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To: Members of the Local Pension Board

Notice of a Meeting of the Local Pension Board

Friday, 22 April 2022 at 10.30 am

Virtual

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AS THE PENSION BOARD WAS NOT SET UP UNDER THE LOCAL GOVERNMENT ACT BUT UNDER SEPARATE PENSION ACT PROVISIONS, IT IS NOT COVERED BY THE REGULATIONS REQUIRING FACE TO FACE MEETINGS. ALSO, AS THE BOARD IS NOT A DECISION-MAKING BODY BUT OFFERS ADVICE TO THE PENSION FUND COMMITTEE, THERE ARE NO MATTERS WHICH WOULD REQUIRE VOTING

Yvonne Rees
Chief Executive

April 2022

Committee Officer: ***Khalid Ahmed***
Tel: 07990 368048; Email: khalid.ahmed@oxfordshire.gov.uk

Membership

Chair – Matthew Trebilcock

Scheme Members:

Alistair Bastin	Stephen Davis	Sarah Pritchard

Employer Members:

Marcia Slater	Elizabeth Griffiths	Angela Priestley-Gibbins

Notes:

- ***Date of next meeting: 8 July 2022***

Declarations of Interest

The duty to declare…..

Under the Localism Act 2011 it is a criminal offence to

(a) fail to register a disclosable pecuniary interest within 28 days of election or co-option (or re-election or re-appointment), or

(b) provide false or misleading information on registration, or

(c) participate in discussion or voting in a meeting on a matter in which the member or co-opted member has a disclosable pecuniary interest.

Whose Interests must be included?

The Act provides that the interests which must be notified are those of a member or co-opted member of the authority, **or**

- those of a spouse or civil partner of the member or co-opted member;
- those of a person with whom the member or co-opted member is living as husband/wife
- those of a person with whom the member or co-opted member is living as if they were civil partners.

(in each case where the member or co-opted member is aware that the other person has the interest).

What if I remember that I have a Disclosable Pecuniary Interest during the Meeting?.

The Code requires that, at a meeting, where a member or co-opted member has a disclosable interest (of which they are aware) in any matter being considered, they disclose that interest to the meeting. The Council will continue to include an appropriate item on agendas for all meetings, to facilitate this.

Although not explicitly required by the legislation or by the code, it is recommended that in the interests of transparency and for the benefit of all in attendance at the meeting (including members of the public) the nature as well as the existence of the interest is disclosed.

A member or co-opted member who has disclosed a pecuniary interest at a meeting must not participate (or participate further) in any discussion of the matter; and must not participate in any vote or further vote taken; and must withdraw from the room.

Members are asked to continue to pay regard to the following provisions in the code that *"You must serve only the public interest and must never improperly confer an advantage or disadvantage on any person including yourself"* or *"You must not place yourself in situations where your honesty and integrity may be questioned…..".*

Please seek advice from the Monitoring Officer prior to the meeting should you have any doubt about your approach.

List of Disclosable Pecuniary Interests:

Employment (includes"*any employment, office, trade, profession or vocation carried on for profit or gain*".), **Sponsorship, Contracts, Land, Licences, Corporate Tenancies, Securities.**

For a full list of Disclosable Pecuniary Interests and further Guidance on this matter please see the Guide to the New Code of Conduct and Register of Interests at Members' conduct guidelines. http://intranet.oxfordshire.gov.uk/wps/wcm/connect/occ/Insite/Elected+members/ or contact Glenn Watson on **07776 997946** or glenn.watson@oxfordshire.gov.uk for a hard copy of the document.

If you have any special requirements (such as a large print version of these papers or special access facilities) please contact the officer named on the front page, but please give as much notice as possible before the meeting.

AGENDA

1. Apologies for Absence

2. Declarations of Interest - see guidance note opposite

3. Minutes (Pages 1 - 6)

To approve the minutes of the meeting held on 21 January 2022 and to receive information arising from them.

4. Unconfirmed Minutes of the Pension Fund Committee - 4 March 2022

To receive the unconfirmed Minutes of the meeting of the Pension Fund Committee held on 4 March 2022. **TO FOLLOW**

5. Review of the Annual Business Plan (Pages 7 - 78)

The Board is invited to review the final position against the Annual Business Plan for 2021/22 as considered by the Pension Fund Committee at their meeting on 4 March 2022, and the new Business Plan agreed for 2022/23, and to offer any comments to the Committee.

6. Risk Register (Pages 79 - 86)

This is the latest risk register as considered by the Pension Fund Committee on 4 March 2022, which incorporated the comments from the Board at their January meeting. The Board is invited to review the report and offer any further views back to the Committee.

7. Administration Report (Pages 87 - 108)

The Board is invited to review the latest Administration Report as presented to the Pension Fund Committee on 4 March 2022, including the latest performance statistics for the Service.

8. Climate Change Engagement Policy (Pages 109 - 112)

The Board is invited to review the draft Climate Change Engagement Policy. The Policy will be further discussed at the next meeting of the Climate Change Working Group on which the Board are represented by Alistair Bastin, and the Board is invited to agree any comments they wish to Alistair to bring to the attention of the Working Group.

9. Items to Include in Report to the Pension Fund Committee

The Board is invited to confirm the issues they wish to include in their latest report to the Committee.

PART II

10. Exempt Items

The Board is RECOMMENDED that the public be excluded for the duration of the following items on the Agenda since it is likely that if they were present during these items there would be disclosure of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972 (as amended) and specified in relation to the respective items in the Agenda and since it is considered that, in all the circumstances of each case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

11. Cessation of Scheme Employer (Pages 113 - 118)

The Board is invited to review the exempt report on the cessation of a scheme employer, and the decision of the Committee to follow option 3 in the report.

12. Payment of Death Grant (Pages 119 - 128)

The Board is invited to review the exempt report on the payment of a death grant and the decision to make the payment direct to the father of the beneficiary rather than require the establishment of a Trust Fund.

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LOCAL PENSION BOARD

MINUTES of the meeting held on Friday, 21 January 2022 commencing at 10.30 am and finishing at 11.30 am

Present:

Voting Members:	Matthew Trebilcock – in the Chair Alistair Bastin Stephen Davis Elizabeth Griffiths Angela Priestley-Gibbins Sarah Pritchard Marcia Slater
Pension Fund Committee Members in Attendance:	Councillor Bob Johnston
Officers:	Sean Collins (Service Manager Pensions Insurance and Money Management), Sally Fox (Pension Services Manager), and Khalid Ahmed (Law and Governance).

The Board considered the matters, reports and recommendations contained or referred to in the agenda for the meeting and decided as set out below. Except as insofar as otherwise specified, the reasons for the decisions are contained in the agenda and reports, copies of which are attached to the signed Minutes.

1/22 MINUTES
(Agenda No. 4)

The Minutes of the meeting held on 22 October 2021 were approved.

2/22 UNCONFIRMED MINUTES OF THE PENSION FUND COMMITTEE - 3 DECEMBER 2021
(Agenda No. 5)

The meeting had before it the draft minutes of the last Pension Fund Committee meeting of 3 December 2021 for consideration. The draft Minutes were noted.

3/22 GOVERNANCE REVIEW
(Agenda No. 6)

The Board was informed that there would be a special informal meeting of the Pension Fund Committee on 4 February 2022, to discuss the Annual Business Plan and Budget for the Fund. Members of the Local Pension Board would be invited to attend this meeting as observers and then feed any views on the proposed way forward to the March Pension Fund Committee meeting.

Issues identified to be discussed included the following:

a) Implementing the McCloud/Sargeant remedy
b) The Pensions Dashboard
c) An Employer Management System
d) Improving Communications to Scheme Members
e) Fund Governance including improved performance reporting and Member Training
f) Review of Additional Voluntary Contribution (AVC) provision
g) Re-tender of the Pensions Software
h) Taking forward the Implementation of the Climate Change Policy
i) The 2022 Fund Valuation including review of the Funding Strategy Statement and Strategic Asset Allocation.

A Board Member requested that implementing a cyber security policy be added to the items discussed.

Reference was made to Knowledge Assessment and Training assessment by Hymans Robertson, and the Service Manager for Pensions, Insurance and Money Management reported that it had been identified that there were a number of gaps in the skills and knowledge of the Committee and the Board as a whole. However, the Board's level of skills and knowledge were higher than the Committees.

Discussion took place on the Training Policy and Programme and the Board was informed that there had been a low take up of the training. Members were reminded that all Member of the Pension Fund Committee were required to undertake either the LGA 3-Day Fundamentals Training Course, or the 9 key modules (5 Core and 4 Defined Benefit modules) of the on-line Trustee Toolkit Training produced by the Pension Regulator.

The Board was reminded that the Pension Fund Committee had agreed that the Training Policy would be updated to include the annual assessment process and include an escalation process to ensure all members were engaging appropriately with the training programme and displaying sufficient progress in acquiring the skills and knowledge or face removal from the Committee or Board.

The Service Manager for Pensions, Insurance and Money Management commented that training was important, to ensure those charged with managing the Pension Fund, which comprised over £3bn, had the necessary skills and knowledge to meet their statutory duties. It also mirrored the increased scrutiny of the governance arrangements of all Pension Funds from the Pension Regulator and Scheme Advisory Board.

The Board was informed that because of the results of the initial Knowledge Assessment exercise, the draft training programme has been reviewed, to include a series of training events linked to the valuation process reflecting the relatively low score for the Pension Fund Committee on this section of the Assessment (28%) and the impending 2022 Valuation process.

Reference was made to the December Governance newsletter which contained relevant training pieces and it was hoped that there would be greater participation from Members in the future.

Members of the Board were thanked for their responses to the training.

The Board noted the information contained in the report.

4/22 REVIEW OF THE ANNUAL BUSINESS PLAN
(Agenda No. 7)

The Board considered a report which set out the latest progress against the key service priorities set in the business plan for the Pension Fund for 2021/22.

On delivering key progress on the Implementation of the Climate Change Policy, the Board was informed that the Climate Change Working Group had met on 10 November 2021 to review the progress made.

Discussion took place on the development of an engagement policy which would provide a benchmark against which the success of current engagement could be assessed, and decisions to divest could be made. The Climate Change Working Group would develop the Policy further alongside Brunel.

The Board was informed that discussions would take place with a number of parties on the engagement policy and it was hoped the policy would be in place in 2023. It was noted, that although there was not currently an engagement strategy, it did not mean that Fund Managers were not currently engaging with companies on the Pension Fund's behalf or taking decisions as part of their active management role to exclude companies where they felt they did not meet the investment parameters set by Brunel in each of the portfolio specifications.

In relation to the work on the implementation of the remedy to age discrimination identified in the McCloud case, a Board Member reported that it was expected Government regulations would be published in the next four weeks.

