

**PENSION FUND COMMITTEE – 3 MARCH 2023**

**BUSINESS PLAN AND BUDGET 2023/24**

**Report by the Director of Finance**

**RECOMMENDATION**

1. **The Committee is RECOMMENDED to:**
  - a. **Note the progress against the service priorities for 2022/23;**
  - b. **approve the Business Plan and Budget for 2023/24 as set out at Annex 1;**
  - c. **approve the Pension Fund Cash Management Strategy for 2023/24.**
  - d. **delegate authority to the Director of Finance to make changes necessary to the Pension Fund Cash Management Strategy during the year, in line with changes to the County Council's Treasury Management Strategy;**
  - e. **delegate authority to the Director of Finance to open separate pension fund bank, deposit and investment accounts as appropriate;**
  - f. **delegate authority to the Director of Finance to borrow money for the pension fund in accordance with the regulations.**

**Introduction**

2. This report sets out the business plan and budget for the Pension Fund for 2023/24. It follows on from the Workshop held on 3 February 2023 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 2022/23 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 2023/24 (contained in annex 1) and remain consistent with those agreed for previous years. Following on from the discussion at the workshop, the overall Service Definition has been updated to make clear the underlying Fiduciary Duty of the Committee in administering the Fund.

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 Pensions 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 2022/23**

7. There were 4 service priorities included in the 2022/23 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. Review and Improve the Scheme's Data The position against the 5 agreed measures of success are set out in the table below.

Measure of Success	Key Progress Achieved	Outstanding Actions
Data Quality scores submitted to the Pension Regulator within acceptable bounds and no follow up action. GREEN	Scores now submitted to the Pension Regulator – common data score is 94.8%, which is slightly down on last year. Scheme specific score is 98.2% up on last year.	Continue to review issues with common data, largely missing member addresses.
Valuation completed with data signed off as fit for purpose and scheme employers raising no concerns with outcome. GREEN	Data File Submitted to Actuary. Initial Whole Fund Results Received Draft results issued to scheme employers.	

Data of a standard to support delivery of all service KPI's as reflected in quarterly performance reports. AMBER	Limited development of reports to date.	More extensive use of new Insights Reporting tool to deliver full suite of performance reports and enable data quality to be assessed.
No data security breaches reported. AMBER	One issue of a personal data breach by one of the Fund's third party suppliers.	Breaches Policy to be reviewed
Cyber Security Policy is updated (where required) with clear information on roles and responsibilities. AMBER	Report on approach to Cyber Security produced. Gap Analysis undertaken and Action Plan developed	

9. In respect of the gap in our data quality score in respect of scheme member addresses, the Pension Board has noted that this measure fails to reflect the modern digital communication world and recommend that the Committee follow up with the Pension Regulator with a proposal to extend this indicator to include email addresses and mobile phone numbers to facilitate the move to electronic communications.
10. We have not made any real progress on developing data for the standard service kpi's to be included in the quarterly performance reports, so the risk level against this outcome is still showing as Amber. Making better use of the Insight Reporting tool was identified as one of the key priorities in the recently held meeting with our software supplier in terms of quick wins within the technology development programme.
11. The issues around cyber risk and data security are covered elsewhere on today's agenda with the first of the annual reports on cyber security. The score has been retained as Amber in light of the breaches already reported this year, and the need to strengthen the monitoring arrangements in respect of the wider cyber risks.
12. Develop a holistic approach to technology across Pension Administration Services. There were 3 specific measures of success set out in the 2022/23 Business Plan in respect of this priority. The progress against these is set out in the table below.

Measure of Success	Key Progress Achieved	Outstanding Actions
Committee Decision on whether to extend current contract and tender for bolt on solutions as appropriate to deliver full	Key Requirements of system identified.  Review completed of current offerings on the LGPS National	Set out a programme of work to maximise use of the current system software.

specification, or to run full tender exercise for single holistic solution. GREEN	Procurement Framework and decision to extend current contract agreed	
Tender project plans agreed consistent with the end date of the current system contract. GREEN	No longer applicable.	
Clear targets established for increase in on-line completion of services. AMBER		Review of current functionality of existing software, and re-design processes to maximise the potential for on-line submission of paperwork and benefit requests.

