

PENSION FUND COMMITTEE – 5 MARCH 2021

BUSINESS PLAN 2021/22

Report by the Director of Finance

RECOMMENDATION

1. **The Committee is RECOMMENDED to:**
 - a. **Note the progress against the service priorities for 2020/21 and agree to set benchmarks for carbon emissions for the equity and fixed income portfolios based on December 2019, and commission Brunel to undertake the work necessary to establish figures for the legacy portfolios held at that time;**
 - b. **approve the Business Plan and Budget for 2021/22 as set out at Annex 1;**
 - c. **approve the Pension Fund Cash Management Strategy for 2021/22.**
 - 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 for the Pension Fund for 2021/22. The Plan sets out the key objectives of the Fund, 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 2020/21 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 2021/22 (contained in annex 1) and remain consistent with those agreed for previous years. These are summarised as:
 - 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.
5. Part A of the plan sets out the broad service activity undertaken by the Fund. As with the key objectives, 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 2020/21

6. There were 4 service priorities included in the 2020/21 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 at the last 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
 - Red – insufficient progress or insufficient actions identified to deliver measures of success
7. The Successful Transition of Investments to Brunel. The position against the 3 agreed measures of success are set out in the table below.

Measure of Success	Key Progress Achieved	Outstanding Actions
Assurance Framework in Place	Key Performance Reports produced for Committee Draft Assurance Reports presented regularly to Client Group and Oversight Board	Review of all Reports currently on-going to ensure in line with Client Requirements. Review of current quality controls due to errors in latest published private market reports.
Transitions Completed	64% of assets already transitioned with plans underway to increase to 80% with transition of fixed income funds in April 2021.	Transition of the legacy private market funds, and re-allocate funds currently invested in DGF.
Business Plan Objectives Achieved	Transitions to date completed within budget. Fee savings achieved in line with business plan.	Continue to monitor as outstanding transitions completed.

8. The development of Brunel and the transition of the assets to Brunel investment portfolios has largely gone as planned. The measure of success against the assurance framework has been scored Amber in part because the clients as a whole have agreed to undertake a review of the reports and assurance process to ensure it is fit for purpose now the majority of assets have been transitioned, and there is greater evidence to assess the suitability of the current reports and process.
9. The Amber score also reflects the issue this quarter with the release of performance report to the Funds in respect of the Private Markets which subsequently were withdrawn. We need to understand the assurance processes within Brunel and its data suppliers to be able to confirm that we are happy with the data in the Assurance Reports received by Clients.
10. Implementation of the Climate Change Policy. There were 4 specific measures of success set out in the 2020/21 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
Implementation Plan in Place	Draft Plan Agreed and being monitored by the Climate Change Working Group	Plan is a live document and will need to be constantly amended.
Metrics Agreed and Targets Set	Initial set of metrics, benchmarks and targets for Equity and Fixed Income Targets subject to recommendation below	Need to develop similar position for the remaining portfolios
Compliance with Policy Readily Demonstrated		Need to establish the benchmark scores for the key metrics and compare to the initial benchmark scores to demonstrate progress to date. Also need to develop further metrics on success of engagement policy
Portfolios Developed to meet Investment Strategy	Principles for the development of future portfolios agreed between Brunel and Client Funds, with target date later this year for availability of passive portfolios.	IIGCC framework to be extended to all asset classes. Prioritised programme for all asset classes to be agreed by client group.