The Service Manager for Pensions Insurance and Money Management reported that in relation to the partnership with Brunel, this was a work in progress but there was an expectation that this would be delivered. The Pension Fund Committee had a new financial adviser who would be working at building up the relationship with Brunel.

The Board noted the report.

5/22 RISK REGISTER
(Agenda No. 8)

The Board was asked to review the risk register report and offer any further views back to the Pension Fund Committee.

The Board was reminded that at its last meeting on 22 October 2021, it had recommended to the Pension Fund Committee, the inclusion of an additional risk relating to the skills and knowledge of the Pension Board itself. This had been added as a new Risk 14 to the Register.

The Board was informed that there were five risks which were currently scored as Amber which required further mitigation to reduce the overall level of risk to target. These included the following: -

- Risk 13 - the skills and knowledge of the Pension Fund Committee to effectively undertake their statutory responsibilities.
- Risk 14 - to reflect the gap in the skills and knowledge of the Pension Board.
- Risk 21 - Reflects the lack of national progress on bringing forward guidance on the steps necessary to fully remedy the age discrimination identified in the McCloud court case.
- Risk 22 - Relates to the same issue in Risk 21, but in relation to the fire-fighters' pension scheme.
- Risk 23 – This related to the appointment of the new Governance Officer as identified in the independent governance review carried out by Hymans Robertson.

Discussion took place on Risks 16 and 17, Key System Failure and Breach of Data Security respectively and that there should be a cyber security policy, specific to the Pension Fund.

The Board noted the report, and it was agreed that the Pension Fund Committee be asked to consider implementing a cyber security policy.

6/22 ADMINISTRATION REPORT

(Agenda No. 9)

The Board was asked to review the latest Administration Report as presented to the Pension Fund Committee on 3 December 2021, including the latest performance statistics for the Service.

The Board was informed that over the past six months the benefit team had been working to a reduced SLA standard, which had been agreed by the Pension Fund Committee. Improvement had been made but further approval had been given to the temporary SLA targets continuing until March 2022.

Reference was made to the recruitment of another 4 administrators which meant that 90% of team Administrators were or would be in training.

The Board welcomed the improvements in performance and congratulated officers on the improved performance.

The Board noted the report.

7/22 ITEMS TO INCLUDE IN REPORT TO THE PENSION FUND COMMITTEE

(Agenda No. 10)

The Board discussed items to be included in the report to the Pension Fund

Committee and the following were agreed: -

- Cyber Security policy for the Pension Fund – To be fed into the 4 February informal meeting and reported back to the March meeting of the Pension Fund Committee
- Risks 16 and 17, Key System Failure and Breach of Data Security respectively – linked to the request for a Cyber Security policy.

8/22 ITEMS TO BE INCLUDED IN THE AGENDA FOR THE NEXT BOARD MEETING
(Agenda No. 11)

Six monthly look at costs and fees following the transition of assets to Brunel. It was agreed that officers would investigate which meeting of the Board this should be submitted to.

.... in the Chair

Date of signing ....

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Division(s): n/a

ITEM

PENSION FUND COMMITTEE – 4 MARCH 2022

BUSINESS PLAN AND BUDGET 2022/23

Report by the Director of Finance

RECOMMENDATION

1. **The Committee is RECOMMENDED to:**
   a. **Note the progress against the service priorities for 2021/22;**
   b. **approve the Business Plan and Budget for 2022/23 as set out at Annex 1;**
   c. **approve the Pension Fund Cash Management Strategy for 2022/23.**
   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 2022/23. It follows on from the Workshop held on 4 February 2022 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 2021/22 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 2022/23 (contained in annex 1) and remain consistent with those agreed for previous years. Minor amendments have been made to clarify the Plan covers both the Local Government Pension Scheme and the various Fire Fighter Penson Schemes, as well as adding in direct reference to delivering high service standards to scheme members.

5. The overall objectives are summarised as:
   - To administer pension benefits in accordance with the relevant regulations, and the guidance set out by the Pensons 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. 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 2021/22

7. 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 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. 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%. Passive allocations switched 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. To be carry forward to 2022/23. Review December 2021 Carbon Emission figures once published.

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 - GREEN	Initial Engagement Policy presented to Committee today for local agreement.	Work with Brunel and other Funds with partnership to build consensus position.

9. The position on the final measure of success has been updated to Green to reflect the fact that the final draft Climate Change Engagement Policy is elsewhere on today's agenda to be agreed and taken forward as the basis of the Committee's position when developing a consensus position alongside Brunel and other 8 partner Funds as part of the 2022 Stocktake.

10. Delivery of all the targets set out in the Climate Change Implementation Plan was always expected to extend beyond the end of 2021/22 and the monitoring of outstanding actions and the setting of new targets will be included within the 2022/23 and future Business Plans.

11. <u>Deliver further improvements to the governance arrangements of the Fund.</u> There were 3 specific measures of success set out in the 2021/22 Business Plan in respect of this priority. The progress against these in 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	Proposed way forward on all 10 recommendations from	New Governance Officer to be appointed.

satisfaction of members - GREEN	the Independent Governance Review determined and being taken forward.	
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. Strengthen Training Policy and associated training programme agreed at December 2021 Committee.	

12. All key measures of success against this priority have now been delivered with the exception of the appointment of the new Governance and Communications Team Leader which is in progress. Work on governance will be taken forward as business as usual in 2022/23

13. 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 - RED	Customer satisfaction scores sent out regularly	Surveys currently suspended and review on options to gather feedback to be included in 2022/23 Business Plan.
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.

14. 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. This will now be taken forward as part of the 2022/23 Business Plan.

15. The measure associated with improving customer satisfaction scores through the customer survey has been amended to Red reflecting the very low numbers of surveys returned, which meant any analysis of the results was not meaningful.

16. 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.

17. 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.

18. 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.

19. Delivery of the above priorities has been inside the administrative and oversight and governance budgets which in total are expected to underspend by £173,000. However, total expenditure including investment management fees is £1.029,000 above budget.

	Budget	YTD	%	Forecast Outturn	Variance
	2021/22	2021/22		2021/22	2021/22
	£'000	£'000		£'000	£'000
Administrative Expenses					
Employee Costs	1,335	895	67%	1,210	-125
Support Services Including ICT	812	585	72%	812	0
Printing & Stationary	82	34	41%	82	0
Advisory & Consultancy Fees	165	0	0%	165	0
Other	59	2	4%	59	0
Total Administrative Expenses	**2,453**	**1,516**	**62%**	**2,328**	**-125**
Investment Management Expenses					
Management Fees	11,316	6,100	54%	12,500	1,184
Custody Fees	25	23	89%	36	11
Brunel Contract Costs	1,065	1,072	101%	1,072	7
Total Investment Management Expenses	**12,406**	**7,195**	**58%**	**13,608**	**1,202**
Oversight & Governance					
Investment Employee Costs	263	204	78%	265	2
Support Services Including ICT	12	8	66%	15	3
Actuarial Fees	190	192	101%	192	2
External Audit Fees	40	23	57%	60	20
Internal Audit Fees	16	0	0%	16	0
Advisory & Consultancy Fees	89	42	47%	75	-14
Committee and Board Costs	61	1	2%	30	-31
Subscriptions and Memberships	58	16	27%	30	-28
Total Oversight & Governance Expenses	**729**	**485**	**67%**	**681**	**-48**
Total Pension Fund Budget	**15,588**	**9,196**	**59%**	**16,617**	**1,029**

20. As previously reported, the increase in investment management costs reflects the significant growth in the value of investments with most management fees payable as a fixed percentage of assets under management. The overall impact on the performance of the Fund is therefore positive.

21. The only significant other variation is the forecas £125,000 underspend on administration staffing reflecting the level of vacancies being carried during the year.

Service Priorities for 2022/23

22. One of the recommendations of the Independent Governance Review undertaken during 2020/21 was the establishment of 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 4 February 2022.

23. The Workshop was attended by 3 of the 5 voting members of the Committee. As proposals had already been put forward to amend the voting members, the 2 new members were also invited and one was able to attend. All 5 non-voting members of the Committee attended as did 3 members of the Local Pension Board, the Independent Financial Adviser, and the Section 151 Officer for the Fund. The Workshop was facilitated by Hymans Robertson and the Fund's Officers.

24. Those present at the workshop were presented with a summary analysis of the work facing the Fund over the next year, with rankings provided by Hymans Robertson and the Fund's Officers setting out their view which elements formed the **m**ust do work for the Fund, what the Fund **s**hould be doing, what it **c**ould do and what it **w**ould like to do where resources were not an issue (referred to in the workshop as the **M**O**SC**O**W** analysis). Those present were split into 2 groups and asked to identify any missing priorities and comment on the proposed priorities. Subsequently all were asked to identify the level of additional resources they were prepared to support to fund delivery of the priorities and the measures of success they would like to see covered in future reports to enable progress to be assessed.

25. At the end of the workshop a consensus position on the priorities, resources and measures of success was agreed, and this has been incorporated into the draft Business Plan and Budget for 2022/23. It is proposed to focus on four key priorities which are summarised as follows.

26. Priority one is to review and improve the scheme's data. Accurate and timely data is key to our statutory responsibility to administer pension records and pay member's their pension on a timely and accurate basis. This priority covers looking at improving current business as usual data, identifying new requirements arising from new legislation and court rulings including that necessary to deliver the McCloud/Sargeant and Goodwin remedies and ensuring all data is appropriately safeguarded including from cyber threats.

27. It was recognised that 2022/23 is a key year for data as it is a Valuation year, although it was accepted that the data does not need to be perfect for this exercise as the Fund Actuary can make assumptions and adjust results accordingly to allow for missing/poor data. Measures of success for 2022/23 were therefore built around ensuring data is of a sufficient standard to support the Valuation and ensure all pension work can be delivered to SLA standards, with the overall data quality scores submitted to the Pension Regulator being within acceptable bounds with no follow up actions required. There is also a proposed measure of success relating to avoiding any data security breaches. Milestone reports will be presented to the Committee during the year setting out improved information on data returns from scheme employers including any fines issued for late or poor-quality data, and overall data accuracy.

28. The second priority agreed was to deliver a holistic approach to technology across pension administration services. It was accepted that this priority spanned across more than one year, in line with the current system contract which has a break point in 2024. However, during 2022/23, the Committee is looking to sign off the expected outcomes from any investment in technology including improved service efficiency and improved services to customers through the use of 24/7 on-line services. Measures of success include the sign off of the final decision of whether to extend the current system contract with additional bolt-on options to address current shortfalls against requirements, or a full system re-tendering exercise, as well as the associated Invitation to Tender documents. Any tender exercise for a full replacement system will need to begin before the end of the 2022/23 financial year to ensure there is sufficient time to manage the transition from the current system.

