

PENSION FUND COMMITTEE – 9 JUNE 2023

REVIEW OF THE BUSINESS PLAN 2023/24

Report by the Director of Finance

RECOMMENDATION

The Committee is RECOMMENDED to

- a) **review progress against each of the key service priorities as set out in the report; and**
- b) **agree any further actions to be taken to address those areas not currently on target to deliver the required objectives.**

Introduction

1. This report sets out the latest progress against the key service priorities set in the business plan for the Pension Fund for 2023/24 as agreed by the March meeting of this Committee.
2. The key objectives for the Oxfordshire Pension Fund as set out in the Business Plan for 2023/24 remain consistent with those agreed for previous years. These are summarised as:
 - To fulfil our fiduciary duty to all key stakeholders
 - To administer pension benefits in accordance with the LGPS regulations, and the guidance set out by the Pensions Regulator
 - 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.
3. The service priorities for the year do not include the business as usual activity which will continue alongside the activities included in the service priorities. Business as usual activities are monitored as part of the Administration Report and the report on Investment Performance.

Key Service Priorities – Progress to Date

4. 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 agreed by the previous Committee 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, or degree of progress/future requirements unclear
- Red – insufficient progress or insufficient actions identified to deliver measures of success

5. 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. AMBER	Resourcing plan reviewed and progress made on recruiting sufficient staff to complete work.	Final Regulations setting out information requirements still awaited. System changes to automate any new requirements to be implemented and tested.
Scheme Member records available via the Pension Dashboard. GREEN	Work continues on data quality improvement.	Awaiting revised Government timescales.

6. The main challenge under this priority is receiving timely regulations and guidance from the Government. In the absence of such information, it is difficult to assess the work required to delivery against this objective in full.
7. The Government have already announced delays to the timetable for the implementation of the Pensions Dashboard, and we are currently awaiting a revised timeline. In the meantime, we continue to review the quality of our data to ensure we are fully prepared to meet any requirements in respect of the Dashboard.
8. In respect of the McCloud remedy, the Government published its response to their initial consultation on 6 April 2023. Whilst this set out confirmation of much of the required approach, we are still awaiting final regulations, and there are a number of issues on which the Government plans further consultation. These include clarification on eligibility to qualify for the underpin, where the individual was not an active member of 31 March 2012 but re-joins the LGPS without a

disqualifying gap in service, compensation, interest payments, tax treatments, the treatment of excess teacher's service, flexible retirement and aggregations.

9. Until we receive final regulations and guidance which covers all these issues, it will not be possible to confirm we have sufficient resources to meet the requirements re member benefit calculations. The Priority therefore is scored Amber at this stage. The good news from the Government's response was that any changes to the Annual Benefit Statement will not be required until those issued in respect of the 2024/25 financial year, which provides 2 years to develop the system and member communications to ensure an effective implementation.
10. Deliver further improvements to the governance arrangements of the Fund. There were 6 specific measures of success set out in the 2023/24 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
Governance Officer in post. AMBER	Re-grading agreed for post. Recruitment process initiated.	Appointment made.
Annual Report on Compliance with the Code of Practice presented to the Committee and no significant shortfalls identified. GREEN	Breaches Policy Reviewed. Training Session on General Code of Practice Delivered. Initial Discussions with Hymans Robertson on Compliance Template	Finalise reporting template. Complete analysis of compliance.
Revised Administration Strategy agreed by Committee with clear Service Level Agreement established with all scheme employers. GREEN		Proposed to present to Committee in September 2023
Revised Breaches Policy agreed by Committee and Committee signed off quarterly key performance indicator provides all information they require to gain assurance on compliance with Code of Practice and Regulatory Requirements. GREEN	Revised Breaches Policy for agreement at today's Committee, plus request to identify further information requirements	New Quarterly governance report to be implemented from September Committee.

Full workforce Strategy agreed by Committee. AMBER		Awaiting Good Government Guidance from Government
Increase in average scores for the National Knowledge Assessment. GREEN	Training Session on lowest scoring areas from last assessment arranged.	New Assessment tool to be completed.