	Suitable portfolios identified in the market.
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11. The implementation of the Climate Change Policy was always seen as more than a single year service priority, and the scoring commentary within the table above reflects this position. Whilst there has been steady progress across the year in this area, more work needs to be undertaken to ensure that ultimately the service priority is successfully delivered.
12. A key part of the delivery of this service priority is the work of the Climate Change Working Group. This Group met with Faith Ward from Brunel on 11 February 2021 and discussed a number of key elements of the implementation plan. The discussions included the latest developments following this Committee's previous decision to join the Institutional Investors Group on Climate Change (IIGCC), an update on which will be presented to the meeting.
13. Brunel provided a timeline for the identification of suitable Paris Aligned Benchmarks which could form the basis for the passive equity portfolios and which would provide a secondary benchmark against which to assess the active equity portfolios alongside their primary investment performance benchmarks. The timeline includes presentations to the Client Group in March/April with the intention to have investible passive portfolios available by the end of 2021. The Working Group felt that given this timescale, it was not cost effective to make any further short-term amendments to the current allocations to the passive portfolios.
14. As part of the discussion, Faith set out the differences between Paris Aligned benchmarks which seek an immediate 50% reduction in carbon emissions, normally through exclusions, and Paris Transition benchmarks, which have a 30% immediate reduction target. Both benchmarks aim to hit the same 2050 targets.
15. Brunel currently favours the Paris Transition benchmarks which are more closely aligned with the objectives of a Just Transition. Faith also pointed out the need to ensure any benchmarks are forward looking, rather than the traditional benchmarks which focus on a backwards view on carbon emissions. It was noted that the Sustainable Equities portfolio currently has a higher carbon intensity score than the Global High Alpha portfolio, partly reflecting the wider sustainable focus of that portfolio, and that some sustainable programmes show high short-term carbon emissions to deliver significant long-term reductions.
16. In terms of metrics and targets, Faith confirmed that Brunel has set its targets based on carbon emission figures as at December 2019. It was proposed that Oxfordshire follow suit and set the initial benchmark figures on carbon emissions as at December 2019. This would simplify all future administration in that all annual reports produced for Oxfordshire could be produced as part of the work already required for Brunel. Using December 2019 would also allow the Fund to take credit for the decisions already made since the development of the Climate Change Policy including the switch to the low carbon and sustainable portfolios.

17. Benchmark figures could be produced for all equity portfolios as well as corporate bonds element of the fixed income portfolio. As Brunel do not hold the information in respect of the legacy portfolios held by the Fund, there would be additional cost (estimated at no more than £10,000) to complete the benchmark work on the legacy portfolios. The Committee are recommended to agree to establish benchmark figures as at December 2019, and to note that budget provision for the required work has been included in the 2021/22 budget set out later in this report.
18. It was noted that the Committee have already set a target for a 7.6% reduction per annum in the absolute level of carbon emissions held across the Fund. Brunel operates a target of a 7% reduction target relative to benchmark for all its portfolios. More work was needed to reconcile the different approaches to setting the targets and what this might mean in terms of asset allocation for the Oxfordshire Fund. On this point, it was strongly noted that any asset allocation decisions taken by the Committee must reflect the Investment Strategy in its widest form, taking the full range of investment characteristics, fees etc into account.
19. Other areas discussed by the Working Group included the need to determine metrics, benchmarks and targets for the climate solutions aspect of the current policy, and ensure greater visibility of the current positive investments made as part of the Brunel Infrastructure Portfolio and the various Private Equity portfolios in particular. Faith stated that Brunel are looking at using the EU taxonomy in this regard, which had been developed to establish a list of environmentally sustainable economic activities.
20. There was a short discussion on the commitment to be net zero on the operational aspects of the Fund by 2030 in line with the County Council policy. Officers were continuing to work with their colleagues responsible for the delivery of the Council's climate action plan to ensure all aspects relating to the operations of the Pension Fund Committee were picked up.
21. There was also limited discussion on the decision at the last Committee not to set a target in terms of fossil fuel reserves, and it was noted that setting a net zero target should incorporate incremental reductions in reserves held. It was agreed that the level of reserves held should be a metric included in the regular reports to enable this assumption to be tested, and the question of setting a target could be returned to in the event of any future concerns.
22. Improve the Governance Arrangements of the Fund. There were 2 measures of success set for this service priority, and progress against these two measures is set out below.