29. The Workshop attendees agreed a third priority to enhance delivery of the responsible investment priorities. This included the continuation of the current work on implementing the Climate Change Policy, but also looking to widen the focus to the rest of the environmental issues facing the Fund, alongside the key social and governance issues. A successful application in respect of the Stewardship Code was seen as a key measure of success.

30. A key element within this priority was seen as improved reporting both to the Committee itself but also to the wider stakeholders including scheme members. Developing the Fund's website was therefore seen as an important part of this priority.

31. It was agreed that in developing this priority, the Committee's overall Fiduciary Duty must remain paramount. Both the fiduciary duty and the RI priorities should be reflected in the revised Funding Strategy and Investment Strategy Statements to be agreed in March 2023, the later to include a revised Strategic Asset Allocation.

32. The final priority included in the draft Business Plan for 2022/23 focuses on improving the delivery of service performance to scheme members and in particular ensuring service standards are consistently maintained throughout the year. This would be measured through the current quarterly performance

reports to the Committee, but also through improved feedback from scheme members. This latter element will require the development of a scheme member engagement policy building on best practice.

Budget 2022/23

33. The Workshop accepted that delivering against the above priorities to the standards expected within the measures of success could not be achieved within existing resources. Members agreed the following areas where the budget needed to be enhanced:

- Governance and Communications Team – in addition to the Governance and Communications Team Leader already agreed by the Committee, there is a need for an additional Officer at a more junior level, particularly to focus on the co-ordination of key governance data and the updating of the Fund's webpages.
- Responsible Investment Officer – Even without the wish to widen the current work in the responsible investment field from climate change, there is a clear need to add additional resources into this area, reflecting the significant increased priority given to these issues by the committee in the last few years, and the increasing regulatory requirements from the Government including mandatory climate related reporting.
- External specialist support to run the project to explore the technology requirements and solutions and the subsequent tendering exercises.
- External pension administration support to meet the short-term requirements in delivering business as usual administration services whilst dealing with a backlog of work, the new challenges arise from implementing the McCloud/Sargeant remedies and the additional pressures of end of year and support to the Valuation process. It was agreed that sufficient internal support could not be recruited and trained in the short-term to deliver on these requirements. Whilst the initial Officer proposal was for the external support to cover a 6-month period, attendees at the workshop wanted to retain the flexibility to extend this arrangement if necessary.
- Programme Management resource to support the delivery of the many different workstreams identified both in terms of the new priorities and within existing business as usual arrangements.

34. The full budget for 2022/23 is set out as Part C of the Business Plan and includes a comparison with the budget for 2021/22. Overall, there is an increase in the budget from £15,588,000 to £17,720,000. The main elements of this variation are explained in more detail below. A report comparing the Pension Fund budget for the full 2021/22 financial year against the actual expenditure will be produced for the June 2022 Committee meeting.

35. The main element of the budget increase is the £1,520,000 increase in the investment management fees in line with actual expenditure during the current

year and an assumption that the value of the investments will remain broadly in line with the current position.

36. The budget for Brunel costs has increased from £1,065,000 to £1,160,000. This increase is a combination of an overall increase of 5.3% in the budgeted costs of Brunel, and an amendment to the cost allocation mechanism to more accurately reflect the cost drivers now we have move through the period of transition. The growth proposals reflect the priorities set out in our own Business Plan including improved reporting, especially in respect of responsible investment. Further details on these increases are set out in the attached papers as presented to the Brunel Oversight Board where the Committee are represented by Cllr Bulmer. Final approval was given by the Director of Finance under her delegated powers as Oxfordshire's Shareholder Representative.

37. The budget increases included for the additional resources identified in paragraph 33 above include £150,000 for the external support for the project management of the technology review and the administration support to maintain service standards whilst new internal resources are embedded, £130,000 for the new Responsible Investment and Governance and Communications Officers, and £30,000 for programme management.

38. The two other significant budget increases are an additional allowance for fees payable in respect of the Strategic Asset Allocation Review to be completed by March 2023, and additional system fees to fund the changes required in respect of the implementation of the McCloud remedy.

Training Plan

39. Part D of the Business Plan sets out the broad Training Plan for Committee Members, based on the programme agreed by the Committee at its December meeting.

Cash Management

40. 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.

Lorna Baxter
Director of Finance

Contact Officer
Sean Collins
Tel: 07554 103465

February 2022

Annex 1

Oxfordshire Pension Fund: Business Plan 2022/23

Service Manager - Pensions: Sean Collins

Service Definition:

- To administer the Local Government Pension Scheme and the Fire Fighters Pension Schemes on behalf of Oxfordshire County Council

Our Customers:

- Scheduled scheme employers e.g. County Council, District Councils, Oxford Brookes University, other Colleges and Academies
- Designating scheme employers e.g. Town & Parish Councils
- Admission Bodies including charitable organisations with a community of interest, and bodies where services have been transferred on contract from other Scheme Employers
- Contributory Employees
- Pensioners and their Dependants
- Council Tax payers

Key Objectives:

- Administer pension benefits in accordance with the relevant regulations and the guidance as set out by the Pension Regulator, to a high service standard for scheme members
- Achieve a 100% funding level (LGPS only);
- Ensure there are sufficient liquid resources available to meet the Fund’s liabilities and commitments (LGPS only); and
- Maintain as nearly a constant employer contribution rate as is possible (LGPS only).

Part A: Service Activities

Service Activity	Outputs	Outcomes
Investment Management – LGPS Only		
Management of the Pension Fund Investments	The Fund is invested in assets in accordance with the Committee's wishes. The Fund's assets are kept securely. Quarterly reports to the Pension Fund Committee.	Pension Fund deficit is minimised by securing favourable returns on investments (compared to benchmarks).
Management of the Pension Fund Accounts	Completion of the Annual Report and Accounts.	No adverse comments from the Fund's auditors.
Management of the Pension Fund Cash	Cash management strategy and outturn reports. Cash Managed in accordance with the strategy.	The Pension Fund cash is managed securely and effectively.
Scheme Administration		
Management of the Pension Fund Administration	The administration procedures are robust and in accordance with regulations and service standards, with particular focus on regular reviews to safeguard scheme members from Pension Scams. Changes to regulatory framework of the scheme	The workload is completed & checked in accordance with regulations and procedures. Work is completed within specified time scales No adverse comments from the Fund's auditors, the Pension Regulator and Scheme Members/Employers Implementation of actions arising from regulation changes

Part B – Service Priorities

Objective	Actions	Measures of Success
Review and Improve the Scheme's Data	Develop and run regular (quarterly) reports on the schemes data using the new Insights reporting tool. Report to Committee to include information on data returns from scheme employers, and any regulatory breaches and fines issued. Identify new requirements arising from regulatory changes or court guidance, to include Goodwin, McCloud and Sargeant Run mini projects for all areas where data quality below acceptable standards including address tracing. Review iConnect procedures to ensure all new data is accurate and uploaded to pension system in timely manner. Work with Fund Actuary to review data in preparation for final data submission for 2022 Valuation and provide interim and final reports to Committee on data submitted and final results. Review Fund's Cyber Security Policy and current testing arrangements and report back to Committee on security of all scheme data.	Data Quality scores submitted to the Pension Regulator within acceptable bounds and no follow up action. Valuation completed with data signed off as fit for purpose and scheme employers raising no concerns with outcome. Data of a standard to support delivery of all service KPI's as reflected in quarterly performance reports. No data security breaches reported. Cyber Security Policy is updated (where required) with clear information on roles and responsibilities.
Deliver a holistic approach to technology across pension administration services improving service efficiency and scheme member satisfaction (Multi-year objective).	Establish technology project and bring in specialist external resource to co-ordinate detailed requirements. Review current models successfully employed elsewhere with the LGPS.	Committee Decision on whether to extend current contract and tender for bolt on solutions as appropriate to deliver full specification, or to run full tender exercise for single holistic solution.

	Produce options paper for Committee and develop appropriate Invitation to Tender documentation consistent with the LGPS Procurement Framework.	Tender project plans agreed consistent with the end date of the current system contract. Clear targets established for increase in on-line completion of services.
Enhanced delivery of Responsible Investment responsibilities.	Appoint new RI Officer Continued delivery of current Climate Change Implementation Plan to include engagement policy, reporting across all asset classes and investments in climate change mitigations and solutions. Work with Brunel to improve current reporting to cover all asset classes and widen areas covered across full Environmental, Social and Governance issues. Improve reporting to scheme members and other key stakeholders through the Fund's webpages. Develop project plan to enable Fund to sign up to the Stewardship Code. Undertake Strategic Asset Allocation review to ensure aligned with RI targets whilst still meeting overarching fiduciary duty requirements in respect of investment performance and cash flows.	RI Officer in post Engagement Policy signed off and reflected in overall Engagement Policy agreed by Brunel Pension Partnership. 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. Successful application in respect of Stewardship Code. Revised Funding Strategy Statement and Investment Strategy Statement including revised Strategic Asset Allocation signed off at March 2023 Committee
Delivery improved and consistent service performance to scheme members.	Review all outstanding work to develop project plan to clear all work outside existing service level targets and enable new work to be delivered in line with service level standards. Review current team structures and training programme and recruit to vacant posts and	Services delivered to SLA Standards consistently throughout the year. All services delivered in line with regulatory guidance with scheme changes implemented in accordance with stipulated timescales.

	bring in external resources to meet short term needs. Review options for collecting feedback for scheme members and develop a scheme member engagement policy.	Scheme Member Engagement Policy adopted and positive feedback collected from scheme members.

Part C. Budget:

	2022/23 Budget £'000		2021/22 Budget £'000
Administrative Expenses			
Administrative Employee Costs	1,402		1,335
Support Services including ICT	886		812
Printing and Stationery	82		82
Advisory and Consultancy Fees	315		165
Other	59		59
	2,744		**2,453**
Investment Management Expenses			
Management Fees	12,836		11,316
Custody Fees	40		25
Brunel Contract Costs	1,160		1,065
	14,036		**12,406**
Oversight and Governance			
Investment Employee Costs	405		263
Support Services Including ICT	12		12
Actuarial Fees	190		190
External Audit Fees	50		40
Internal Audit Fees	16		16
Advisory and Consultancy Fees	135		89
Committee and Board Costs	63		61
Subscriptions and Membership	69		58
	940		**729**
Total Pension Fund Budget	**17,720**		**15,588**

Part D – Committee Training Plan

Mandatory Training

All Members to have completed either:

LGA Fundamentals 3 Day Training or
On-Line Pension Regulators Trustee ToolKit – 5 core modules and 4 modules specific to managing a defined benefit scheme,

within 1 year of joining the Committee

Plus

A minimum of 2 days external training or attendance at relevant pension conferences (or equivalent) each year.

