Division(s): N/A

PENSION FUND COMMITTEE – 7 JUNE 2019

ANNUAL REVIEW OF PENSION FUND POLICIES

Report by the Director of Finance

Introduction

1. Under the Local Government Pension Scheme Regulations, the Pension Fund Committee, acting as the Administering Authority of the Oxfordshire Pension Scheme, is required to produce and maintain a number of key policy documents. These policies are subject to an annual review, which is scheduled for the June meeting of the Committee cycle. This report presents the latest version of these policies for them to be formally endorsed by the Committee.

2. Whilst not a formally required policy under the LGPS Regulations, this report also presents a formal Scheme of Delegation to be endorsed by the Committee. This Scheme of Delegation brings together those areas previously agreed by this Committee where decisions have been delegated to officers of the Council.

Policies for Endorsement

3. The key policies to be reviewed and endorsed are set out as Annexes to this report. The key issues with each policy, including any changes to the Policy is set out below.

Annex 1 – The Funding Strategy Statement.

4. The Funding Strategy Statement sets out the Fund's approach to managing the solvency of the Fund and is the framework which guides the work of the Fund Actuary in completing the Triennial Valuation of the Pension Fund.

5. The initial Funding Strategy Statement was prepared in 2005 with considerable support from the Fund's then Actuary. The Committee carried out a consultation exercise as part of a fundamental review of the Statement in 2009/10 and agreed a number of changes to the Statement to increase flexibility around recovery periods, stepping arrangements and the treatment of admitted bodies. In March 2013 the Committee determined changes in respect of the pooling arrangement for academy schools.

6. There have been no significant changes to the Funding Strategy Statement since the 2013 review. We are currently reviewing the Statement with our new Actuaries, Hymans Robertson, in preparation for the 2019 Triennial Valuation of the Pension Fund. At this stage, there are no proposed amendments to the

Statement. Included in the key areas for reviewed is the potential introduction of a second or multiple investment strategies to take into account different employer covenants or risk appetites. This was previously considered and rejected as there was no clear demand from scheme employers.

7. Other key areas will need to be reviewed in light of the current Government Consultations. These include the issues around cessation valuations and exit credits, the circumstances where an interim valuation may be carried out and the circumstances where the Administering Authority could agree a change to an individual scheme employer's contribution rate between Valuations.

8. Given the current position, it is likely that the Funding Strategy Statement will need to be reviewed again in either September or December 2019.

<u>Annex 2 – The Investment Strategy Statement</u>

9. The Investment Strategy Statement replaced the Statement of Investment Principles and sets out the Committee's approach to the investment of the Fund's resources.

10. Under the new Regulations the prescriptive nature under the old Regulations was replaced by a more prudential framework, whereby the Committee is not constrained by any specific restrictions on asset allocations but needs to provide the rationale for all decisions within the Investment Strategy Statement.

11. The initial Investment Strategy Statement was agreed by the Committee at its March 2017 meeting, and no changes were proposed by the subsequent meeting of the Pension Board. The 2018 version was updated to reflect progress on implementing the pooling arrangements, with an acknowledgement that further changes will have to be made as assets transition from existing mandates to the new Brunel portfolios.

12. For the current version, the overall asset allocation table has been updated to reflect the allocation to Secured Income, with the more detailed asset allocation table updated to reflect where assets have transitioned to the Brunel portfolios. Further reviews will be required as the transition programme continues.

13. The document has also been amended under the Investment Implementation, Pooling and Policy on Exercise of Rights to reflect the changes in responsibility to Brunel for the appointment and monitoring of individual fund managers, including the engagement work undertaken with individual companies and the exercise of our voting rights.

14. It is intended that there is a fundamental review of this document every three years, as part of the Triennial Valuation and Strategic Asset Allocation review. As part of the next review, it is intended to work with the Scheme Member Representatives on the Local Pension Board to undertake a consultation with scheme members, so their views can be fed in as appropriate.

15. It is recognised that the Environmental, Social and Governance Policy contained within the Investment Strategy Statement is subject to a number of requests to address and/or petition the Pension Fund Committee. The County Council recently received a petition signed by 179 scheme members employed by the Council stating that the undersigned do not want their pensions to be invested in the fossil fuel industry and as beneficiaries of the pension scheme, instructed the Committee to divest.

