Division(s): n/a

ITEM 13

PENSION FUND COMMITTEE – 1 MARCH 2024

BUSINESS PLAN AND BUDGET 2024/25

Report by the Executive Director of Resources & Section 151 Officer

RECOMMENDATION

1. **The Committee is RECOMMENDED to:**
   a. **Note the progress against the service priorities for 2023/24;**
   b. **Determine their preferred approach to the proposed activity-based exclusions as set out in Annex 2; and**
   c. **approve the Business Plan, Budget, Training Plan and Cash Management Strategy for 2024/25 as set out at Annex 1, and authorise the Executive Director of Resources & Section 151 Officer to approve the Special Reserved Matter in respect of the Brunel budget.**

Introduction

2. This report sets out the business plan and budget for the Pension Fund for 2024/25. It follows on from the Workshop held on 15 January 2024 to which all members of the Committee and the Local Pension Board were invited. The Plan sets out the key priorities for the Fund as agreed at the workshop, details the key service activities for the year, and includes the proposed budget and cash management strategy for the service.

3. The report also reviews the progress against the key service priorities included in the 2023/24 Plan as context for setting the key priorities going into the next financial year.

4. The key objectives for the Oxfordshire Pension Fund are set out on the first page of the Business Plan for 2024/25 (contained in annex 1) and remain consistent with those agreed for previous years.

5. The overall objectives are summarised as:
   - Fulfil the Fiduciary Duty to all key stakeholders
   - To administer pension benefits in accordance with the relevant regulations, and the guidance set out by the Pensons Regulator to a high service standard for our members
   - 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.

6. Part A of the plan sets out the broad service activity undertaken by the Fund. 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 2023/24

7. There were 4 service priorities included in the 2023/24 Plan each with a number of key measures of success. The latest position on each is set out in the paragraphs below. The assessment criteria for each measure of success is as follows:

- Green – measures of success met, or on target to be met
- Amber – progress made, but further actions required to ensure measures of success delivered
- Red – insufficient progress or insufficient actions identified to deliver measures of success

8. Delivery the Regulatory Changes as set out by the Government The position against the 3 agreed measures of success are set out in the table below.

Measure of Success	Key Progress Achieved	Outstanding Actions
No regulatory breaches that require reporting to the Pension Regulator. GREEN	Revised Breaches Policy presented to the Committee. Production of Escalation Policy in respect of Contribution Breaches. Review of Information presented to quarterly meetings of the Committee.	
All Pension Benefit Calculations and Annual Benefit Statements issued with required information on the McCloud remedy. GREEN	Resourcing plan reviewed and progress made on recruiting sufficient staff to complete work. Final Regulations setting out information requirements received and first ABS including McCloud information delayed to August 2025.	Carry Forward outstanding Work on the McCloud project to 2024/25 in line with Government timescales.

	System changes to automate any new requirements being tested. New calculations currently calculated manually in line with Regulations.	
Scheme Member records available via the Pension Dashboard. GREEN	Work continues on data quality improvement.	Awaiting revised Government timescales.

9. As reported last quarter, all measures of success agreed this time last year have been rated Green, reflecting either the successful completion of the required task, or a revision of the required timescales in line with Government decisions. Work on completing the McCloud and Pension Dashboard projects will need to be carried forward into 2024/25.

10. <u>Deliver further improvements to the governance arrangements of the Fund.</u> There were 6 specific measures of success set out in the 2023/24 Business Plan in respect of this priority. The progress against these in set out in the table below.

Measure of Success	Key Progress Achieved	Outstanding Actions
Governance Officer in post. GREEN	Appointment made.	
Annual Report on Compliance with the Code of Practice presented to the Committee and no significant shortfalls identified. GREEN	New Governance and Communications Standing item added to Committee agenda. Analysis of compliance against the draft General Code of Practice presented to Committee with no significant shortfalls identified.	Complete analysis of compliance with the final General Code of Practice to be carried forward to 2024/25 once Code becomes effective.
Revised Administration Strategy agreed by Committee with clear Service Level Agreement established with all scheme employers. GREEN	Final version of revised Administration Strategy agreed.	
Revised Breaches Policy agreed by Committee and Committee signed off	Revised Breaches Policy agreed.	

quarterly key performance indicator provides all information they require to gain assurance on compliance with Code of Practice and Regulatory Requirements. GREEN		
Full Workforce Strategy agreed by Committee. AMBER	Initial Workforce Planning report presented to Committee to set parameters for full review.	Detailed Workforce Strategy carried forward to 2024/25 and reconciled with Good Governance Guidance once published by Government
Increase in average scores for the National Knowledge Assessment. AMBER	Knowledge Assessment Completed.	