13. A full day's workshop with our current software supplier was held on 15 February 2023 which reviewed those elements of the current system which Oxfordshire are not currently using to the full potential and those areas where further system enhancements would improve the overall efficiency and effectiveness of the system. A number of short-term priorities were agreed to be delivered within the next three months, focusing on improved understanding of the reporting tool, and the use of on-line tools for certain member tasks. A full work programme is currently being prepared which will be kept under review throughout 2023/24.
14. Enhanced Delivery of Responsible Investment responsibilities. There were 5 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
RI Officer in post GREEN	Job Description and grade agreed.  Recruitment undertaken and appointment agreed.	Selected candidate to take up post.
Engagement Policy signed off and reflected in overall Engagement Policy agreed by Brunel Pension Partnership. GREEN	Policy signed off at the June committee.  Policy shared with colleagues within Brunel, and confirmation that broadly in line with	On-going discussions with Brunel and partner funds to develop single Brunel approach.

	Brunel's preferred approach.	
Improved quarterly reporting in place to both Committee and on Fund webpages, including wider ESG targets and performance measures, reflected in positive feedback from all stakeholders. GREEN	Initial presentation by Brunel of new reporting being developed for the Private Markets.  New Investment Webpages launched including links to relevant Brunel webpages, and data on current investments.	Need to work alongside Brunel to draft new reports to ensure they meet our requirements.
Successful application in respect of Stewardship Code. RED		To be carried forward to 2023/24 and taken forward by new Responsible Investment Officer once they have taken up post.
Revised Funding Strategy Statement and Investment Strategy Statement including revised Strategic Asset Allocation signed off at March 2023 Committee. GREEN		Approach to Strategic Asset Allocation on today's agenda.

15. Since the last meeting we have successfully completed the recruitment of a new Responsible Investment Officer, with the final contract issues including start date being finalised at the time of writing this report. Once in post, this appointment will strengthen our ability to deliver against the Fund's responsible investment objectives and in particular to take forward an application in respect of the Stewardship Code.
16. Other aspects of the work on responsible investment are on-going and will be taken forward alongside Brunel as part of the work on their recently updated Climate Change Policy.
17. Deliver improved and consistent service performance to scheme members. Progress against the 3 measures of success for this service priority are set out below.

Measure of Success	Key Progress Achieved	Outstanding Actions
Services delivered to SLA Standards consistently throughout the year. RED	Performance figures show a number of areas below SLA targets.	Recruit additional staff.  Clear remaining backlog of work.

<p>All services delivered in line with regulatory guidance with scheme changes implemented in accordance with stipulated timescales. AMBER</p>		<p>Final guidance received from Government on TCFD, Pooling and McCloud.</p> <p>Review of current arrangements and data against new requirements.</p> <p>Action Plan developed, additional resources required and plan delivered.</p>
<p>Scheme Member Engagement Policy adopted and positive feedback collected from scheme members. AMBER</p>	<p>The Pension Board has reviewed the current arrangements in respect of scheme member engagement and proposed changes going forward, and these are on today's agenda for approval.</p>	<p>New communications Officer appointed.</p> <p>Implementation Plan for new approach to scheme member engagement developed.</p>

18. The Administration report elsewhere on today's agenda presents the latest performance information and shows that whilst performance has been steadily improving, it does remain below the Service Level Agreement (SLA) targets on a number of measures. As the objective for this year was to deliver consistent service at target or above every month, we have scored this indicator red. Going forward, if we are successful in recruiting the additional staffing as set out within the Administration report elsewhere on today's agenda, performance standards should be increased and brought back into line with the SLA.
19. The measure of success around successful management of scheme changes is currently amber as we are still awaiting the publication of the long-promised consultation papers from the Government. The outstanding publications includes guidance on pooling in general, and the implementation of the McCloud remedy. In the absence of the detailed guidance it is not possible to assess the level of work involved and whether we have sufficient staffing to complete it, and whether we have all the data we need from scheme employers, and other LGPS Funds where scheme members have transferred into Oxfordshire during the transition period of 2014 to 2022.
20. A report was taken to the local Pension Board in January on scheme member engagement and the outcome of this discussion has been fed into the review of the communications Policy elsewhere on today's agenda. At this stage we have left the rating for this objective as Amber, until the policy has been signed off and the implementation plan to deliver the proposed changes has been developed.