Specific Training for 2022/23

Programme to include specific training on the 2022 Valuation. Full training programme attached.

Part E - Pension Fund Cash Management Strategy 2022/23

Introduction

1. The Oxfordshire Pension Fund maintains a balance of cash arising from the receipt of employer and employee contributions, and income from internally managed investments. This incoming cash currently exceeds the amount of payments made on behalf of the Fund. The situation is forecast to continue for the whole of 2022/23. Income generated in investment portfolios is generally reinvested, the exceptions being listed private equity and some private market investments. Were the Pension Fund's cashflow to turn negative the Fund could look to have income generated from its portfolios paid back to the Fund as required to make up any cash shortfall. At present a number of the Brunel portfolios do not have income share classes and so the fund would need to request these. The cash managed in-house by the Administering Authority, provides a working balance for the fund to meet its short-term commitments.

2. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 state that administering authorities must hold in a separate bank account all monies held on behalf of the Pension Fund. The regulations also state that the Administering Authority must formulate an investment strategy to govern how the authority invests any Pension Fund money that is not needed immediately to make payments from the fund. This document sets out the strategy for cash for the financial year 2022/23.

Management Arrangements

3. The Pension Fund cash balances are managed by the Council's Treasury Management team and Pension Fund Investments team. Cash balances are reviewed on a daily basis and withdrawals and deposits arranged in accordance with the current strategy. Pension Fund cash deposits are held separately from the County Council's cash.

Rebalancing

4. The Oxfordshire County Council Pension Fund has a strategic asset allocation range of 0-5% for cash. The cash balance is regularly monitored and reviewed as part of a quarterly fund rebalancing exercise undertaken by officers and the Independent Financial Adviser.

5. Arrangements will be made for cash balances which are not required for cashflow purposes, to be transferred to the Pension Fund's Investment Managers in accordance with the decisions taken during the rebalancing exercises.

6. In general, a minimum cash balance of £40million will be retained following a fund rebalancing exercise, to meet cashflow requirements and private market investment transactions. The level of cash balances will fluctuate on a daily basis and may be considerably higher than the minimum balance dependent upon the timing of transactions and strategic asset allocation decisions.

Investment Strategy

7. The Pension Fund cash investment policies and procedures will be in line with those of the administering authority. Priorities for the investment of cash will be:-

   (a) The security of capital

(b) The liquidity of investments
(c) Optimum return on investments commensurate with proper levels of security and liquidity

Investment of Pension Fund Cash

8. Management of the Pension Fund's cash balances will be in accordance with the Administering Authority's approved Treasury Management Strategy and policies and procedures.

9. The Pension Fund cash balances will be held predominantly in short-term instruments such as notice accounts, money market funds and short-term fixed deposits. Approved instruments for pension fund cash deposits will be the County Council's list of specified investments for maturities up to 1 year, excluding the Debt Management Account deposit facility which is not available to pension funds and UK Government Gilts which are managed by an external fund manager. The County Council's current approved list of specified investments is attached at appendix 1.

10. Pension Fund deposits will be restricted to a subset the County Council's approved counterparties at the time of deposit and will include the Fund's custodian bank. Approved counterparties as at 31st January 2022 are shown in annex 2. There will be a limit of £30m for cash held with each counterparty.

Borrowing for Pension Fund

11. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 give administering authorities a limited power to borrow on behalf of the pension fund for up to 90 days. The power cannot be used to invest, but only for cashflow management in specified circumstances which should in practice be exceptional, i.e. to ensure that benefits are paid on time, and in transition management situations when the allocation of a pension fund's assets is being amended. Money can only be borrowed for these purposes if, at the time of borrowing, the administering authority reasonably believes that the sum borrowed, and any interest charged as a result, can be repaid out of the pension fund within 90 days of the date when the money is borrowed.

12. Pension Fund management arrangements presume no borrowing normally, but the possibility remains of unexpected pressures occurring and in these circumstances the power would enable the Pension Fund to avoid becoming forced sellers of fund assets due to cashflow requirements.

13. The Director of Finance (S.151 Officer) has delegated authority to borrow money for the Pension Fund in accordance with the regulations but only in exceptional circumstances. It is proposed that the authority to borrow on behalf of the Pension Fund continues to be delegated to the Director of Finance during 2022/23.

Oxfordshire County Council 2022/23 Approved Specified Investments for Maturities up to one year

Investment Instrument	Minimum Credit Criteria
Term Deposits – UK Government	N/A
Term Deposits – other Local Authorities	N/A
Term Deposits – Banks and Building Societies	Short-term F1, Long-term BBB+, Minimum Sovereign Rating AA+
Certificates of Deposit issued by Banks and Building Societies	A1 or P1
Money Market Funds	AAA
Other Money Market Funds and Collective Investment Schemes[1]	Minimum equivalent credit rating of A+. These funds do not have short-term or support ratings.
Reverse Repurchase Agreements – maturity under 1 year from arrangement and counterparty of high credit quality (not collateral)	Long-term Counterparty Rating A-
Covered Bonds – maturity under 1 year from arrangement	Minimum issue rating of A-

[1] I.e., credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

Approved Counterparties

Aberdeen Standard Sterling Liquidity Fund

State Street Bank & Trust Company
Lloyds Bank Plc
Oversea-Chinese Banking Corp
Svenska Handelsbanken
Santander Plc

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DRAFT FORM

Oxfordshire Pension Fund Training Plan 2021/2022 – 2022/2023

	Q1 2022/2023		Q2 2022/2023		Q3 2022/2023		Q4 2022/2023	
	1 April 2022 - 30 June 2022		1 July 2022 - 30 September 2022		1 October 2022 - 31 December 2022		1 January 2023 - 31 March 2023	
1 Core CIPFA requirement	**Pension Legislation (module 1)**	**Pension Governance (module 2)**	**Pension Administration (module 3)**	**Pension Accounting & Auditing Standards (module 4)**	**Pension Services Procurement & Relationship Management (module 5)**	**Investment Performance & Risk Management (module 6)**	**Financial Markets & Product Knowledge (module 7)**	**Actuarial Methods, Standards & Practices (module 8)**
Outline of content	Providing a general understanding of the legislative fromework as it applies to the LGPS, in line with CIPFA Knowledge & Skills Framework	Providing a general understanding of the LGPS governance structure and a "who's who" of scheme governance, in line with CIPFA Knowledge & Skills Framework	Providing a general understanding of best practice in pensions administration, together with Fund policies and discretionary powers, in line with CIPFA Knowledge & Skills Framework	Providing a general understanding of the Accounts and Audit Regulations and the role of internal and external audit, in line with CIPFA Knowledge & Skills Framework	Providing a general understanding of the public procurement requirementa as they apply to the LGPS, in line with CIPFA Knowledge & Skills Framework	Providing a general understanding of the relationship between assets and liabilities, the Myners principles and the structure, operation and purpose of investment pooling arrangements, in line with CIPFA Knowledge & Skills Framework	Providing a general understanding of the risk and return characteristics of the main asset classes, the workings of the financial markets and available investment vehichles and the importance of the Fund's ISS and investment strategy decisions, in line with the CIPFA Knowledge & Skills Framework	Providing a general understanding of the role of the Fund actuary and the formal valuation process (including the FSS and inter-valuation monitoring) and the treatment of new and ceasing employers (including employer covenant)in line with the CIPFA Knowledge & Skills Framework
Scheduled delivery date	tbc	tbc	tbc	tbc	tbc	tbc	tbc	tbc
Method of delivery	video conference/face to face	video conference/face to face	video conference/face to face	video conference/face to face	video conference/face to face	video conference/face to face	video conference/face to face	video conference/face to face
Delivered by								
Committee	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Board	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2 Business plan relevant	**Assessment**							
Outline of content	Review of the delivery of the training plan, to include an assessment of the knowledge and understanding of the Committee and Board members							
Scheduled delivery date	tbc							
Method of delivery								
Delivered by								
Committee								
Board								
3 Current issues and ongoing training	**Valuation update**							
Outline of content	If required, to ensure members are up to date with regard to any specific issues relating to the Fund's 2022 valuation exercise							
Scheduled delivery date	tbc							
Method of delivery	tbc							
Delivered by								
Committee								
Board								

4 Current issues and ongoing training	TPR toolkit Training videos Webinars Conferences	TPR toolkit Training videos Webinars Conferences	TPR toolkit Training videos Webinars Conferences	TPR toolkit Training videos Webinars Conferences
Outline of content				
Scheduled delivery date	Throughout the year	Throughout the year	Throughout the year	Throughout the year
Method of delivery	As appropriate	As appropriate	As appropriate	As appropriate
Delivered by	tbc	tbc	tbc	tbc
Committee	Yes	Yes	Yes	Yes
Board	Yes	Yes	Yes	Yes

5 Valuation specific	**Funding risks and objectives training**							
Outline of content	Funding risks and objectives training (inc climate change, use of surplus, etc)							
Scheduled delivery date	tbc							
Method of delivery	video conference/face to face							
Delivered by	Hymans							
Committee	Yes							
Board								

Committee decision/actions:
March 2022 - Agree valuation assumptions (financial and demographics)
September 2022 - Agree draft FSS for consultation alongside initial whole fund results
March 2023 - Agree final FSS following consultation and final valuation report

Pension Committee and Board - Training for Financial Year 2021/22

Training hours completed (hours)		**Subject**								
		Pension Legislation (module 1)	**Pension Governance (module 2)**	**Pension Administration (module 3)**	**Pension Accounting & Auditing Standards (module 4)**	**Pension Services Procurement & Relationship Management (module 5)**	**Investment Performance & Risk Management (module 6)**	**Financial Markets & Product Knowledge (module 7)**	**Actuarial Methods, Standards & Practices (module 8)**	**Total (hours)**
Pension Committee										
Cllr A (Chair)										
Cllr B (vice -chair)										
Cllr C										
Cllr D										
Cllr E										
Cllr F										
Cllr G										
Vacancy										
Pension Board										
A										
B										
C										
D										
E										
F										
G										
Vacancy										
Officers										
A										
B										
C										
D										

Appropriate external training events and seminars

Date	Event	Host	Cost
Jauary	LGA Annual Governance Conference	Local Government Employers	TBC
May	Local Authority Conference	Pension & Lifetime Savings Association	TBC
October/November/ December	LGA Fundamentals	Local Government Employers	TBC
July	Pension Fund Symposium	Local Government Chronicle (LGC)	TBC
September	Investment Summit	Local Government Chronicle (LGC)	TBC
November	Local Authority Forum	Pension and Lifetime Savings Association (PLSA)	TBC
December	LAPFF Annual Conference	Local Authority Pension Fund Forum (LAPFF)	TBC

Business Planning

Brunel Oversight Board

27th January 2022

BRUNEL
Pension Partnership

Executive Summary

The proposed business plan and budget for 2022/23 includes:

- **An increase from the 2021/22 budget of £10.7 million to £11.4 million to meet inflation, cost pressures and further enhanced client services**
- **A reduction in the contingency from 5% to 3% of total budget**
- **Resulting in an overall increase in cost to clients, net of reduction in contingency, of 5.3%**

The additional resource will support growth in volumes, enhanced quarterly client reports and continue to grow leadership in responsible investment.

