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| Essex Pension Fund Strategy Board | EPB/03/18 |
| Date: 7 March 2018 | |

Review of Fund Objectives and Risk Register

Report by the Independent Governance & Administration Adviser

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1. Purpose of the Report

- 1.1 To give members of the Pension Strategy Board (“PSB”) the opportunity to comment on proposed changes to the Fund’s Objectives.

2. Recommendations

- 2.1 That the PSB agree the proposed change to the Fund’s Objectives which are found at Appendix 1 of this report.

3. Background

- 3.1 At the Pension Strategy Board (“PSB”) of 18 December 2017 it was agreed that the Fund should carry out a review of its objectives and risks.
- 3.2 It is a key element of good governance that the Fund has clearly stated and understood objectives. Clear objectives provide direction and focus and help officers and members of the PSB and ISC to prioritise their actions.
- 3.3 Clear objectives also allow the Fund to identify its risks ie those events which should they occur could prevent the Fund from achieving its objectives. Understanding risks allows informed decisions to be taken about how those risks can best be managed and mitigated.
- 3.4 The Fund’s objectives were originally agreed by the PSB in December 2010 and are grouped into the following categories;
- Governance
 - Investments
 - Funding
 - Administration
 - Communication

4. Review of Funding and Investment objectives

- 4.1 As agreed at the December PSB, the Investment and Funding objectives were taken to the ISC meeting on 21 February for input and comment.
- 4.2 It is appropriate for the ISC to have sight of both Investment and Funding objectives since the two are inextricably linked and feed directly into the terms of reference for the ISC. In effect funding and investment go hand in hand, with the funding discount rate being set with reference to the Fund's long term investment strategy and therefore reflecting the Fund's long term expected return on assets.
- 4.3 The ISC agreed one change to the Investment which is reflected in Appendix 1.

5. Full review of objectives.

- 5.1 The Fund's officers, actuary and independent governance and administration adviser have now reviewed the full set of objectives.
- 5.2 In summary, it was felt that the Fund's objectives remain appropriate but there is scope for some refinement. Some small changes have been suggested for reasons of style and consistency. In addition, further changes have been suggested for the following reasons;
 - To acknowledge the need for compliance with LGPS and wider pensions legislation, and to acknowledge the role of the Pensions Regulator.
 - To acknowledge the move to pooled investment.
 - To reflect the importance of successful partnership with the increasing number of employers in the Fund.
- 5.3 A full list of the Fund's objectives along with any suggested changes and the rationale behind the suggestion can be found at appendix 1.

6. Next Steps

6.1 The table below shows the timetable agreed at the December PSB

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| PSB | 18 December 2017 | Paper to PSB to approve approach |
| PAB | 24 January 2018 | PAB updated on approach |
| ISC | 21 February 2018 | Paper to ISC containing Funding and Investment objectives for comment |
| PSB | 7 March 2018 | Paper to PSB containing full set of objectives for comment and approval |
| | March / April | Officers / advisers commence risk review |
| PAB | Late May 2018 | Update on risk review progress to PAB |
| ISC | Mid-June 2018 | Paper to ISC containing draft Funding and Investment risks for comment |
| PSB | July 2018 | Paper to PSB containing draft Risk Register for comment |
| PSB | Mid-September 2018 | Risk register taken to PSB for approval |
| PAB | Late September 2018 | PAB to review process and comment |

7. Risk Implications

- 7.1 Failure to carry out a fundamental review of objectives and risks may mean that the existing risk management framework is no longer appropriate and that officers and members of the PSB could be directing their activities in a way that no longer aligns to the Fund's objectives.
- 7.2 Failure to identify and manage the Fund's risks could lead to risks not being identified or mitigated properly with adverse financial or reputational consequences for the Fund.

8. Communication Implications

- 8.1 Once agreed, the new objectives will be available in the annual report and accounts and on the Fund's website.

9. Finance and Resources Implications

- 9.1 The main impact will be on officer time. The structuring of the review as set out in 6 is designed to allow officers to plan appropriately and minimise the impact of carrying out this work on business as usual.

10. Background Papers

- 10.1 None.

Appendix 1

| Governance | | |
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| Existing objective | Proposed new objective | Reason for change |
| Provide a high quality service whilst maintaining value for money | | No change |
| | Ensure compliance with the Local Government Pension Scheme (LGPS) regulations, other relevant legislation and the Pensions Regulator's Codes of Practice. | New objective to make it explicit that the Fund will comply with LGPS Regulation, wider legislation and to acknowledge the role of the Pensions Regulator in the LGPS |
| Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise | | No change |
| Evolve and look for new opportunities that may be beneficial for our stakeholders, particularly the Fund's beneficiaries, ensuring efficiency at all times | | No change |
| Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based | | No change |
| Understand and monitor risk and compliance | | No change |
| Continually measure and monitor success against our objectives | | No change |

| Investment | | |
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| Existing objective | Proposed new objective | Reason for change |
| To maximise the returns from investments within reasonable risk parameters | | No Change |
| To ensure the Fund is properly managed | To ensure the Fund's investments are properly managed before, during and after pooling is implemented | <p>To reflect the fact that the fund needs to continue to be properly managed throughout the move to pooling and not have business as usual developments compromised.</p> <p>To make explicit that this objectives relates to the management of the Fund's investments and should not be confused with any more general governance objectives that the Fund may have around management of all aspects of the its business.</p> <p>NB this was agreed at the ISC meeting of 21 February 2018.</p> |
| Ensure investment issues are communicated appropriately to the Fund's stakeholders | | No Change |

| Funding | | |
|---|---|---|
| Existing objective | Proposed new objective | Reason for change |
| To recognise in drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible | To recognise in drawing up the funding strategy the desirability of employer contribution rates that are as stable as possible | Stylistic only |
| Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined in the Funding Strategy Statement | To prudently set levels of employer contributions that aim to achieve a fully funded ongoing position in the timescales determined in the Funding Strategy Statement | Explicit mention of prudence Other stylistic changes |
| To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives | To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption, where necessary, of employer specific funding objectives | Stylistic only |
| To have consistency between the investment strategy and funding strategy | To ensure consistency between the investment strategy and funding strategy | Stylistic only |
| Maintain liquidity in order to meet projected net cash-flow outgoings | To maintain liquidity in order to meet projected net cash-flow outgoings | Stylistic only |
| Minimise unrecoverable debt on termination of employer participation | To minimise unrecoverable debt on termination of employer participation | Stylistic only |

| Administration | | |
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| Existing objective | Proposed new objective | Reason for change |
| Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need | | No Change |
| Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount | Ensure contribution income is collected from, the right people at the right time in the right amount | Currently combined, it is now proposed to split the collection of contribution income and the payment of benefits into separate objectives. |
| | Ensure benefits are paid to the right people at the right time in the right amount | |
| Data is protected to ensure security and authorised use only | | No Change |
| | Clearly establish the levels of performance the Fund and its employers are expected to achieve in carrying out their functions | New objective to reflect the expectation require of the Fund and its employers |
| | Develop successful partnership working between the Fund and its employers | New objective to recognise that the increasing number of employers requires successful partnership working. |

| Communications | | |
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| Existing objective | Proposed new objective | Reason for change |
| Communicate in a friendly, expert and direct way to our stakeholders, treating all our stakeholders equally | | No Change |
| Ensure our communications are simple, relevant and have impact | | No Change |
| Deliver information in a way that suits all types of stakeholder | | No Change |
| Aim for full appreciation of the pension scheme benefits and changes to the scheme by all scheme members, prospective scheme members and employ | | No Change |