21. Delivery of the above priorities has been inside the administrative and oversight and governance budgets which in total are expected to underspend by £294,000. There is estimated to be a further £68,000 underspend on investment management fees, bringing the total underspend against the budget to £362,000.

	<b>Budget</b>	<b>YTD</b>	<b>%</b>	<b>Forecast Outturn</b>	<b>Variance</b>
	<b>£'000</b>	<b>£'000</b>		<b>£'000</b>	<b>£'000</b>
<b>Administrative Expenses</b>					
Employee Costs	1,402	1,000	71%	1,352	-50
Support Services Including ICT	886	553	62%	886	0
Printing & Stationary	82	45	55%	67	-15
Advisory & Consultancy Fees	315	13	4%	165	-150
Other	59	4	7%	59	0
<b>Total Administrative Expenses</b>	<b>2,744</b>	<b>1,615</b>	<b>59%</b>	<b>2,529</b>	<b>-215</b>
<b>Investment Management Expenses</b>					
Management Fees	12,836	6,005	47%	12,750	-86
Custody Fees	40	24	60%	40	0
Brunel Contract Costs	1,160	1,178	102%	1,178	18
<b>Total Investment Management Expenses</b>	<b>14,036</b>	<b>7,207</b>	<b>51%</b>	<b>13,968</b>	<b>-68</b>
<b>Oversight &amp; Governance</b>					
Investment Employee Costs	405	219	54%	350	-55
Support Services Including ICT	12	0	0%	12	0
Actuarial Fees	190	199	105%	199	9
External Audit Fees	50	0	0%	50	0
Internal Audit Fees	16	0	0%	16	0
Advisory & Consultancy Fees	135	42	31%	135	0
Committee and Board Costs	63	14	23%	30	-33
Subscriptions and Memberships	69	11	16%	69	0
<b>Total Oversight &amp; Governance Expenses</b>	<b>940</b>	<b>485</b>	<b>52%</b>	<b>861</b>	<b>-79</b>
<b>Total Pension Fund Budget</b>	<b>17,720</b>	<b>9,308</b>	<b>53%</b>	<b>17,358</b>	<b>-362</b>

22. The main cause of the underspend has been the continued issues in recruitment, both for permanent staffing and for the additional support agreed by the Committee last year to be appointed in a temporary basis from the National LGPS Procurement Frameworks.

#### **Service Priorities for 2023/24**

23. Following on from the successful workshop delivered last year under one of the recommendations of the Independent Governance Review undertaken during 2020/21, it was again agreed by the Committee to hold a separate business planning meeting to enable the Committee members to be fully engaged in setting the priorities for the Committee for the year ahead. This meeting was held in workshop form on 3 February 2023.
24. The Workshop was attended by 4 of the 5 voting members of the Committee, 2 of the non-voting members and 5 members of the Local Pension Board including the newest member, appointed earlier in that week. Also in attendance was the Independent Investment Adviser to the Fund. The Workshop was facilitated by Hymans Robertson and the Fund's Officers.
25. The workshop including two group sessions to enable those present to consider the priority areas for the Fund in light of the potential resources available and to determine the measures of success that they would want to see to assess whether the priorities had been delivered to the standard expected. It is proposed that the 2023/24 Business Plan should focus on four key priorities which are summarised as follows.
26. Priority one is to meet all the requirements of regulatory change as directed by the Government. It was accepted that at this point of time there was considerable uncertainty over what this would entail, with the long-promised Government guidance on pooling, climate change reporting, and McCloud amongst otherwise continually delayed. The measures of success for this priority therefore may need to be amended during the year as regulations are published.
27. In light of the uncertainty, it was agreed that the Committee should follow a pragmatic approach and focus on delivering against the minimum standard set by Government. For example it was agreed that best estimates should be used in place of missing data for McCloud calculations rather than spending considerable resources trying to ensure 100% of data is collected where payroll providers have changed etc and the data is not readily available. All estimates should be in favour of the scheme member.
28. It was accepted in some areas such as the Pension Dashboard, the Fund would have very little flexibility and would need to deliver to the standard set out by Government. In other areas where Government simply issued guidance, the consensus was that the Fund should focus on what they felt was in the best interests of the stakeholders e.g. unless there are specific regulatory requirements, investment decisions should be led by the Fiduciary Duty and our Strategic Asset Allocation rather than any focus on guidance on levelling up.