Brunel is committed to being great value for money. The proposed budget aims to provide sufficient resource to continue to deliver high performance, investment leadership, tax savings and security for the future.

Baseline changes, a reminder

In 2019/20, £2.6m additional budget was provided by Shareholders to fund the PM administrator, cost of additional regulation, new posts for BAU and portfolio launch / transition. These has been removed as agreed.

The table below shows the historical budget for Brunel. This shows since 19/20 increases we have had stable years, but now look for growth.

	18/19 £'000	19/20 £'000	20/21 £'000	21/22 £'000	Proposed 22/23 £'000
Budget Plan	7,795	10,427	10,483	10,650	11,433
Contingency	390	521	524	533	343
Income	**8,185**	**10,948**	**11,007**	**11,183**	**11,776**
Year on Year Change (%)		33.8%	0.5%	1.6%	5.3%
Year on Year Change (£)		2,763	59	176	593

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Budget Increase 2019/20	£'000
Development & Set up costs	(816)
Private Markets administrator	958
Regulatory costs	629
New Investment Posts	336
New Non Investment Posts	392
Portfolio Launch	632
Transitional Posts	268
Inflation	233
Total	**2,632**

Baseline Reductions	Total	20/21 £'000	21/22 £'000	22/23 £'000
Portfolio Launch	-511	-191	-240	-80
Transitional Posts	-214	-52	-162	
Costs Removed	**-725**	**-243**	**-402**	**-80**

As shown, budget increases for launches and transitions were removed, as agreed, but they have been offset by growth, each year this has been agreed with Clients and Shareholders. This has allowed Brunel to develop, in alignment with Client requirements.

Budget Build

All figures in GBP 000's

Current Year Budget (2021-22)	3.0 bps	10,650	
		430	– Inflation cost pressure, including Insurance premiums £127k, overall 4% in line with CPI forecast
Revised Plan with inflation	3.1bps	11,080	
		344	– New areas of costs to add back in, for cost pressures, e.g. PM & Back Office reorg., Internal Audit fees, IT Governance, CTI Reporting, consultancy
		(315)	– Cost Savings, including reductions in Transitions admin, training, & IT reprovision
Revised Plan with costs & Savings	3.2 bps	11,109	
		83	– Client Reporting – this became a cost pressure when we sign the new Vendor in Jan 22
		126	– Volume Growth
Budget within Client Target (2022-23)		11,318	
		115	– ESG Growth
Full Budget (2022-23)	3.2bps	11,433	

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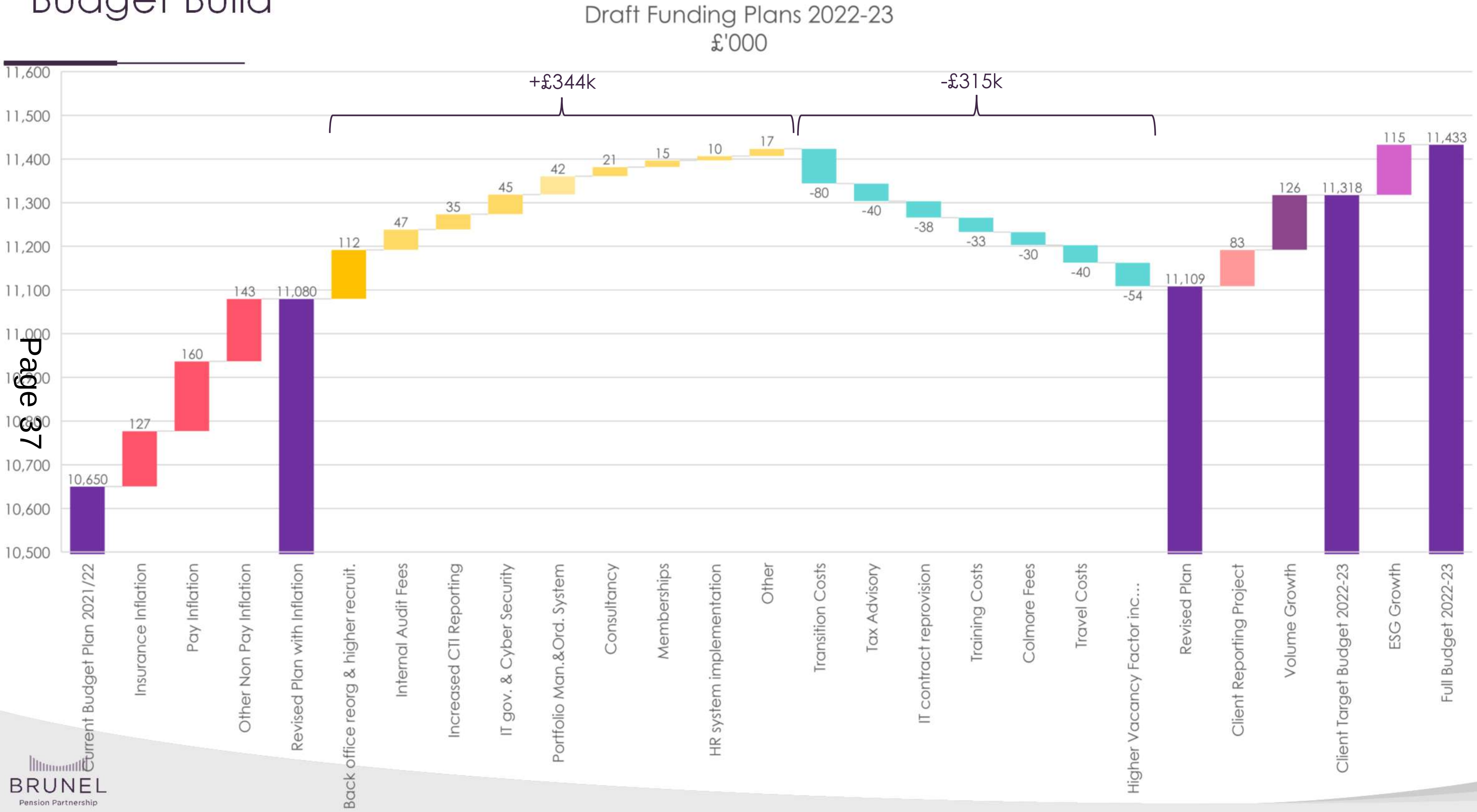
Budget Build



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Pension Partnership

Cost inflation details

Cost	%	£'000
1. Salary Costs Allocation*	3.00%	160
2. Insurance	40.00%	127
3. Bank Charges		19
		306
4. Other smaller line items		124
Total		**430**

* Allocation to support pay awards, promotions, development contracts based on outcomes from appraisals and will take into account a cost of living increase where appropriate.

Cost inflation expectations from the Bank of England are 4.1%, which drives the £430k increase. This slide shows how and where that translates into our cost base.

1. Pay inflation has been assumed at 3% in the Business Plans. This is an allocation to cover any pay awards provided. The labour market is tight and replacement costs are typically an upward trend. Noting that 3% pay inflation is below the expected 4% CPI forecast, so a net 1% real reduction in pay.

2. Insurance premiums have had the greatest impact on Brunel which is the result of the general tightening of the market and impact of Covid19.

3. Bank Charges includes a reduction of income from interest on own funds as rates have dropped.

4. Other areas of increasing cost inflation include travel, hotels, accommodation, utilities, professional subscriptions

Three initiatives, what they provide and the risks of not funding

Quarterly Reporting	Volume Growth	ESG Growth
Improve timeliness: investor insight, look and feel, fund factsheets, combined Listed & Private market assets	Supports core middle office PM volumes, which are already high and will grow as cycle 3 is invested	Supports future ESG client requirements (eg own TCFD reporting) and bolsters compliance capability
Risk: doesn't meet current Client requirements	Risk: operational errors on capital calls.	Risk: we slip from RI leader to RI follower
Risk: weak reporting leads to more ad hoc client requests, which Brunel struggle to support	Risk: errors on corporate actions	Risk: increased turnover as we dilute our purpose
Risk: stakeholders don't see benefit of pooling	Risk: higher cost as we use 3^{rd} parties for operational due diligence	Risk: we are non-compliant and seen as an RI leader, reputational harm
Risk: staff feel de-motivated as stuck with an out-dated reporting solution	Risk: concentrated people risk, 1 person does this work.	Risk: we are less able to improve data which underpins RI and fiduciary decision making at pension committees
Risk: turnover of staff that work directly on client reporting	Risk: turnover of highly specialised staff, difficult to recruit and may increase cost	Risk: we are unable to support Client TCFD reporting, leading to greater Client spend with consultants
We will sign a new Vendor in Jan 22, at which point it becomes a cost pressure not an option		Risk: very slow progress on Climate Aligned benchmarks for active managers

Quarterly Client Reports

- State Street charge £6k per client per quarter for reports that are no longer fit for purpose.
- Going forward this will be £8k per Client per quarter for reports that are fit for the long term.

Service

To meet Client requirements for quarterly reports, ensuring our output supports clear understanding of portfolio performance against investment objectives.

To reduce the production timescales and allow for future reporting development.
Note: this is not an analytics tool, it will systematically report information, not perform calculations.

Activity

Complete procurement of new reporting tool, to appoint vendor in 2021.
includes legal agreement, establishment of vendor oversight framework, SLAs. Much of this work will be complete before 1/4/22.

Implementation tool as soon as appointed, in order to have a parallel run in March 22
Design and agree new reports, define control process for production including full risk assessment, agree change management process. The majority of this work will be complete before 1/4/22.

Hire new Brunel resource to support reporting tool, to start search now.
This role will support implementation and then be able to oversight all third parties (inc data providers), control data flows, remediate breaks, work with clients and vendors on report life-cycle (requirements, design, testing, production, enhancements).

Cost

£83k, noting that Brunel have negotiated savings of £90k to substantially reduce the net cost of this service.

As a reminder this tool will: provide fund factsheets, make reporting more timely, give more investor insight achieve a more professional look and feel, combined Listed & Private market assets. This is a marginal cost per Client for a substantial benefit against agreed goals.