Measure of Success	Key Progress Achieved	Outstanding Actions
Annual Governance Statement identifying no significant weaknesses	Whilst the Good Governance Project has been delayed, the Hymans independent	

	governance review assessed our position against the proposals agreed by the Scheme Advisory Board and identified no significant weakness.	
Independent Governance Review identifying no significant weaknesses	As above	Implement the recommendations of the Hymans Review.

23. The outcome of the independent governance review is presented elsewhere on today's agenda. This review whilst identifying a number of recommendations for future improvements did not identify any areas of significant weakness.

24. Improve Scheme Member and Employer Engagement Arrangements. Progress against the three measures of success for this service priority are set out below.

Measure of Success	Key Progress Achieved	Outstanding Actions
Improved Customer Satisfaction Results	Numbers of complaints remain at very low levels.	Formal arrangements to collect scheme member and employer feedback to be put in place.
Data Quality Scores Improved	iConnect roll out due to be complete by April 2021. Data Quality Scores of 95.5% and 97.8% for Common Data and Scheme Specific Data reported to the Pension Regulator.	Complete work to clear remaining data quality errors.
Increase Sign-Up and Use of Self-Service Tools	Numbers signed up still gradually increasing and now above 50% of active members.	

25. The new arrangements to assess customer satisfaction are not yet in place so delivery against this service priority is still showing amber although the very low numbers of complaint suggest that once formal arrangements are in place, the score can be switched to green.

26. The improvements in data quality reflect in part the continued rollout of iConnect and the automation of the transfer of scheme data from employers to the Fund. The main area of error remains the number of missing addresses impacting the common data score, and work on the address tracing project is on-going.

27. Work against the 2020/21 business plan has been undertaken largely in line with the agreed budget with four major exceptions as seen in the table below.

	Budget	YTD	%	Forecast Outturn	Variance
	2020/21	2020/21		2020/21	2020/21
	£'000	£'000		£'000	£'000
Administrative Expenses					
Administrative Employee Costs	1,391	839	60	1,191	-200
Support Services Including ICT	694	544	78	694	0
Printing & Stationary	72	53	74	72	0
Advisory & Consultancy Fees	165	56	34	165	0
Other	59	13	23	59	0
Total Administrative Expenses	2,381	1,505	63	2,181	-200
Investment Management Expenses					
Management Fees	10,374	7,511	72	9,800	-574
Custody Fees	25	19	78	25	0
Brunel Contract Costs	1,028	1,063	103	1,063	35
Total Investment Management Expenses	11,427	8,594	75	10,888	-539
Oversight & Governance					
Investment Employee Costs	259	189	73	261	2
Support Services Including ICT	11	8	72	16	5
Actuarial Fees	160	190	119	200	40
External Audit Fees	35	6	16	45	10
Internal Audit Fees	15	0	0	15	0
Advisory & Consultancy Fees	106	40	38	80	-26
Committee and Board Costs	50	0	0	40	-10
Subscriptions and Memberships	50	29	59	53	3
Total Oversight & Governance Expenses	686	462	67	710	24
Total Pension Fund Budget	14,494	10,561	73	13,779	-715

28. It is estimated that there will be underspend against pensions administration staffing costs of £200,000 due to the level of vacancies experienced during the year. As noted above this has not impacted on performance as a result of improved efficiency through automation and the clearance of the previous backlog of work.

29. There is an expected underspend of £574,000 against fund management fees reflecting the changes in asset values under management (especially in quarter one as a result of the initial financial shock of the pandemic) and the nature of the fee structures, and fee savings achieved by Brunel in developing the new investment portfolios.

30. There is a small overspend on the fees for Brunel of £35,000 reflecting changes in the approved Brunel budget through special reserve matters after the agreement of the initial budget for this Committee.
31. Finally there are small overspends of £40,000 and £10,000 in the cost so the Fund Actuary and External Audit associated with the increased workload resulting from the accounting requirements of the McCloud judgement and the increasing complexity of administering the Scheme.