16. The issue of divestment has long been discussed within this Committee, having taken significant advice from the Chief Responsible Investment Officer at Brunel, who is internally recognised as a leading expert in this area. It remains the view of Officers, and of Brunel, that a blanket divestment policy is not an appropriate strategy for the Oxfordshire Pension Fund.

17. The full position statement produced by Brunel is included as Annex 2B to this report. This sets out the current position of Brunel, including the steps already taken to address the risks and opportunities arising from climate change and sets out their approach for developing a full Climate Change Policy for publication by the end of 2019.

18. It should be noted that under the Government's pooling guidance, any decision to implement a blanket divestment policy will require the support of Brunel to develop appropriate portfolios into which the Oxfordshire Pension Fund can invest. The petition referred to above, wrongly states that Brunel already offer two portfolios (the passive Low Carbon Equity Fund and the active Sustainable Global Equity Fund) exclude investments in fossil fuels. Whilst both target companies with lower carbon emissions, and/or a broader ser of environmental and social sustainability factors, neither operate a strict screening criteria to exclude all investments in fossil fuels.

19. There are other challenges in operating a blanket divestment policy, starting with how you define a fossil fuel company. For some it means those companies responsible for the extraction and production of fossil fuels. For others it is those companies heavily dependent on fossil fuels for the operation of their business, including the big energy and transportation companies.

20. Even determining your definition does not lead to a clean solution. Many of the biggest investors in renewable energy for example are also the biggest investors in the extraction and production of fossil fuels. For some of the traditional major energy companies such as Total, whilst they express a strong commitment to a sustainable future and the development of renewable alternatives to the current fossil fuel sources of coal, the percentage of their revenue from renewable energy is low despite being one of the major developers of solar panels. Orsted, much quoted as a green energy company, still rely on coal for some of their energy production and do not target to totally phase out coal until 2023. Their own website shows 75% of their energy was from green sources in 2018 and 25% remained from what they referred to as black sources. The recent petition without a clearer definition of what constitutes the fossil fuel industry could therefore prohibit

investments in both Total and Orsted and a number of other companies leading the way to deliver a renewable energy future.

21. Another major question is what lies behind the requests for divestment. In the latest petition, it is clear that the request is in response to the Climate Change Emergency. This though then questions whether a blanket divestment policy is the right way to achieve the desired objectives, and whether any blanket divestment policy should be across all companies with high levels of carbon emissions. Previously the Committee has strongly argued that a blanket divestment policy simply changes the ownership of the companies and does nothing to deliver real change to the risks facing us associated with climate change. This is particularly true when addressing who would the Pension Fund divest to. If all responsible investors are challenged to bring in blanket divestment policies, then those investing in the companies will be those with a short-term profit motive, or indeed those who deny that climate change poses any risk at all. As such, a blanket divestment policy potentially increases the likelihood of many of the risks associated with climate change.

22. A blanket divestment policy means giving up your shareholders voice and your chance to make a difference and demand the changes require in any company whose current practices are contributing significantly to the climate change risks. Individual divestments where the shares are purchased by new investors will not send any clear message to company boards. Co-ordinated action by investors, who have the ultimate power to sack the board of directors, is a much stronger instrument to deliver real and sustainable change. The Oxfordshire Pension Fund has joined the Local Authority Pension Fund Forum (LAPFF) so its voice can be joined with like-minded investors. (The briefing elsewhere on this agenda demonstrates some of the impact achieved through LAPFF, including the linking of Executive pay at Shell to carbon reduction metrics). Similarly, we work with our Fund Managers, Brunel and the various partnerships to which Brunel has developed, to bring scale to the clear messages given to company boards regarding ESG issues.

23. A valid challenge made to the Committee in the past has been a failure to demonstrate the impact of any engagements in bringing about meaningful change. We have been working hard with Brunel and others to address this issue. Elsewhere on today’s agenda can be found the first draft ESG monitoring report produced by Brunel which provide a benchmark against which future engagements can begin to be assessed. Officers are keen to work with the Responsible Investment Team at Brunel to understand how this report can be further developed and how it can be used to further support the engagement with individual companies and with Fund Managers, and to demonstrate the impact of our joint actions.