Please note Brunel will be signing contracts to onboard the new reporting vendor in January 2022, at which point this becomes a cost pressure, rather than an option.

Quarterly Client Reports, cost analysis

A further breakdown of the costs are shown in the table below.

Activity	Cost	£'000	Service Area
Added 1 FTE for a Reporting Analyst to support the implementation and the on-going operation of the reporting tool, while increasing capacity to support wider client requirements.	Reporting Analyst	93	Client Relations
Operational vendor costs for the reporting tool	Vendor On-going Costs	35	Client Relations
Support through the implementation phase of the project. This cost will drop out in 2023/24	Consultancy Fees	30	Client Relations
Funding to develop the tool to meet Client requirements	Vendor further development	15	Client Relations
Reduction in reporting costs agreed with current custodian to offset costs	State Street Savings	-90	Investment Operations
		83	

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The table below shows the costs from the Project Business Case. This shows that the net increase in cost is £53k after the initial implementation phase and the consultant rolls off the project:

Client Reporting Project	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k
Vendor Costs	-88	-50	-50	-50
State Street set up	-5	0	0	0
Project Management	-176	-30	0	0
Reporting Analyst	0	-93	-93	-93
State Street Savings	0	90	90	90
Total Costs	**-269**	**-83**	**-53**	**-53**

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Volume growth

Service	To support core services; scale has driven growth in activity beyond original expectations.
Activity	1. Middle office activity growth requires support to ensure all transactions are safe, this includes private market calls, ongoing due diligence of an expanding set of private investments, servicing the private markets corporate actions and reshaping the property portfolio (see supporting slide) 2. Restructured the HR and Finance team to support growing business support needs.
Cost	**£126k** covers cost of an additional staffing resource for back and middle office, increased staffing / HR costs, along with increased data views and benchmarking tools fees to support the growth in Private Markets.

AUM now £38bn with £29bn transitioned as at Sept'21

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Pension Partnership

Volume growth: Service & Activity

The table below highlights the activity that will be funded by the additional £126k request:

Activity	Cost	£'000	Service Area
Added 1 FTE next year in Inv ops at a senior level to allow support for heightened activity in Private markets as cycles build will also support new manager, resiliency and core processes across team.	Senior Investments Ops Officer	89	Investment Operations
Assume additional costs arising from new appointments. £10k provided to support HR associated costs and set up costs, £5k to support cost of additional IT Licences and equipment.	HR costs associated with recruitment	15	Finance & Corporate Services
Budget for additional data views including "GREFI" (International); MSCI license for Colmore access; PEI Media (Infra Investor, PDI).	Data Views / Licences	22	Private Markets
		126	

Volume growth: private market middle office

Service

The Brunel middle office ensure client transactions are safe, by supporting:

Cash management including capital calls, working with Colmore monitoring all cash flows, responsive to underlying capital calls, providing a layer of checking and notification to clients, controlling the end to end process, including State Street accounting record updates and ongoing reporting/reconciliation. The industry as a whole is manual making this a resource intensive higher risk process.

Property trades, to rationalise the legacy portfolio holdings in order to move all clients towards our model property portfolio, this will continue over a 3 year period. During (and following) this property trading will also reinvest income and keep clients allocations at target.

Corporate actions, in private markets for every investment ensuring that Brunel have considered and voted on every corporate action. This includes elections, resolutions, and any changes to LP or fund management arrangements.

Operational due diligence; for every investment in private (and listed markets) the manager is assessed, covering critical aspects such as how valuations are performed. All managers are RAG rated and revisited at a minimum, every 3 years (dependent on initial rag rating).

Activity

Volumes have grown rapidly, outsourcing is maximised and effective however, due to the nature of the LP arrangements (with Brunel acting under POA) not all activity can be outsourced, therefore, small increases within Brunel Investment Operations are needed to continue to support this path, ensuring we manage peak loads to the low levels of risk expected.

As shown below, capital calls have increased ~x3 YoY. Due diligence will grow as we continue to invest and move to ongoing monitoring. Corporate actions are substantially up YoY and we are now very actively reshaping the property portfolios as well as reinvesting income.

	Capital Calls*	Property trades	Corporate actions	PM ODD
Average**				
2020	15	0	2	1
2021	43	3	5	1
2021 vs 2020	28	3	3	0
2021 vs 2020	190%	1700%	159%	20%
Max**				
2020	31	2	4	3
2021	88	10	14	6
2021 vs 2020	57	8	10	3
2021 vs 2020	184%	400%	250%	100%

* Client level
** Monthly figures not annual

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ESG growth

Service

To support Clients expanding ESG requirements on a range of initiatives, including
1. To influence, then develop TCFD reports that can be adopted by our Clients.
2. To continue to support ad hoc ESG impact requests
3. To introduce a policy climate aligned benchmark for active managers

Activity

1. To engage with industry bodies to positively influence ESG regulations inc TCFD standards and their adoption by local authority pension funds. To engage with our Clients on the interpretation of TCFD regulations and how they will apply to Brunel and local authority pension funds.

2. Clients have requested 30 ad hoc ESG reports in the last year (3 per client on average). To give a flavour these covered fossil fuel breaks downs (7 reports for 5 clients), country level holdings, stock level requests. Given the importance is expected to continue to increase. Brunel are implementing a reporting tool to support these requests (which will require data feeds) and hiring into the Client team to bolster these interactions.

3. To engage and establish the inclusion of Climate Aligned benchmarks as policy on active funds and associated reports, to engage with managers in progress, engage with stakeholders on interpretation. Requires four meetings per client to get this done and landed with pension funds.

Cost

£115k to support resourcing in RI and Compliance Risk teams, with some additional costs for Membership, subscriptions and attendance at conferences (minimal). Or £12k per client as elective.

3.Cost to be established when approach is agreed.

ESG growth, cost analysis

ESG growth requires budget to support the following areas. Again the Senior RI team is set up to deliver the required services but support is required within their team a lower level while the monitoring of activity from a compliance perspective continues to increase:

Activity	Cost	£'000	Service Area
To provide additional capacity to the senior RI team to allow them to deliver their service and required level of engagement to support the Client's objectives.	RI Stewardship Officer	38	Core & RI
1 FTE to provide capacity and allow coverage to ensure increased level of horizon scanning and compliance monitoring as RI interacts increasingly with regulations for Brunel.	Compliance Analyst	61	Compliance & Risk
Increased budget to support engagement	Conferences / Membership / Subscriptions	16	Core & RI
		115	

Brunel Budget Proposals,

Brunel Budget 21/22 and 22/23	**21/22 Budget**			**22/23 Budget**							
	Original Budget £'000	**Approved from 20/21 £'000**	**Updated Budget £'000**	**Original Budget £'000**	**Inflation £'000**	**Cost Pressures £'000**	**Savings £'000**	**Volume Growth £'000**	**Client Reporting £'000**	**ESG Growth £'000**	**Updated Budget £'000**
Executive	804		804	804	32	22	(3)				854
Non-Executive	277		277	277	11	0	(2)				286
Client Relations & Communication	568	20	588	568	24	(31)	(2)		173		731
Core and Responsible Investment	986	10	996	986	30		(5)			54	1,066
Listed Markets	1,323	150	1,473	1,323	38	42	(94)				1,309
Private Markets	1,595	44	1,639	1,595	56	38	(9)	22			1,702
Compliance and Risk	593		593	593	24	60	(2)			61	736
General Counsel	129	31	160	129							129
Investment Operations	2,118	75	2,193	2,118	25	(25)	(72)	89	(90)		2,046
Finance & Corporate Services	1,848	90	1,938	1,848	190	182	(125)	15			2,110
Operations Office	56	20	76	56	0	25	(1)				79
Central Costs	353		353	353		31					384
Total Costs	**10,650**	**440**	**11,090**	**10,650**	**430**	**344**	**(315)**	**126**	**83**	**115**	**11,433**
Contingency	**532**	**22**	**554**	**319**	**13**	**10**	**(9)**	**4**	**2**	**3**	**343**
Income	**11,182**	**462**	**11,644**	**10,969**	**443**	**354**	**(324)**	**130**	**85**	**118**	**11,776**

Contingency – Pricing Policy

Key messages:

- The partnership has discretion on contingency levels, but they are an SRM
- Reducing the contingency, amongst other things, could be an effective way to manage the total cost increase
- Brunel are aiming to also discuss this item at BOB

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Overall Budget Proposal

	2021/22 £'000	2022/23 £'000	Change
Budget Plan	10,650	11,433	7.4 %
5% Uplift for Contingency	533		
3% Uplift for Contingency		343	
Client Invoiced	**11,183**	**11,776**	**5.3%**

The Budget proposal considers the reduction on the level of contingency from 5% to 3%. This maintains overall budget increase to Clients of ~5% year on year.

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Recap – this is our Budget Build

All figures in GBP 000's

Current Year Budget (2021-22)	3.0 bps	10,650	
		430	– Inflation cost pressure, including Insurance premiums £127k, overall 4% in line with CPI forecast
Revised Plan with inflation	3.1bps	11,080	
		344	– New areas of costs to add back in, for cost pressures, e.g. PM & Back Office reorg., Internal Audit fees, IT Governance, CTI Reporting, consultancy
		(315)	– Cost Savings, including reductions in Transitions admin, training, & IT reprovision
Revised Plan with costs & Savings	3.2 bps	11,109	
		83	– Client Reporting – this became a cost pressure when we sign the new Vendor in Jan 22
		126	– Volume Growth
Budget within Client Target (2022-23)		11,318	
		115	– ESG Growth
Full Budget (2022-23)	3.2bps	11,433	

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Outer years …

Our expectations for future years

1. Include cost inflation, to be assessed but we'd assume a 3% baseline for now ~£350k pa
2. Include triennial contribution increases, currently 4% which is £170k p.a from April 2023
3. Include some cost growth to support Private Markets, front and middle office, +2 heads in year 3 ~£200k
4. See some reduction for Quarterly Client reporting as 2022 includes £30k of implementation costs, not repeating

	Year 1 2022-23	Year 2 2023-24	Year 3 2024-25
Budget	**11,433**	**11,923**	**12,473**
Inflation		350	350
Reporting	-	30	-
Triennial		170	-
Private Markets			200
Total increase		**490**	**550**

Baseline assumption is

1. Assume AUM and products are stable, but if these grow and become more complex this will drive further cost eg new PM investments, insurance, regulatory compliance.
2. As always, we will look to manage costs down and lower cost budgets where we can.

