

PENSION FUND COMMITTEE – 3 DECEMBER 2021

REVIEW OF THE BUSINESS PLAN 2021/22

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;**
- b) **agree any further actions to be taken to address those areas not currently on target to deliver the required objectives; and**
- c) **endorse the draft Engagement Policy contained as an Annex to this report and ask the Climate Change Working Group to further develop the Policy to include more details on timeframes and specific criteria for consideration at their March meeting.**

Introduction

1. This report sets out the latest progress against the key service priorities set in the business plan for the Pension Fund for 2021/22. The Plan was agreed by the last meeting of the old Committee in March 2021.
2. The key objectives for the Oxfordshire Pension Fund as set out in the Business Plan for 2021/22 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.
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 2021/22 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
- Red – insufficient progress or insufficient actions identified to deliver measures of success

5. Deliver Key Progress on the Implementation of the Climate Change Policy. The position against the 3 agreed measures of success are set out in the table below.

Measure of Success	Key Progress Achieved	Outstanding Actions
Metrics, benchmarks and targets in place for all portfolios to assess progress against the 7.6% per annum reduction in carbon emissions - GREEN	Benchmark report produced for all equity portfolios and the corporate bond investments as at December 2019 and December 2020. Initial reductions in carbon emissions of 17.7%. Recommendation to this Committee on switch of passive allocations to new climate related benchmarks.	Work to be undertaken with Brunel to identify metrics and benchmarks for remaining portfolios, and collate the metrics already collected in respect of a number of private market portfolios.
Metrics, benchmarks and targets in place to assess progress in investing in climate solutions - AMBER	Initial conversations held with Brunel who are looking to develop metrics this year. New passive benchmarks to include tilt towards green revenues	New metrics to be agreed and aligned to latest scientific thinking. Future targets to be agreed.
Robust Arrangements in place to assess the effectiveness of the Engagement Strategy and Voting Process in advance of the 2022 stocktake - AMBER	Initial discussions at Climate Change Working Group led by paper from Fossil Free Oxfordshire, with principles presented today for Committee to review.	Develop detail of policy and work with Brunel and other Funds with partnership to build consensus position.

6. The Climate Change Working Group met on 10 November 2021 to review the progress on the Implementation Plan for our Climate Change Policy. The meeting was attended by Laura Hobbs from the Responsible Investment team

at Brunel. Laura gave an update on the key highlights from COP26. These included the establishment of an International Sustainability Standards Board which will be tasked with creating global minimum standards for data sets. This will hopefully address a key weakness in our current efforts to deliver our Climate Change Policy, including the above issues relating to the measurement of investments in climate solutions and the performance of our investments in the private markets. This will also be helped by the Chancellors drive to develop a net zero financial centre, requiring investment managers, asset owners, and listed companies to produce climate transition plans on a comply or explain basis.

7. The Climate Change Working Group also discussed a paper produced by Fossil Free Oxfordshire which was designed as a starting point for developing an engagement policy to provide a benchmark against which the success of current engagement could be assessed, and decisions to divest could be made. The key principles from this paper have been included in a first draft policy statement included as an annex to this report, and the Committee are recommended to endorse these principles and ask the Climate Change Working Group to develop the Policy further alongside Brunel with a view to bringing back a more detailed document to the March meeting of this Committee.
8. Key areas that require further work include:
 - Establishing appropriate timeframes
 - Agreeing detailed general and sector/company specific criteria
 - Establishing practical approach to implementation, including where responsibilities lie between the Fund, Brunel and Fund Managers
9. Included as an Annex to the draft Policy is a sample document setting out what the sort of detail we would expect to include in the March document. Members are being asked to note this sample at this time and offer comments on the presentation. For the avoidance of doubt, endorsement of the principles set out in the Policy does not include the data included in this sample report.
10. Following the March meeting, it is intended that the agreed Oxfordshire Policy is the basis for future discussions with the other Funds within the Brunel Partnership to develop a partnership wide Policy where possible that supports the 2022 Stocktake being undertaken by Brunel.
11. It should be noted that the absence of a formal engagement strategy does not mean that our Fund Managers are not currently engaging with companies on our behalf or taking decisions as part of their active management role to exclude companies where they feel they do not meet the investment parameters set by Brunel in each of the portfolio specifications. All Brunel Portfolio specifications include clear expectations in respect of environmental, social and governance issues. This is reflected in the first-year performance figures included in our Taskforce for Climate-related Financial Disclosures report as presented to the September meeting of this Committee.

12. In light of the progress made over the last quarter, the status against the measure has been reduced from Red to Amber.
13. Deliver further improvements to the governance arrangements of the Fund. There were 3 specific measures of success set out in the 2021/22 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
New Committee Constitution in place - GREEN	New constitution agreed by full Council in March 2021, elected member appointments made in May, alongside agreement to the scheme member and Oxford Brookes University representatives. Academy and District Council representatives subsequently agreed.	None
New ways of working for the Committee and Board to be in place to satisfaction of members - GREEN	Proposed way forward on all 10 recommendations from the Independent Governance Review determined and being taken forward.	Special Meeting to agree 2022/23 Business Plan and Budget to be convened. New Governance Officer to be appointed.
Full Training Programme in place, with levels of engagement and skills and knowledge scores increasing - GREEN	Initial knowledge assessment completed for all Committee and Board Members. Result, associated training programme and review process included in today's agenda.	Training Programme to be agreed.