11. The first 4 measures of success under this objective have all been rated Green, largely due to the completion of the expected actions. In terms of compliance with the General Code of Practice, this has been delayed until 2024/25 due to the late publication of the final Code. The measure of success has though been rated Green as the assessment against the draft Code as reported elsewhere on today's agenda has not identified any significant shortfalls against the Pension regulators expectations.

12. We have scored amber the work in relation to the workforce strategy. This work was delayed during 2023/24 whilst we were waiting for the Government to publish the expected Good Governance Guidance. Whilst the work on developing the strategy has now started in advance of the Government Guidance, and there is a report on today's agenda which sets out the key issues that need to be determined, the retirement of the Pension Services Manager and the impending retirement of the Service Manager have highlighted the importance of having this strategy in place. This is a key piece of work to take forward at the beginning of 2024/25

13. The other area rated Amber is in respect of the skills and knowledge of the Committee and Board reflected the drop in average scores against the Knowledge Assessment tool. The revised training programme contained within the Business Plan for 2024/25 seeks to address the gaps in skills and knowledge, with the results likely to come under greater scrutiny with the Government expected to provide greater requirements in this area.

14. <u>Enhanced Delivery of Responsible Investment responsibilities.</u> There were 4 measures of success set for this service priority within the Business Plan, and progress against these measures is set out below.

Measure of Success	Key Progress Achieved	Outstanding Actions
Improved quarterly reporting in place to both Committee and on the Fund's webpages, including wider ESG targets, and performance measures, reflected in positive feedback from all stakeholders. AMBER	New Carbon Metrics report produced by Brunel includes additional data on Green Revenues and TPI Management Quality scores. Webpages amended to include underlying company holdings and all key policy documents.	Extend climate scores to the private market portfolios. Review additional ESG scores to be included in future reports.
Successful Application in respect of the Stewardship Code. GREEN	Successful application made under the Stewardship Code.	
Benchmark position established on investments in climate solutions/mitigations and target set for increased investment (with action plan to deliver). GREEN	Commitment made to new local renewable infrastructure portfolio alongside Brunel partner funds. On-going development of Green Revenues report with Brunel	Benchmark position established and new target set.
Continue to meet decarbonisation target, within a balance suite of metrics to include % of Fund invested in Paris Aligned portfolios. AMBER	TCFD report published.	Develop measures on % of Fund invested in Paris Aligned portfolios. Review alongside Brunel partnership of Engagement Policy.

15. Work has continued to progress alongside colleagues within the Brunel Pension Partnership to deliver further improvements in this area. In line with the approved Brunel Climate Change Policy, the client funds have agreed target criteria for this year which we expect the highest carbon emitting companies as contained in the Climate Action 100+ to meet, with the expectation that selective divestment will follow if the criteria is not met. The client funds have also agreed provisional criteria for the following year. The provisional criteria demonstrate greater ambition in line with the Policy. We are currently discussing with Brunel how we balance the wishes for transparency and accountability with regulatory requirements, with the expectation more detail will be provided in the next few months.

16. Another key discussion currently ongoing within the Brunel Pension Partnership is the issue of activity-based exclusions. Whilst Oxfordshire in common with many funds currently has a policy which excludes any blanket-based

exclusions, in favour of making decisions on a company-by-company basis, there is a view that certain sectors are unlikely to be able to adapt in sufficient time to meet the requirements of the Paris Agreement.

17. Brunel have produced the confidential paper attached as Annex 2, which sets out their initial thinking in this area. The paper invites the client funds to consider a limited number of activity-based exclusions around tar sands, thermal coal, controversial weapons and tobacco production, with criteria for each areas set out in the paper.