Service Priorities for 2021/22

32. For 2020/21 it is proposed to focus on four key priorities building on the work from the current year and picking up nationally identified issues. The detail of the key actions and measures of success are set out in Part B of the Business Plan. A summary of each of the 4 key priorities is as follows.
33. Priority one is a continuation of the current priority relating to the implementation of our Climate Change Policy. In particular, the priorities for this year include establishing metrics and benchmarks for all portfolios to allow the Committee to assess performance against the average 7.6% per annum reduction in carbon emissions across the Fund as a whole, the monitoring of progress in increasing investments in climate solutions and the establishment of a robust framework to assess the effectiveness of the current approach to engagement and voting in advance of the 2022 stocktake.
34. The second priority responds to the independent governance review elsewhere on today's agenda and addressing the recommendations identified in the report. This will include looking to improve the working relationship between the Pension Fund Committee and Pension Board, ensuring a robust training and engagement programme including regular review of its effectiveness, and a review of the Committee and Board agenda's to ensure they have sufficient time to focus on their key responsibilities.
35. The third priority includes delivering on the major project associated with the McCloud judgement, and ensuring our data is updated to complete the additional calculations required by the Government's solution to the legal challenge. This will involve the Committee determining policy around the levels of risk they are happy to accept around data quality and the process to be followed where despite best efforts, data is not available to calculate potential benefits under the underpin arrangements. This priority area also includes improving the experience for individual scheme members by further improving the scope of the Members Self-Service offering.
36. The final priority reflects the next steps in the relationship with Brunel. By April 2021, 80% of the Funds assets will be invested through Brunel portfolios, so it seems appropriate to review the current reporting arrangements in place with Brunel to ensure the Committee has the information necessary to obtain assurance on the performance of Brunel, and that the investment portfolios are delivering in line with their specifications and the requirements of our investment

strategy. This work will also look to establish what are the appropriate arrangements for the Committee and Officers to meet with Brunel as part of this monitoring process.

Budget 2021/22

37. Part C of the Business Plan sets out the Fund's budget for 2021/22 and compares it with the budget for 2020/21. Overall there is an increase in the budget from £14,494,000 to £15,588,000. The main elements of this variation are explained in more detail below. A report comparing the Pension Fund budget for the full 2020/21 financial year against the actual expenditure will be produced for the June 2021 Committee meeting.
38. The administrative staffing budget has seen a reduction of £55,000 reflecting the improve efficiency of the service as a result of the recent improvements in automation, and the reality of the situation over recent years, where Pension Services have operated with a number of vacancies.
39. There has been an increase in the budget for support services and ICT to allow for the project costs associated with the implementation of the McCloud solution. This includes increased costs of reporting and system amendments.
40. The major variation in the budget is on Fund Management Fees which have increased from £10.4m to 11.3m, reflecting the increase in the overall assets of the Fund and the fact that management fees are charged as a fixed percentage of assets under management.
41. The only significant variation in the Oversight and Governance section of the budget is in the costs of the Fund Actuary and these have been increased from £160,000 to £190,000 reflecting the actual costs in 2020/21 and the increased complexity of providing advice to the Administering Authority and scheme employers. As noted above the budget includes provision for work on implementing the Climate Change Policy and in particular, obtaining benchmark carbon emission scores for the legacy portfolios. These costs though have been offset by reductions on other project costs including the falling out of costs associated with this year's GMP project.

Training Plan

42. Part D of the Business Plan sets out the broad Training Plan for Committee Members, based on the draft Policy previously agreed by the Committee. At the present time, the plan only includes the provision of a core training programme. We will add specific training subjects once we are clear on the skills and knowledge of the new Committee in June 2021, as well as adding additional subjects relevant to the Committee's work programme for the year.

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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