheme Advisory Board and the Local Pension Board providing oversight.

	<u>Activity</u>	<u>Deadline</u>	<u>Purpose</u>
12.	Review the Custody contracts	March 2016	To ensure that the Fund is achieving best value for money in relation to its investment custody arrangements. There is a National Frameworks contract for Custody services and it would be sensible to use this.
13.	To maintain and keep up-to-date the Statement of Investment Principles and Myners Compliance Statement	Ongoing	To ensure continued compliance with LGPS regulations and recommended best practice.
<u>PENSIONS BENEFITS AND ADMINISTRATION</u>			
14	To complete an EU compliant procurement exercise for the Pensions Administration system	December 2016	The Altair system which is used in Benefits Administration, was purchased as an upgrade, when AXISe, the previous system was discontinued. To ensure that the Fund is compliant with procurement regulations an exercise to properly procure an administration system is needed before the end of 2016.
15.	To continue to review and increase the use of the CMS system to improve workflows and flexibility for all	March 2016	To implement document scanning at source. To continue to migrate all employers to using “Your Fund”. All of this enable the Fund to become “electronic by default”, to enable greater flexibility for the team, and the Fund’s Employers. It is a longer term aim to operate a Scheme Member self serve facility on the website.
16.	To review the capacity of the team in light of the forthcoming changes to Contracting-out and the Guaranteed Minimum Pension reconciliation exercise	March 2017	To ensure that the team has sufficient resources to cope with the additional work expected as a result of the changes.

	<u>Activity</u>	<u>Deadline</u>	<u>Purpose</u>
<u>COMMUNICATIONS/ CUSTOMER LIAISON</u>			
17.	Pension Fund website	Ongoing	Continue to develop the Pension Fund's website making it more customer focused, informative and interactive.
18.	Run Annual Employers meetings, and consider other more regular road shows/seminars for scheme members	Ongoing	To continue effective communication with scheme employees and employers
19.	To continue to communicate the LGPS changes to all scheme members.	On going	To ensure that all scheme members are fully aware of the changes, and how they will affect them.

High Risks	2
Medium Risks	5
Low Risks	9

Completed by :	Chief Treasury And Pension Manager	Last Updated :	Oct-11
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No	What is the RISK	Who is the Lead for this risk?	What could TRIGGER it to occur?	What would be the CONSEQUENCES?	How do we currently CONTROL the risk?	Current Risk					Acceptable Risk					Status					
						IMPACT	LIKELIHOOD	Impact Score	Likelihood Score	RISK RATING (Impact x Likelihood)	Movement	What further actions can be taken to reduce the risk?	By Whom	By When	IMPACT		LIKELIHOOD	Impact Score	Likelihood Score	RISK RATING (Impact x Likelihood)	
A) Financial Risks																					
A01	Treasury Management and the Risk of Financial Default of Partners and Counterparties	R.Bates / N. Buckland	Lack of monitoring of financial security and insufficient scrutiny and challenge; lack of strategy, policy and direction; inappropriate consultants / advisers appointed or unsuitable lenders; external influences (recession etc)	Unbudgeted financial loss; service cuts or rising Council tax; negative reputation	See detailed Corporate Risk Register entry	Catastrophic	Unlikely	5	2	10	M		Continual monitoring of treasury management policy and routine monitoring of business critical counter parties	NB	Ongoing	Catastrophic	Unlikely	5	2	10	Open
A02	Increasing Longevity of Members	N. Buckland	General increases in life expectancy as the population becomes more healthy and live longer in to old age.	Pensions being drawn down for longer placing larger strains on the Fund	Controlled at a National Level by changes to the scheme benefits and contribution levels. Locally by ensuring the actuarial valuations are realistic and factor in the changes so the Fund remains sustainable.	Major	Likely	4	3	12	M		Encourage sign up to the Fund of new members by adopting policies such as auto enrollment and communications strategy to maintain membership of active members.	NB	Ongoing	Major	Possible	4	3	12	Open
A03	Excessive Inflation increases Member Benefits	N. Buckland	Unfavourable economic conditions could see CPI inflation being more than budgeted for by the Actuary	Liabilities increasing at a faster rate than investment returns.	Invested in Liability Driven investments to hedge inflation risk to offset some of the impact of high inflation.	Major	Possible	4	3	12	M		Further expansion of LDI mandate and investment in inflation proofed asset classes such as infrastructure and certain property investments.	NB	Ongoing	Moderate	Possible	3	3	9	Open
A02	Failure to track the FTSE 350 index	N. Buckland	Lack of capacity; wrong shares traded	Financial loss to the fund	Incorrect transactions would be picked up during the day; regular monitoring; quarterly reporting to Pension Fund Committee; balancing procedures; staffing cover	Major	Unlikely	4	2	8	M		Consider the use of Bloomberg to allow live analysis of the tracking error of portfolio.	NB	Ongoing	Major	Rare	4	1	4	Open
A03	Failure to comply with accounting standards	N. Buckland	Inadequate capacity resource (time / experience); changes to the standards; reliance on key person skills	Loss of reputation; call to account at Pension Fund Committee	Dedicated resource, recently supplemented by additional support.	Moderate	Unlikely	3	2	6	L		Ensure sufficient succession planning, re key person risks. Recent changes will improve this in the long term.	NB	Ongoing	Moderate	Rare	3	1	3	Open
A04	Inadequate governance of the fund	N. Buckland	Inadequate training/knowledge base within the investment committee; inadequate structure/representation; change in political representation	Strategy fails to produce appropriate returns	CIPFA governance statement, undertaken by independent observer; LGPS statement. Local Pension Board	Catastrophic	Rare	5	1	5	L		Ongoing review of strategies and governance arrangements including Pension board and the Pensions Regulator.	NB	Ongoing	Catastrophic	Rare	5	1	5	Open