18. **Annex 2 sets out detailed proposals around potential activity-based exclusions from the current Brunel portfolios and as such disclosure would inform the markets in advance of trades the investment intentions of Brunel. Such disclosure would therefore breach the Market Abuse Regulations. The public should therefore be excluded if there is to be any discussion of the detailed contained within Annex 2 because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following category prescribed by Part I of Schedule 12A to the Local Government Act 1972 (as amended): 3 Information relating to the financial or business affairs of any particular person (including the authority holding that information); and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, in that the information is commercially confidential and its disclosure would be in breach of the Money Abuse Regulations.**

19. Officers are happy with the proposals in respect of tar ands and thermal coal as we believe limited exclusions would be consistent with the Fund's current Climate Change Policy. As noted in the paper, the proposals would have very limited impact on the investible universe, with only two holdings across the Brunel portfolios proposed for exclusion. Whilst the exclusion of controversial weapons is not covered under the current investment policies of the Committee, again the impact of the proposed exclusion would have very limited impact with just two holdings to be potentially excluded. As the paper notes, further checks on the definitions followed need to be completed to understand the rationale as to why these companies are currently held.

20. The proposal regarding tobacco production is likely to be more controversial, and the impact on the investible universe is higher than the other three categories. It should be noted though, that if this Committee wanted to oppose this element of the proposal in that it is inconsistent with their current policies, the actual holdings held by this Fund will reduce on transition to the revised UK active portfolio based on the FTSE All Share Index excluding the FTSE 100.

21. In terms of the Fund's new commitment of £30m to a local renewable infrastructure portfolio, alongside 5 other partner funds from within the Brunel Pension Partnership, it is noted that the Fund Manager has now called down the first £20m of this commitment to finance the purchase of a series of solar farms.

22. Finally in this area, the Committee are invited elsewhere on today's agenda to approve their first draft over-arching Responsible Investment Policy for the Fund which widens the focus of the current work on climate change to other key environmental, social and governance issues. Once approved, this draft will be subject to formal consultation before final approval at the June meeting of this Committee.

23. Deliver further improvements in efficiency and effectiveness of scheme operations through enhancements to technology. Progress against the 5 measures of success for this service priority are set out below.

Measure of Success	Key Progress Achieved	Outstanding Actions
Increased operational effectiveness as measured through improved SLA performance scores. GREEN	Work programme of technology enhancements agreed with system supplier.	
Improved scheme member/employer satisfaction measured via positive assessment or a reduction in complaints. AMBER	Revised member satisfaction survey piloted.	Pension Board to review survey results and work with Officers to improve assessment process.
Increased Take Up of Member Self Service. GREEN		
Action Plan in place with targets to collection email address and/or mobile phone number for scheme members. GREEN	Action Plan developed and information now being collected from scheme employers.	
Reduction in postage costs reflecting greater use of electronic communications. AMBER	Decision to delay on-line payslips. Initial discussions held within County Council around proposed new approach to electronic communications.	

24. The monthly meetings with Heywood who supply the pension system software to manage a series of developments which aim to maximise our effective use of the system are continuing. Whilst the improvements in operational efficiency are already noticeable, it is too early to confirm the impact of the changes on performance, stakeholder satisfaction and cost.

25. Delivery of the above priorities has been inside the administrative and oversight and governance budgets which in total are expected to underspend by £213,000. There is estimated to be a further £450,000 underspend on

investment management fees, bringing the total underspend against the budget to £663,000.