11. Progress has been made on a number of issues under this priority, including the report today on the breaches policy with further reports scheduled for the September meeting to cover the Administration Strategy, a new Governance report including the Breaches Log, and a new approach to contributions monitoring.
12. We have also successfully appealed the grade for the new Governance Officer position, although this remains at an amber score until we have tested the market through the recruitment process. A successful appointment though will allow us to further strengthen the work in this area.
13. The other area currently scored amber relates to the workforce strategy where we are waiting for the Government to publish the Good Governance Guidance which will hopefully set out more clearly their requirements.
14. Enhanced Delivery of Responsible Investment responsibilities. 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. AMBER	Stewardship Policy developed	Committee to review Brunel's Responsible Investment and Stewardship Outcomes report at their September meeting.
Benchmark position established on investments in climate	Discussions within Brunel Pension Partnership re climate	Benchmark position established and new target set.

solutions/mitigations and target set for increased investment (with action plan to deliver). GREEN	solutions local impact portfolio. On-going development of Green Revenues report with Brunel	
Continue to meet decarbonisation target, within a balance suite of metrics to include % of Fund invested in Paris Aligned portfolios. AMBER	Carbon Metrics Report as at 31 December 2022 presented at today's meeting.	Detailed review of the Carbon Metrics Report as part of the TCFD report to the September Committee. Develop measures on % of Fund invested in Paris Aligned portfolios

15. The appointment of the new Responsible Investment Officer has helped to deliver progress across a number of headings under this priority including the development of our first Stewardship Policy. At the time of writing this report, it was intended to complete the first draft of our Policy and submit it to the Financial Reporting Council (FRC) as our application to be accepted as a signatory to the Stewardship Code, by the deadline of 31 May 2023.
16. It is unfortunate that the deadline for submission has precluded the Committee from reviewing the document prior to submission. However, the Officers felt that the benefits of making a submission this year outweighed the advantages of delay. In particular, in the event that the application is not successful, we should receive detailed feedback from the FRC to enable the draft Policy to be updated during the remainder of this year, ready for a new application in 2024.
17. There is no published timeline for when we may hear back from the FRC, but last year, they published details of successful applications in early September. We therefore hope to be able to report the outcome to the September Committee alongside the latest version of the Policy. It is also intended to present the Brunel Responsible Investment and Engagement Outcomes Report to that meeting, to enable the Committee to review the engagement activity carried out on its behalf, in line with the requirements under the Stewardship Code.
18. Improvements have been made to the Fund's webpages to ensure our Policies are readily available and there is increased transparency on how these policies translate into the underlying companies held within the various portfolios. This is further supported by the latest Carbon Metrics report produced by Brunel for our Fund which is contained within the Annex to this report.
19. The improved reports enabled the Climate Change Working Group to have a detailed discussion on the performance of our portfolios from a Climate perspective. Whilst welcoming the level of data contained within the reports, the working group expressed strong concerns regarding the holding of two companies involved in the tar sands industry within the Global High Alpha portfolio. Whilst accepting neither the Brunel nor our own Climate Policies contain exclusion clauses, the concern was how these companies were

demonstrating alignment to the Paris Agreement, and the Group asked the Officers to work with Brunel to provide further explanation.

20. It is intended to include a more detailed analysis of the latest Carbon Metrics report to the September meeting of this Committee as part of the latest TCFD report. Feedback from the discussions with Brunel will be included within that report, plus any further advice from the Climate Change Working Group.
21. The Climate Change Working Group also discussed the climate implications associated with the Strategic Asset Allocation discussion at the last meeting of this Committee which directly impacts of the delivery of this priority. In particular the considered the impact of reducing the allocation to the UK active equity portfolio, which due to the size of the current allocation and the overweight to the major energy companies, contributes a significant element of the Fund's current carbon footprint.
22. The Working Group considered a report which set out some of the key metrics associated with the current Brunel portfolios as summarised in the table below.