High Risks	2
Medium Risks	5
Low Risks	9

Completed by :	Chief Treasury And Pension Manager	Last Updated :	Oct-11
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No	What is the RISK	Who is the Lead for this risk?	What could TRIGGER it to occur?	What would be the CONSEQUENCES?	How do we currently CONTROL the risk?	Current Risk					Acceptable Risk					Status					
						IMPACT	LIKELIHOOD	Impact Score	Likelihood Score	RISK RATING (Impact x Likelihood)	Movement	What further actions can be taken to reduce the risk?	By Whom	By When	IMPACT		LIKELIHOOD	Impact Score	Likelihood Score	RISK RATING (Impact x Likelihood)	
A05	Failure to produce the expected rate of investment return	P. Kent / N. Buckland	Market rates are less than expected; appointed fund managers fail to achieve their performance targets; underestimating of demographics/ mortality rate; changes to regulations	1.0% underperformance across the whole Fund will result in £23M shortfall in asset values. This in turn will result in lower funding levels and higher employer contribution rates.	Pension Fund Committee monitor investment returns achieved by fund managers; diverse investment strategy	Catastrophic	Possible	5	3	15	H		Continuos monitoring of performance and risk, and regular reviews of strategy to ensure best fit.	NB	Ongoing	Catastrophic	Unlikely	5	3	15	Open
A06	Fraud	N. Buckland	Inadequate monitoring; inadequate control within new systems; inadequate policy and infrastructure; malicious/criminal act by an employee(s) or customer; inadequate investigation and awareness raising	Unplanned negative impact on Council budget and service delivery; officer time; damage to reputation	Internal and External Audit; Assurance that current systems provide appropriate level of internal control; reporting and monitoring; reporting to Audit & Scrutiny Committee; policies and procedures	Catastrophic	Rare	5	1	5	L		Continual review of potential exposures	NB	Ongoing	Catastrophic	Rare	5	1	5	Open
A07	Failure to identify and recover the full costs of undertaking external contracts	N. Buckland	Uncompetitive costs; lack of planning in determining true costs	Income does not cover the cost of providing the service, or subsidising other public sector bodies at the expense of the Pension Fund		Negligible	Possible	1	3	3	L		Review competitiveness of future quotes	NB	Ongoing	Negligible	Unlikely	1	2	2	Open
B) Workforce Risks																					
B01	Health and safety of staff	N. Buckland	Use of workstations; inadequate stress / absence management	Injury; assault; absence	Work station assessments; PDR trigger interviews; absence management; DCC health & safety policies	Minor	Rare	2	1	2	L		No further action necessary at this stage			Minor	Rare	2	1	2	Open
B02	Failure to recruit, develop and retain suitably skilled staff	N. Buckland	Reductions in training budgets; lack of suitable pay and reward; limited appropriate technical skills locally; high house prices; competition for suitable staff; uncertainty from MFC	Inability to deliver our Team plans	Access to Management Development / Training; PDR; structure review	Minor	Possible	2	3	6	L		i) Training / development to support this risk, where appropriate, via PDRs ii) Workshadowing and ensure staff have ability to cover in the absence of key people; iii) Ensure appropriate succession planning for key people risks iv) Conclude restructure of benefits team	NB	Ongoing	Minor	Possible	2	3	6	Open

Activity :	Pensions Fund Risk Register
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High Risks	2
Medium Risks	5
Low Risks	9