	Budget	YTD	%	Forecast Outturn	Variance
	2023/24	2023/24		2023/24	2023/24
	£'000	£'000		£'000	£'000
Administrative Expenses					
Administrative Employee Costs	1,607	1,230	77%	1,607	0
Support Services Including ICT	930	767	83%	975	45
Printing & Stationary	132	51	39%	132	0
Advisory & Consultancy Fees	315	3	1%	100	-215
Other	59	39	67%	70	11
Total Administrative Expenses	**3,043**	**2,090**	**69%**	**2,884**	**-159**
Investment Management Expenses					
Management Fees	12,450	3,000	24%	12,000	-450
Custody Fees	30	15	50%	30	0
Brunel Contract Costs	1,258	1,313	104%	1,258	0
Total Investment Management Expenses	**13,738**	**4,328**	**32%**	**13,288**	**-450**
Oversight & Governance					
Investment Employee Costs	380	265	70%	370	-10
Support Services Including ICT	12	0	0%	12	0
Actuarial Fees	190	184	97%	190	0
External Audit Fees	50	0	0%	50	0
Internal Audit Fees	17	0	0%	17	0
Advisory & Consultancy Fees	98	28	29%	98	0
Committee and Board Costs	64	2	3%	40	-24
Subscriptions and Memberships	70	30	43%	50	-20
Total Oversight & Governance Expenses	**881**	**509**	**58%**	**827**	**-54**
Total Pension Fund Budget	**17,662**	**6,927**	**39%**	**16,999**	**-663**

26. The two main causes of the underspend have been an underspend of £215,000 against the budget for advisory and consultancy fees and a £450,000 underspend against the investment management fees budget. The former

reflects the delay in a number of projects where additional support was expected, largely due to delays from the Government e.g. on the pension dashboard. As noted in previous years, the underspend on investment management fees reflects the difficult in estimating future market movements which directly impact fees paid.

Service Priorities for 2024/25

27. The service priorities for 2024/25 were again developed through a workshop to which all members of the Pension Committee and Pension Board were invited, in line with the recommendations of the Independent Governance Review undertaken during 2020/21. This year, the workshop was held on 15 January 2024, and was again facilitated by Hymans Robertson.

28. The Workshop enabled members of the Committee and Board to identify what they saw as key priority areas for the Fund for 2024/25 and what they wanted to see as measures of success. Officers have sought to bring this together under three key priorities within the 2024/25 Business Plan which are summarised as follows.

29. Priority one is to deliver further improvements to the governance arrangements of the Fund. Key amongst this is to develop a workforce strategy to meet the changing needs to the Fund, and in particular to deliver a succession plan following the retirement of the Pensions Administration Manager and the impending retirement of the Head of Pensions. Failure to deliver on this issue presents one of the biggest risks to the Fund at the current time.

30. A second key element of this priority is to develop an action plan to address any shortfalls identified following an assessment of the Fund’s position against the requirements of the new General Code of Practice published by the Pensions Regulator.

31. The third key element of this priority as identified within the workshop was an improvement in the reporting to the Pension Fund Committee to provide Members with the assurance that performance in both the administration and investment areas was at the standards set by the Committee and delivered in accordance with the objectives set within the Funds key policies, notably the Climate Change Policy.

32. The final element of this priority is to ensure that the Committee and Board have the necessary skills and knowledge to successful deliver on their roles in managing the Fund.

33. The second priority is to continue to improve the operational effectiveness of the pension administration services and ensure all new regulatory responsibilities are met. This priority area includes delivering the McCloud project which has previously been recognised as a major challenge to this and all other LGPS Funds (alongside similar challenges to deliver the equivalent projects in the rest of the public sector, including the Sergeant project in respect of fire-fighters, which also falls to this Committee to deliver). Other key regulatory challenges

include the remedy to deal with the Goodwin case, and the implementation of the Pensions Dashboard.

34. A key action under this priority is a review of the data collection processes to ensure that the Fund receives all data on a timely and accurate basis, reducing the number of breach reports and fines issued under the Administration Strategy. This should also be reflected in improvements in the Funds data quality scores as reported to the Pension Regulator.

35. A third element of this priority is a continuation of the work to develop the Fund's use of Altair in line with best practice, as well as reviewing the Fund's website, and the use of the developing Artificial Intelligence tools, including Chatbots to increase the provision of self-service functionality. Hopefully the improvements to functionality available to members will also be reflected in reduced complaints and higher customer satisfaction scores, as well as a reduction in the costs of providing services.

36. The third and final priority area centres around the Fund's Investment Strategy Statement. There are four clear streams to this task, all of which though need to be considered together as each has implications for the others. These streams include the initial planning for the 2025 Valuation and need to reflect the significantly improved funding level for the Fund, and the potential to introduce multiple investment strategies reflecting the differences in risk profiles and appetites of the various scheme employers.