	WACI	Benchmark	Reserves Exposure	Benchmark	Green Revenues
UK Active Equity	220	306	12.0%	17.2%	3.4%
Global High Alpha	180	285	3.7%	5.1%	9.1%
Paris Aligned Passive	179	286	0.0%	4.9%	12.2%
Sustainable Equities	264	317	0.0%	5.1%	13.1%

23. The Working Group noted the higher WACI score for the Sustainable Equities portfolio, which reflected the higher carbon intensity associated with some of the major climate mitigation/solutions companies held within the portfolio. The zero reserves exposure and the higher allocation to green revenues demonstrated the dangers of over-reliance on a single indicator to assess climate credentials of a portfolio.
24. The Group noted the that the WACI score for the Paris Aligned Benchmark passive portfolio had not reduced in line with the 7.6% assumption. This has subsequently been clarified as a result of the different approaches to measuring the WACI score as measured within the Carbon Metrics report and against which the Fund sets its targets, and the EU definition used within the specification of the portfolio. This does again highlight one of the limitations of using a passive portfolio to deliver against the Fund's Climate Policy. Performance is dependent on the ability to tightly define the benchmark in line with policy and allows no flexibility for fund manager judgement or assessment of the actions and future plans of individual companies.

25. From a climate perspective therefore, switching allocation from the UK active portfolio to the Sustainable Equities portfolio would appear to offer the best long-term chance to meet the Fund's objectives.
26. The Climate Change Working Group also looked at an analysis of the underlying holdings of the current Brunel Climate Transition Benchmark (CTB) passive Fund compared to those within the current active UK equity portfolio. As the CTB portfolio using the FTSE All Share index as its core benchmark, it was noted that the portfolio still retained a high weight to the energy, utilities and raw material sectors, and as such, the Working Group concluded from a climate policy perspective, a new portfolio benchmarked against the FTSE 250 would be a more suitable option to invest the retained allocation to the UK markets.
27. Finally in this area, the Client Funds within the Brunel Pension Partnership have been looking at a potential local impact fund focussed on the deliver of climate solutions and mitigations. Sufficient interest has been expressed across the Funds to support further work on the proposal, and the drawing up of a detailed portfolio specification. At present, the portfolio is focused entirely on infrastructure opportunities, but across a range of climate opportunities including solar, hydrogen, battery storage etc.
28. At the present time, the Fund has fully committed the private market allocations included within the Strategic Asset Allocation. If it wishes to make an additional allocation to the local impact climate solutions portfolio being developed, it needs to make an additional allocation to the Infrastructure portfolio, or ask officers and the Independent Investment Adviser to review cashflows to determine the extent the Fund can over-commit to the Infrastructure portfolio in the expectation that future distributions will be received before the full commitments are made.
29. 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. AMBER	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.	
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. AMBER		Action Plan to be developed and priority groups identified.
Reduction in postage costs reflecting greater use of electronic communications. AMBER	Decision to delay on-line payslips.	

30. We are now having monthly meetings with Heywood who supplier the pension system software to manage a series of developments which aim to maximise our effective use of the system. Developments include improved reporting, greater use of electronic communications including the ability of scheme members and employers to upload documents direct to the system, and automatic verification of bank account details
31. At this stage of the year, it is too early to review the impact of any changes on performance, stakeholder satisfaction and cost and therefore these scores have been held at Amber. It was decided as a result of workload pressures around the year end to delay the implementation of on-line payslips. The majority of pensioners only receive a single payslip in April to reflect the changes in their pension for the new financial year, so this delay does mean we have missed the opportunity to deliver significant savings on postage until next year.
32. Part C of the Business Plan sets out the Fund's budget for 2023/24 which totals £17,662,000. It is too early into the financial year to identify and significant variations to the approved budget
33. Part D of the Business Plan sets out the Training Plan for Committee and Pension Board Members. The training session on the General Code of Practice was scheduled to be held prior to the start of this Committee Meeting and a further session on the Accounting and Audit Requirements and Investment Performance has been scheduled for the morning of 27 June 2023.

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