Completed by :	Chief Treasury And Pension Manager	Last Updated :	Oct-11
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No	What is the RISK	Who is the Lead for this risk?	What could TRIGGER it to occur?	What would be the CONSEQUENCES?	How do we currently CONTROL the risk?	Current Risk					Acceptable Risk					Status				
						IMPACT	LIKELIHOOD	Impact Score	Likelihood Score	RISK RATING (Impact x Likelihood)	Movement	What further actions can be taken to reduce the risk?	By Whom	By When	IMPACT		LIKELIHOOD	Impact Score	Likelihood Score	RISK RATING (Impact x Likelihood)
B03	Failure to maintain the balance between workload and staff capacity	N. Buckland	New regulations/legislation; workload peaks	Failure to provide adequate professional support to authority wide change programme and projects; staff over committed; corporate plan outcomes not achieved	Service planning and PDR process; continual review of workloads within teams; additional posts can be funded from pension fund where particular capacity demands are identified, at the approval of the Pension Fund Administrator	Minor	Possible	2	3	6 L		Review potential for secondments etc within cost centre to meet particular areas where capacity is stretched	NB	Ongoing	Minor	Possible	2	3	6	Open
C) Other Risks																				
C01	Inability to provide service, due to a loss of Council facilities (IT; building) or staff	N. Buckland	Loss of power; fire; flood; legionella; asbestos; riot; strike; staff absence; estimated increased absence during 2012 Olympics	Services unable to be delivered, potentially for a prolonged period	Business continuity plans maintained for critical services; Nat West Banking facilities can be accessed from home/remotely; contact numbers held for the team. Disaster recovery in place for Altair	Moderate	Unlikely	3	2	6 L		Nothing additional required			Moderate	Unlikely	3	2	6	Open
C02	Poor services, or perception of poor service	N. Buckland	Lack of sufficiently skilled staff; work overload; unrealistic customer expectations; lack of planning	Professional negligence; lack of confidence in services; negative reputation	Service planning and PDR process; external audit; internal audit reviews; processes and procedures	Moderate	Unlikely	3	2	6 L					Moderate	Unlikely	3	2	6	Open
C03	Secure management and handling of confidential and/or personal information	N. Buckland	Human error; lack of knowledge of data protection issues; inadequate systems and processes; malicious act; inadequate security re transfer of personal information (post; email etc)	Enforcement by Information Commissioner; reputational damage	Data awareness guidance promoted corporately; secure email; secure payments portal to actuary	Major	Unlikely	4	2	8 M		Ensure all appropriate team members undertake the Data Protection training	NB	Dec 15	Major	Unlikely	4	2	8	Open
C04	Forced Merger or prescriptive investment regulations.	N. Buckland	Change of Government Policy that aims to reduce the number of LGPS Funds, or limit investment choices.	Loss of control of the destiny of the Fund	Proactive membership of national groups and attendance at national meetings to influence policy	Major	Possible	5	3	15 H		Officers and members engaging at local and national level to attempt to inform and influence government policy.	NB to lead	Ongoing	Major	Possible	4	3	12	

		Financial	Strategic Priorities and Opportunities	Health & Safety	Reputational	Criticality of Service (following Business Impact Assessment)
5	CATASTROPHIC	Over £3 million	Complete failure to deliver on a strategic priority	Fatality; multiple permanent injuries	Receives national / international attention with potential for long term impact on public memory; Total loss in public confidence	Critical Service Level One (i.e. Major risk to public health or safety)
4	MAJOR	£1 million - £3 million	Major impact (positive or negative) on a strategic priority	Major injury or illness leading to long term incapacity/ disability; multiple significant injuries	Receives national / international attention with medium term impact on public memory	Critical Service Level Two (i.e. Medium to Major risk to council's reputation / finances)
3	MODERATE	£500,000 - £1 million	Moderate impact (positive or negative) on a strategic priority	Moderate injury or illness requiring professional intervention; RIDDOR reportable; multiple minor injuries	Receives local press attention with medium term impact on public memory	Critical Service Level Three (i.e. Medium risk to public health or safety)
2	MINOR	£100,000 - £500,000	Minor impact (positive or negative) on a strategic priority	Minor injury or illness requiring minimal intervention or treatment	Receives local press attention but with likely short term impact on public memory	Critical Service Level Four (i.e. Low to Medium risk to council's reputation / finances)
1	NEGLIGIBLE	Up to £100,000	Negligible impact (positive or negative) on a strategic priority	None, or minimal injury or illness requiring no intervention or treatment	Minor complaints or rumours	Critical Service Level Five (i.e. Minor risk to public health or safety)

LIKELIHOOD

IMPACT

		1	2	3	4	5
		Rare	Unlikely	Possible	Likely	Almost Certain
		< 6 %	6% - 20%	21% - 50%	51% - 80%	> 80%
5	Catastrophic	5 <i>EMERGENCY RISKS (BCP)</i>	10	15	20	25
4	Major	4	8	12	16	20
3	Moderate	3	6	9	12	15
2	Minor	2	4	6	8	10
1	Negligible	1	2	3	4	5