37. Another key stream under this priority is the need to re-visit the cashflow modelling for the Fund. With another significant increase in the pension benefits in payment (linked to the CPI figure from last September), and the potential reduction in contributions from scheme employers/members in light of the impact of ever tightening public sector budgets, the Fund is more likely to become cash negative in respect of its dealings with members. This means that liquidity becomes a higher priority when looking at the strategic asset allocation, alongside the need to switch to income share classes within some of the current Brunel portfolios.

38. Reviewing the latest Government guidance on pooling and asset allocation also needs to be considered under this priority, although the level of change required will depend on the extent if any that the Government mandates change.

39. Finally under this priority is the development of the Fund's first Responsible Investment Policy and the delivery of the key objectives as set out within the accompanying Strategy Document.

40. The full details of the three priority areas, action plans and measures of success are included in Part B of the draft Business Plan included at Annex 1.

Budget 2024/25

41. The proposed budget for 2024/25 is set out as Part C of the Business Plan which also includes a comparison with the budget for 2023/24. Overall, there is an

increase in the proposed budget from £17,662,000 to £20,741,000 (17.4%). The main elements of this variation are explained in more detail below. A report comparing the Pension Fund budget for the full 2023/24 financial year against the actual expenditure will be produced for the June 2024 Committee meeting.

42. Other than inflationary increases, there are five main increases in the budget. The increase in the Administration Staffing budget reflects the increased staffing proposal as set out within the Administration Report elsewhere on today's agenda. This in turn reflects the increased volume and complexity of the administration work, particularly in light of new Government legislation.

43. The increase in the budget for Investment Management Fees partly reflects the growth in the assumed average asset value over the course of the next year on which fees are payable. The Committee have no control over this aspect of the budget. The other element of the increase in this budget though does reflect the decision of this Committee to increase the strategic allocation to the private markets, which attract higher fee levels than the listed sector.

44. The increase in support service costs is largely explainable by the increased fees associated with the greater use of Altair and the costs of extending the current contract. The increased costs in Actuarial Fees reflects the costs incurred in the past year, and the additional work that will be required in 2024/25 as work begins on the 2025 Valuation.

45. The final area where costs have increased is in respect of the Brunel Fee which has seen an increase from £1,258,000 to £1,453,000. The increase in the Brunel budget has been subject to close scrutiny by the Client Group and the Brunel Oversight Board, who both recommend approval of the budget. It is fair to say that neither group were happy with the level of increase at a time when public sector budgets were under such pressure, but both groups accepted that the increased costs were the minimum necessary to enable Brunel to deliver the programme of work requested by the clients. The main areas of increase were the full-year costs of the people strategy agreed as part of last year's budget proposal, the need to re-tender the provision of back-office software, and the need to revise the operating model for the company. A key element of the last two increases was to provide the functionality to meet the client demands for more information, especially in respect of the responsible investment agenda.

46. It should be noted that the increase in the Brunel Fee is currently subject to a Special Reserved Matter issued by the Brunel Company for the approval of the Client Funds. The deadline for submitting that approval is 4 March 2024, and requires the approval of a minimum of 8 of the 10 Funds. The Committee are recommended to authorise the Executive Director of Resources & Section 151 Officer in her role as Shareholder Representative to approve the budget.

Training Plan

47. Part D of the Business Plan sets out the broad Training Plan for Committee Members. This reflects the latest Knowledge Assessment and feedback from

Committee and Board members. The programme includes sessions on Pensions Administration which saw a fall in scores under the most recent Knowledge Assessment, with a suggestion there is a focus on advances in technology and the development of Artificial Intelligence tools, Actuarial Methods with a focus on the requirements of the 2025 Valuation and Pensions Accounting and Audit Standards.

48. The Plan also includes reference to the on-line training offered by Hymans Robertson which all Members are encouraged to complete, a list of recommended external courses and conferences which Members are invited to consider as well as the offer of individual sessions with Officers and the development of a specific training plan to meet individual needs.

Cash Management

49. The final section of the business plan, Part E, 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.

Lorna Baxter
Executive Director of Resources & Section 151 Officer

Contact Officer
Sean Collins

February 2024