29. Wherever possible it was agreed that the Fund should work in partnership with other Funds and with the support and guidance from the Scheme Advisory Board.
30. A second priority was agreed to continue to strength the governance arrangements of the Fund. It was noted that following the implementation of the recommendations of the Independent Governance Review completed by Hymans Robertson, the Fund was in a good place governance wise, but this is an area that requires continuous review.
31. The key element of this priority was seen as the development of a Workforce Strategy as this would underpin the delivering of all remaining objectives, as well as ensuring the effective delivery of all business as usual activities.
32. It was also noted that a key development within this area would be the implementation of the Pension Regulators new Single Code of Practice. This was identified as an area meriting further training for the Committee and Board. It would also be important to ensure that measures of success included the development of a full suite of key performance indicators that would enable the Committee to assure itself that they were complying in full with the Code of Practice.
33. A final element of this priority was seen as ensuring that all scheme employers were meeting their responsibilities under the Regulations and Code of Practice and that the Pension Services Team were not being diverted to tasks which should properly fall to the scheme employers.
34. The continued development of technology was seen as a third priority area for the Fund during the forthcoming year. In particular, those present at the workshop were keen to priorities the developments in technology which would free up time for members of the Pension Services Team, enabling them to focus on the many challenges within the other priority areas and business as usual.
35. It was generally felt that developing technology would improve both operational efficiency (especially through self-service options for both scheme members and scheme employers) and communications. Improving the investment webpages was seen as important to both improve operational efficiency and scheme member engagement.
36. The fourth priority area was seen to be the continued development of our approach to responsible investment. Whilst it was noted that there was some overlap in this priority and the first three (e.g. TCFD reporting under the Regulatory priority), it was agreed that this priority was largely resourced out of the Investment Team rather than the Administration/Governance Teams and as such was not competing for resources in the same way that the first three priorities would need to be managed.
37. The full details of the four priority areas, action plans and measures of success are included in Part B of the draft Business Plan included at Annex 1.

## **Budget 2023/24**

38. The proposed budget for 2023/24 is set out as Part C of the Business Plan and includes a comparison with the budget for 2022/23. Overall, there is a small decrease in the budget from £17,720,000 to £17,662,000. The main elements of this variation are explained in more detail below. A report comparing the Pension Fund budget for the full 2022/23 financial year against the actual expenditure will be produced for the June 2023 Committee meeting.
39. Other than inflationary increases, the two main increases in the budget are on Administration Staffing and Brunel Fees. The increase in the Administration Staffing budget reflects a hope that we will be able to operate for the majority of 2023/24 at full establishment. The increase in the Brunel costs is set out in the item on the Special Reserved Matter (SRM) elsewhere on today's agenda and assumes that the SRM is approved by all 10 Funds.
40. There are three areas where the budget has been reduced in comparison to the current financial year. The first of those is the budget for Investment Management Fees and reflects a lower assumed average asset value over the course of the next year on which fees are payable. The Investment employee costs has been reduced following the decision not to replace the Investment Officer who left during the year. Workloads have reduced in comparison to when the post was established due to the transition of responsibilities to Brunel. The position will be kept under review throughout the year. The final area of reduction is in Advisory and Consultancy Fees where the one-off costs agreed last year to cover the AVC review and the review of the strategic asset allocation have been deleted. The additional one-off allocation made for project work in last year's budget has been retained as it was not spent this year due to the difficulties of finding suitable resources through the LGPS National Procurement Framework.

## **Training Plan**

41. Part D of the Business Plan sets out the broad Training Plan for Committee Members. This reflects the results of the National Knowledge Assessment and includes sessions on Audit and Accounting which was the weakest area under the Assessment as well as McCloud and the new Code of Practice issued by the Pension Regulator, identified by Members at the Business Planning workshop as key areas in light of the agreed objectives for 2023/24.
42. 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**

43. 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.

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