Other cost drivers are not clear yet but things that might drive additional growth:

- Increased service requirements from Clients
- New regulations
- Need to change a critical outsourced provider or insource, though we'd aim to keep the net cost increase tightly managed
- Competitive landscape, eg hiring and retaining talent

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Appendix

As shown on the following slides, Brunel is committed to delivering value for money and achieving our objectives

The plan proposal put forward is against a backdrop of having more assets to manage and achieving better than expected cost savings.

Hitting our objectives, creating value for Clients

1. Client Driven:

Client Satisfaction:
3.9 out of 5, up 0.4pts YoY

Staff Engagement:
93% (+7pts YoY)

2. Outperformance

- Performance £800m excess
- All portfolios launched
- Total AUM up £8bn vs the OBC for March 2021
- 120 sub-IM meetings annually
- Award winning portfolio construction (IPE)

3. Additional Benefits

- Paris Aligned passive benchmarks live and funded
- High volume of Pension Committees supported by investment specialists
- CTI and client year end supported
- Leaders in RI, eg COP26, TCFD, IIGCC
- Accredited FRC stewardship standard

4. Risk

- No high risk audit findings
- Adequately capitalised
- Alignment to ESG principles, including good governance

5. Fees & Costs

- We are now breaking even on the MHCLG return
- Based on assets transitioned, Net Fee savings £13m pa (£24m gross), vs pre-pooling
- Total IM Fees are 13bps cheaper than the market*
- Tax savings of £17m in 2021, exceeding expectations
- Within budget every year, £215k rebate for 2020

Notes:
1. Fee saving achieved in the year ending March 2021, excluding transition costs, which are one off in nature vs the repeatable saving.
2. Tax savings based on £153m of dividends clients were paid within the ACS in the year to Sep 21, Brunel saved £17m vs statutory withholding tax
3. Excess returns is from the active listed market funds, built per day per fund since inception, as of 31/8/21, bps assume £35bn AUM
4. (*) CTI analysis by Caceis shows vs comparable size schemes and on the specific Brunel asset allocation

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Savings & Performance Headlines

In 2021

Manager fee savings

6.7 bps = £23m p.a.

In 2021

ACS with-holding tax savings

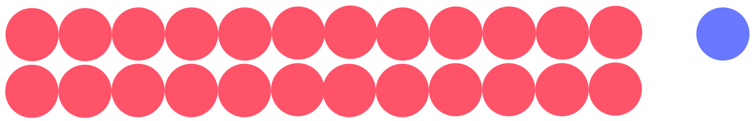
£17m (5bps)

Since Inception EXCESS RETURNS

£800 million (229bps)

Since Inception FEE SAVINGS

£33 million (9bps)



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Notes:
1. Fee saving is the gross amount (pre Brunel cost base) as achieved, excluding transition costs, which are one off in nature vs the repeatable saving.
2. Tax savings based on £153m of dividends clients were paid within the ACS in the year to Sep 21, Brunel saved £17m vs statutory withholding tax
3. Excess returns is from the active listed market funds, built per day per fund since inception, as of 31/8/21, bps assume £35bn AUM

More assets & better savings than the OBC

Brunel has **both more assets** to manage and is making **better than expected savings**

Even allowing for this budget increase the rate of savings and the absolute amount exceeds the OBC by £5mn pa.

Our growth is in more complex areas, such as Private Markets or in leading RI, which allows more savings, but needs resourcing.

Brunel Budget		18/19 £'000	19/20 £'000	20/21 £'000	21/22 £'000	22/23 £'000
Cost Budget Approved	£m	7.8	10.4	10.5	10.7	10.9
AUM	£bn	28	30	35	35	35
cost bps	bps	2.7	3.4	3.0	3.0	3.1
Gross Savings (MHCLG)	£m	-1.9	-8.1	-23.5	-32.5	-35.5
Net Savings (MHCLG)	£m	n/a	n/a	-12.5	-21.3	-24.0
bps net saving	bps	n/a	n/a	-3.5	-6.0	-6.8
OBC target net savings	bps					-5.2
Cost Proposed Budget	£m					11.4
AUM	£bn					35
cost bps	bps					3.2
Gross Savings (MHCLG)	£m					-35.5
Net Savings (MHCLG)	£m					-23.7
bps net saving	bps					-6.7
OBC target net savings	bps					-5.2

In 2022/23

- ✓ Assets are up £6bn from the OBC (£35bn vs £29bn expected).
- ✓ The saving rate is up 1.5bps from the OBC.
- ✓ This totals a £5m annual fee saving.
- ✓ This is <u>inclusive</u> of the proposed cost increase.

Note:
1. OBC excludes Pension Fund own cost savings, not within scope.
2. 22/23 conservatively estimates a further £3m on known '22 savings

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Pricing and Cost Allocation Policy Review

11 January 2022

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Exec Summary, it's time to review the pricing policy

The current Pricing Policy is scheduled for review by 31 October 2021. Its **purpose remains unchanged**, i.e., "the Policy is fundamental to ensuring that there is a formal agreement across all clients and Brunel on how costs will be priced and charged equitably."

The evolution of the business over the period from the last iteration of the policy (November 2018) and the successful transition of assets to date, make this a suitable time to review the mechanics of the pricing policy to ensure it remains suitable going forward.

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Pricing Policy Evolution

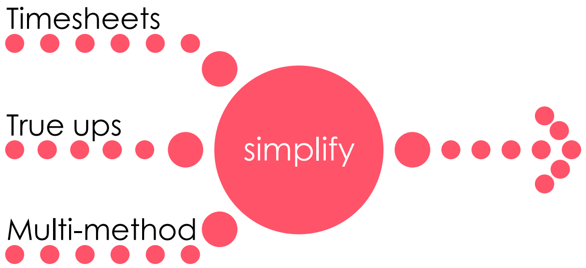
- Jul 17 – simple 1/10th split or AUM in PM or LM
- Sep 18 – split launch & monitor costs; adds complexity
- Spring 22 – simplify; fixed allocation share and variable basis by asset type

The current policy was designed to manage complexity, to charge clients whilst assets transitioned, and would not be considered if the business were starting today with current levels of AUM.

This document sets out a suggested approach and revision to the current Pricing Policy with a replacement "Pricing and Cost Allocation Policy" for a further three year period. Client Group are asked to review, provide comment and agree a proposed approach going forward. Any change to the policy is subject to a unanimous Special Reserved Matter (SRM) and following agreement with Client Group the proposal will be taken to the Brunel Oversight Board for consideration.

Pricing and Cost Allocation Policy - drivers for change

It is now appropriate to refine the model to be fit for purpose in the next phase of the business development, i.e., an increasing focus on the management of the investments, as opposed to launching funds, and ensuring the provision of optimum services for our clients and shareholders.



The current policy is a time consuming and complex process to administer and is subject to onerous resource tracking and allocation processes. A simplification of approach would free up limited resource and permit a more straightforward allocation of costs.

The next iteration of the Pricing Policy ("Pricing and Cost Allocation Policy") has been developed with established investment management pricing practice in mind and aims to increase transparency and ensure ongoing fairness across all clients.

The pricing of individual elective services will enable external market comparison to ensure competitiveness and value for money.

Section 1

Proposed changes to the methodology of Client cost allocations

Pricing and Cost Allocation Policy – key points

- Stakeholders **retain control** of setting budgets in £m
- The process for budget setting is **unchanged**

The only change is the allocation methodology at a Client level, which will provide the following outcomes:

- Clearer linkage between the value of assets managed and invoices
- Clearer comparison to market
- Minimal Client invoicing swings (vs today)
- Simplify operations and increase transparency
- Fit for purpose in next phase of maturity

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Pricing and Cost Allocation Policy - how we do this…

Total Costs

- No change to budget approach.
- Overall cost budget plus mark-up retained

Separate rate card for Elective Services

Elective Services

Allocation basis

Shared fixed element

- Proportion of total budgeted costs allocated evenly
- 45% of total costs allocated evenly each year

AUM bps

- Rate card approach
- Basis points charge tiered by asset type
- Active equities/debt, Passive equities/debt and Private Markets
- AUM at 31st March plus commitments each year

Specific activity costs

- Costs specifically attributed to a Client e.g., from State Street or Colmore.

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Pricing and Cost Allocation Policy – Proposal and principles

Based on forecast 2021 total costs and AUM (c£11.2m equivalent to 3.3 bps on total Client AUM / 4.6bps on transition AUM) an indicative view of the level of recharge required to achieve a break-even position in each of the following years can be summarised as follows:

Allocated charge basis	Budget year to 31 March 2022/23	Budget year to 31 March 2023/24	Budget year to 31 March 2024/25
Total budgeted cost as a fixed share	45%	45%	45%
Activity – State Street / Colmore	Direct	Direct	Direct
AUM rate – Passive (fixed bps)	0.5 bps	0.5 bps	0.5 bps
AUM rate – Active (flex bps)	1.9bps-2.4 bps	1.8bps-2.3 bps	1.7bps-2.1 bps
AUM rate – Private Markets (flex bps)	4.5 bps	4.27 bps	4 bps

After the fixed share (45%) has been attributed evenly, and the specific activity costs allocated to each Client, the remaining budgeted costs are recovered by the AUM rate card. The rate card is flexed each year to achieve a break-even position. The bps per asset type move proportionately to maintain the relative ratio of charging by asset type (noting we keep passive unchanged).

Indicative levels of recharge are shown in the Appendix, based on current and projected AUM comparing 2021/22 invoicing to projected.

The AUM rate card and indicative Client basis points are outlined further on the next pages.

Pricing and Cost Allocation Policy – Proposal and principles

As Brunel takes on an increasing share of Client assets there is a natural shift from expenditure incurred in launching investment portfolios to increasing costs associated with monitoring, managing and administration of the portfolios on an ongoing basis.