24. It is the Officers view therefore that the Committee should continue to endorse the current ESG Policy as contained in the attached Investment Strategy Statement, and continue to hold the line that a blanket divestment policy fails to address the risks associated with climate change, and indeed removes the major tools which will enable the Committee to continue to engage in

delivering a long term sustainable future, as well as the investment returns to meet the future pension liabilities.

25. We would also recommend the Committee endorse the direction of travel set out in the Addressing Climate Change Position Statement issued by Brunel, and ask Officers to fully engage with Brunel in the development of the Climate Change Policy. This will include the development of more tangible measures of reporting on the impact of the current policies across all sectors contributing to the current level of carbon emissions and the climate change risks.

Annex 3 - Governance Policy and Governance Compliance Statement

26. The Governance Policy sets out the arrangements for the management of the Pension Fund, and the Governance Compliance Statement sets out the extent that this policy complies with best practice.

27. The Governance Policy Statement was amended to reflect changes arising from the new division of responsibilities under the Brunel Pension Partnership. In particular, the Terms of Reference for this Committee were redrafted to remove the responsibility for the appointment of Fund Managers, and the monitoring of their performance. In addition, the operational procedures were amended to remove the references to Fund Managers being invited to attend Committee and present information of the performance of their portfolio and replaced by an invitation to the Brunel company. At present the Governance arrangements are transitioning from the old model to the new model, with individual Fund Managers still invited until such time as their contract ends and the assets are transitioned to a Brunel portfolio.

28. Last year, the Governance Policy Statement also included draft changes to require all members appointed to serve on the Pension Fund Committee, to participate in a training programme, to ensure that the Committee as a whole has the appropriate skills and knowledge to fully discharge their statutory responsibilities. This in turn was linked to a new provision to remove the right for substitutes to be selected to sit on the Committee in the absence of an appointed member. This change would have brought the Oxfordshire Pension Fund Committee into line with the majority of other Pension Fund Committee's within the Brunel partnership. Whilst agreed in principle last year by the Committee, the proposal was not considered by full Council and the changes were not made to the Council's Constitution. The Committee are therefore invited to review the position and confirm their support for the change or otherwise.

29. A draft change was also made to the Governance Compliance Statement to reflect the removal of the right to select a substitute member. The section on Selection of Members (Principle C) was been amended from Partially Compliant to Compliant to reflect the fact that in future under the proposed new arrangements, all members serving on the Committee would receive a briefing to ensure they were aware of their status, role and function when siting as a member of the Pension Fund Committee.

30. The Compliance Statement continues to identify two areas where we remain only partially complaint with best practice, a position the Committee has been happy to accept in the past. These areas cover representation of all key stakeholders, and the agreement of a formal annual training plan for Committee Members.

Annex 4 – Communication Policy

31. The policy provides a framework for planning and delivering communications to recognised stakeholders. Within 'communication' training and scheme promotion is included.

32. The number of fund employers continues to increase as larger employers break into smaller units, through service outsourcing or through the conversion from maintained schools to independent Academies. Each move creates a new fund employer, with statutory roles under the LGPS regulations.

33. This is further complicated by the need for support during the extended period while the LGPS presents itself as two concurrent schemes.

34. Our continuing challenge therefore, remains to keep communication and guidance appropriate for employers at all stages of their membership. Maintaining this supportive role to cover all the eventualities for all types of employers requires frequent refreshing of website and guidance pages and keeping training sessions up to date. Local fund information is in addition to the support provided by the national Local Government Association supported websites.

35. Employer engagement for Pensions remains a challenge, as a 'discipline' pensions falls between HR and payroll, partly decision making and mostly transactional and a costly commitment for finance. While new systems, being introduced over the forthcoming year, will assist data submission, communications will continue to support transition, helping with accessible training and guides.

36. The Fund must also communicate with and support our members as the scheme becomes more complex and membership groups more fragmented. The challenge remains to engage and interest members in their pension provision and for them to understand the benefits of the Scheme. This year, as the team reviews its processes, letters and forms for each function must be included, aiming to reduce jargon that will help understanding.

37. Since our last report to the Committee, further embedding of the on-line offering, My Oxfordshire Pension, continues. No further changes to the structure of the outward facing policy are proposed this year, while internally improving communications within all aspects of the work continues.

Annex 5 – Early Release of Benefits Policy

38. The Early Release of Pension Benefits Policy covers the Administering Authorities approach to dealing with cases for early release of pension benefits where the last employer of the scheme member is no longer in

existence. This Policy was initially approved by the Pension Fund Committee at its meeting in December 2012.