14. A further report on the two key outstanding proposals from the independent governance review is included elsewhere on today's agenda, covering the results of the Knowledge Assessment exercise and the associated training programme, and the establishment of a special meeting to develop the Business Plan and Budget for 2022/23.
15. Further improve the data management arrangements between the Fund and both scheme employers and scheme members. 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 scores recorded in customer satisfaction surveys - AMBER	Customer satisfaction scores sent out regularly	Increase number of survey responses to build meaningful feedback.
Increase take up of Member Self Service (MSS) - GREEN		Further develop the scope of MSS and improve the functionality for scheme members.
Further Improvements in data quality scores - GREEN	Resolution of long term Guaranteed Minimum Pension (GMP) issues	Resolve outstanding issues with missing addresses and historic cases with missing data.
Clear Policy in place for calculating benefits where underpin benefits cannot be established due to missing data - AMBER	Full review of all data previously received from scheme employers and analysis of gaps underway.	Complete review of data gaps and produce policy paper for Committee setting out the scale of the issue, the key risks in collecting outstanding data and key risks associated of undertaking benefit calculations in absence of data.

16. The main area of outstanding work in this area relates to the implementation of the remedy to age discrimination identified in the McCloud case. Whilst this work is progressing, we are still awaiting central guidance before we can finalise the project plan and complete the assessment of the data requirements and where policy decisions will be required by this Committee. A full report including any additional resource requirements will be brought to a future meeting of this Committee.
17. Review the arrangements with Brunel following the transition of the majority of Fund assets to Brunel portfolios. Progress against the two measures of success for this service priority are set out below.

Measure of Success	Key Progress Achieved	Outstanding Actions
All investment portfolios deliver long term performance in line with their specifications - AMBER	Officers have work through the Client Group with Brunel to agree draft format of new reports.	Introduce revised performance and assurance reports. Training session to be provided for Committee members on the assurance process.

High confidence/satisfaction scores expressed by Committee members in next client Survey - AMBER		Survey of Members to be undertaken once new reporting arrangements embedded.
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18. As reported last quarter, a number of changes have been agreed to the standard quarterly performance reports and Brunel are currently taking this forward. We still expect revised reports to be available for the Committee later this year.
19. It is intended to run a short training session for Committee members to talk through the assurance process to build confidence that the long-term performance of the investments should be in line with the portfolio specifications.
20. Part C of the Business Plan sets out the Fund's budget for 2021/22 which totals £15,588,000. The table below provides information on expenditure during the first quarter of the year and provides a forecast outturn for the year as a whole.

	Budget	YTD	%	Forecast Outturn	Variance
	2021/22	2021/22		2021/22	2021/22
	£'000	£'000		£'000	£'000
Administrative Expenses					
Employee Costs	1,335	604	45%	1,210	-125
Support Services Including ICT	812	526	65%	812	0
Printing & Stationary	82	23	28%	82	0
Advisory & Consultancy Fees	165	0	0%	165	0
Other	59	0	0%	59	0
Total Administrative Expenses	2,453	1,154	47%	2,328	-125
Investment Management Expenses					
Management Fees	11,316	6,100	54%	12,000	684
Custody Fees	25	10	42%	30	5
Brunel Contract Costs	1,065	822	77%	1,065	0
Total Investment Management Expenses	12,406	6,931	56%	13,095	689
Oversight & Governance					
Investment Employee Costs	263	127	48%	263	0
Support Services Including ICT	12	7	60%	15	3
Actuarial Fees	190	123	65%	190	0
External Audit Fees	40	23	57%	60	20
Internal Audit Fees	16	0	0%	16	0
Advisory & Consultancy Fees	89	26	30%	80	-9
Committee and Board Costs	61	1	2%	50	-11
Subscriptions and Memberships	58	13	23%	50	-8
Total Oversight & Governance Expenses	729	322	44%	724	-5
Total Pension Fund Budget	15,588	8,406	54%	16,147	559

21. At this time it is forecast that the expenditure for 2021/22 will total £16.147m which represents an overspend of £559,000 or 3.6%. The main element of this overspend is on investment management fees, which as previously explained are directly linked to the total assets under management. An improvement in investment performance which increases the overall value of the Fund therefore will lead to an increase in investment fees paid.
22. The only other significant variation is on the employee costs for the administration service which as covered within the Administration report elsewhere on this agenda continues to experience a number of vacancies across the team.
23. 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. As noted above, a full training programme produced in conjunction with Hymans Robertson has been included in the separate report on the governance review elsewhere on today's agenda. Once adopted, this will be monitored as part of this report in line with the process set out in the governance review.

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