39. This policy has been updated to reflect the recent regulatory changes to allow pensions to be taken from age 55 without employer consent.

Annex 6 - Scheme of Delegation

40. The Scheme of Delegation was introduced in June 2012 to bring together all areas where the Pension Fund Committee has previously delegated decisions to Officers of the Council. The Scheme was last updated in December 2018, with changes to the scheme of financial delegation to improve the operational efficiency of the Pension Services Team. No further changes are proposed at this time.

Annex 7 – Administration Strategy

41. The Fund is required to produce an Administration Strategy to set out the various responsibilities of the Administering Authorities, and the Scheme employers, and to establish a charging policy to allow the Administering Authority to recover costs of additional work where scheme employers fail to meet their responsibilities in an accurate and timely manner.

42. This document has been rewritten to give more clarity and detail of the responsibilities of both Scheme Employers and the Fund. The revised document has been sent to all Scheme Employers for consultation and two responses were received.

43. The main concerns raised in the responses were charges which could be applied by the Fund for late or incorrect information when there was no corresponding option for scheme employers to charge the Fund and the escalation process. In response it has been noted that many of the changes have been driven by discussions with the Pension Regulator stating that the Fund needed to set out and operate a clear process where information was not forthcoming, and discretion would be applied to making any charges particularly where the employer was engaging with the Fund.

44. Whilst scheme employers are unable to charge the Fund there is a clear escalation process for them which has been included in the administration strategy. Most of the responsibilities of the Administering Authority are set out in Regulation or accompanying guidance, and therefore scheme employers have recourse to the Pension Regulator, and scheme employees to the Pensions Ombudsman for breaches of responsibilities by the Administering Authority.

Annex 8 – Procedure for Reporting Breaches of Law to the Pension Regulator

45. We were required to develop a Procedure for the Reporting of Breaches of Law to the Pension Regulator during 2015/16. This procedure was agreed by

the Committee at its meeting in September 2015. No further changes have been proposed at this time.

Annex 9 – Administering Authority Discretions

46. There are a number of areas under the LGPS Regulations where the Administering Authority is required to publish a discretionary policy. These are included in Annex 9.

47. This document has been reviewed and updated in line with recent regulatory changes. These changes introduce some new discretionary decisions for this committee:

- Whether to terminate an admission agreement in the event of:
  - insolvency, winding up or liquidation of the body.
  - breach by that body of its obligations under the admission agreement.
  - failure by that body to pay over sums due to the Fund within a reasonable period of being requested to do so.
- Whether to extend the period beyond 3 months from the date an Employer ceases to be a Scheme Employer, by which to pay an exit credit.
- Whether to suspend (by way of issuing a suspension notice), for up to 3 years, an employer's obligation to pay an exit payment where the employer is again likely to have active members within the specified period of suspension.

48. For all the above instances it is recommended that the decision making is delegated to the Service Manager (Pensions) who will report back any decision made.

RECOMMENDATION

49. **The Committee is RECOMMENDED to:**

(a) approve the revised policy documents as set out in Annexes 1, 4, 5 and 7, noting the changes in the documents as discussed above;

(b) approve the revised Investment Strategy Statement as set out in Annex 2, noting the changes as discussed in the report and

i. re-confirm its position that a blanket divestment policy is not an appropriate approach for the Pension Fund, nor to address the risks associated with climate change; and

ii. endorse the current approach and direction of travel set out in the Addressing Climate Change Position Statement, and ask Officers to fully engage in the

process for developing the full Climate Change Policy document and to report back to the Committee on a timely basis;

(c) **re-state its approval in principle to the changes set out in Annex 3 to the Governance Policy and Governance Compliance Statement and RECOMMEND to Council via the Audit and Governance Committee the corresponding changes to the Terms of Reference and Constitution of the Pension Fund Committee;**

(d) **agree the delegation to the Services Manager (Pensions) the responsibility for exercising the new discretionary decisions as set out in paragraph 47 above, and the subsequent changes in the scheme of delegation to ensure it is consistent with the schedule of Administering Authority Discretions; and**

(e) **note that no new changes have been made to the Scheme of Delegation and the Procedure for Reporting Breaches of Law to the Pension Regulator.**

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Background papers: None
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June 2019