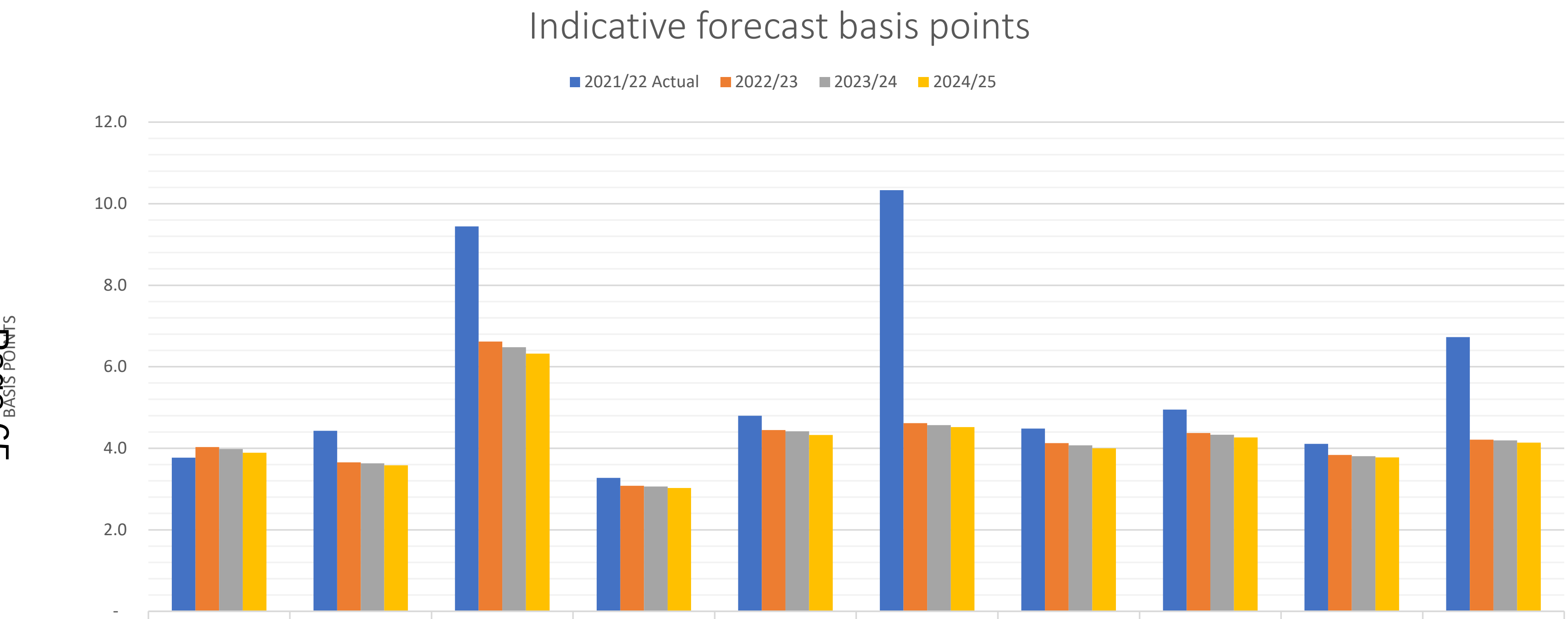
The tiered AUM rate card approach recognises the differential in costs associated with the differing types of asset and include:

- Passive – monitoring the achievement of climate-aligned benchmarks (and other passive products).
- Active – ongoing due diligence, management and consideration of investment delivery against objectives.
- Private Markets – complex investment opportunities with greater level of research, analysis, illiquidity risk and servicing cost.

The rate card is further refined to differentiate between active equities and debt and passive equities and debt.

The indicative rate card has been set to achieve a comparable level of total income for Brunel to cover their total costs. In determining the level of bps to charge, some limited benchmarking is available and is detailed on page 9.

Pricing and Cost Allocation Policy – Indicative forecast bps on Brunel AUM (excl. LDI)



	Avon	Buckinghamshire	Cornwall	Devon	Dorset	Environment Agency	Gloucestershire	Oxfordshire	Somerset	Wiltshire
2021/22 Actual	3.8	4.4	9.4	3.3	4.8	10.3	4.5	4.9	4.1	6.7
2022/23	4.0	3.7	6.6	3.1	4.4	4.6	4.1	4.4	3.8	4.2
2023/24	4.0	3.6	6.5	3.1	4.4	4.6	4.1	4.3	3.8	4.2
2024/25	3.9	3.6	6.3	3.0	4.3	4.5	4.0	4.3	3.8	4.1

Assumptions:

- Draft cost budget 2022/23 £11.4m +3%
- Costs increased by 3% 2023/24 onwards
- Q3/21 Asset allocation with remaining commitments to Q1/22
- Excludes LDI from AUM
- MHCLG forecast AUM growth 2023-25
- No market growth assumed in AUM

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Pricing and Cost Allocation Policy – market intelligence

Asset type	Bps	Description
Passive	0.5	London CIV earn 0.5 bps on LGIM and Blackrock passive funds. Ongoing charges (OCF) for typical retail index tracker funds 10-20 bps.
Active	Avg. 2 bps (0.5 – 2.5)	London CIV average income on ACS of c2 bps (0.5 bps on Global Bond fund, 1 bp on MAC fund and 2.5 bps on other ACS funds). Investment Trust OCF typically in range 20-40 bps.
Private Markets	n/a	Overall management fees including the full investment management process in the region of 150-200 bps.

We note in the London CIV annual report (2020-21) that they have reviewed their pricing policy and with EY assisting they have determined that a greater emphasis on variable fees is desirable once they achieve 75% transition (currently 54%).

The London CIV suggested split of 30% fixed to 70% variable is felt to be appropriate, although noting that the variable fees are truly variable and determined entirely by the level of AUM rather than to achieve a certain level of cost recovery.

At Brunel the previous methodology for allocating fixed overhead (c59%) has been revised in line with the move towards a maturing portfolio position and greater allocation of costs to ongoing Investment activity. The budgeted 2022/23 fixed operational costs of Brunel (facilities, telecoms, insurance etc.) with the addition of currently allocated central functions (HR, Finance, IT etc.) is c44%. See Appendix for further details of the fixed allocation.

London Pension Partnership have a base rate of 10bps and which increases in 5bps steps as complexity grows (noting they exclude Passives).

Pricing and Cost Allocation Policy – market intelligence

The overall level of income that Brunel generates (c4.6 bps in 2021 on forecast costs and transition AUM) can be viewed in the context of the following:

- Brunel's cost plus agreement has been reviewed for compliance with HMRC Tax Transfer Pricing principles. Our tax advisers reported that a suitable margin for an organisation like Brunel is in the range 2-6 bps.
- The reported outsourcing of the British Airways scheme to Blackrock earlier this year, with AUM of £21.5bn, is estimated to be based on a flat fee of 5 bps, plus possibly add-on fees for services such as ESG reporting (estimated by Bart Heenk, partner and UK country head at Avida International).
- International investment manager research by NMG Consulting found the lowest cost European investment manager they spoke with had an expense ratio of 9 bps (managing c$50bn with 60 staff).

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Pricing and Cost Allocation Policy - further details of the mechanics

The following high level principles would apply in determining the recharge of costs:

- Budget 2022/23 annual costs plus agreed contingency signed off by SRM as the basis for the initial calculation.
- Rate card bps would be agreed each year based on new budgeted costs plus agreed contingency.
- Elective Services to be determined separately.

- The first invoice period (April – June 2022) would be calculated in late April/May (after the approval of the budget) and would be based on the AUM as at 31 March 2022 plus commitments for the remainder of 2022.
- An annual true-up of recharges would take place in late April/May each year to reflect the actual costs for the preceding 12 month period ended 31 March, subject to an excess of the agreed variance to budget (e.g. +/- 5% actual spend vs budget) requiring an additional charge/rebate.
- Commitments – no changes made to AUM for assets that do not transfer as planned.
- Commitments – material additional asset transition not included in plan (>£100m) will be included on a pro-rata time apportioned basis in the AUM in the annual true-up.

Pricing and Cost Allocation Policy - alternatives

The following alternative methods have been considered in preparing this proposal:

Alternative basis	Comment
Stay as per current policy	Missed opportunity to simplify approach, save resource and future proof and achieve other benefits outlined
Simple 1/10th share of all costs	Too simplistic; inequitable split of costs without reference to AUM or understanding of drivers
All costs allocated in proportion to total Brunel AUM	Unfair cost burden for those clients with greater level of AUM, particularly when not all assets are transitioned
Blended Brunel bps (4.1) on total client AUM	Doesn't allow a good enough linkage between cost and charges e.g., a client all in passive has same charge as those all in private markets (if same AUM total).
Fixed + Variable in proportion to AUM	No differentiation in level of cost to support and manage by asset type

CONCLUSION

It is felt that the proposed basis provides the fairest and most reasonable basis moving forward.

Section 2

Proposed changes to the pricing of services, the contingency added as a cost+

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Contingency – Pricing Policy

Key messages:

- The partnership has discretion on contingency levels, but they are an SRM (item 6*)
- Reducing the contingency, amongst other things, could be an effective way to manage the total cost increase
- Brunel are aiming to discuss this topic at BOB in January

* The pricing policy was schedule 7 of the services agreement, which is controlled by SRM6 "The amendment or variation of the Services Agreement…"

Overall Budget Increase

The Budget proposal considers the reduction on the level of contingency from 5% to 3%.
This maintains overall budget increase to Clients of ~5% year on year.

	2021/22 £'000	2022/23 £'000	Change
Budget Plan	10,650	11,433	7.4 %
5% Uplift for Contingency	533		
3% Uplift for Contingency		343	
Client Invoiced	**11,183**	**11,776**	**5.3%**

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Appendix

Indicative impact – MHCLG forecast AUM with current asset allocation

	Actual Invoices 2021/22 £	Average 2021 AUM bps	Budget Charge 2022/23 £	Blended bps	Budget Charge 2023/24 £	Blended bps	Budget Charge 2024/25 £	Blended bps
Avon	1,240,532	3.8	1,440,043	4.0	1,531,218	4.0	1,603,673	3.9
Buckinghamshire	1,210,019	4.4	1,286,462	3.7	1,335,377	3.6	1,373,719	3.6
Cornwall	1,088,450	9.4	953,633	6.6	979,542	6.5	1,000,097	6.3
Devon	1,448,350	3.3	1,556,857	3.1	1,601,022	3.1	1,631,899	3.0
Dorset	945,808	4.8	1,010,587	4.4	1,051,199	4.4	1,174,797	4.3
Environment Agency	1,053,426	10.3	1,150,972	4.6	1,139,699	4.6	1,126,389	4.5
Gloucestershire	1,106,414	4.5	1,245,464	4.1	1,240,520	4.1	1,236,667	4.0
Oxfordshire	1,083,280	4.9	1,113,231	4.4	1,152,358	4.3	1,183,538	4.3
Somerset	907,631	4.1	997,573	3.8	996,047	3.8	991,447	3.8
Wiltshire	1,098,855	6.7	1,021,176	4.2	1,102,298	4.2	1,170,933	4.1
TOTAL	**11,182,766**	**4.6**	**11,776,000**	**4.1**	**12,129,280**	**4.0**	**12,493,159**	**4.0**

SCENARIO	2022/23	2023/24	2024/25
Fixed %	45%	45%	45%
Passive Equities - bps	0.50	0.50	0.50
Passive Debt - bps	0.50	0.50	0.50
Active Equities - bps	2.40	2.28	2.14
Active Debt - bps	1.92	1.82	1.71
Private Markets - bps	4.50	4.27	4.00

Assumptions:

- Draft cost budget 2022/23 £11.4m +3%
- Indicative rate card to achieve break-even
- Costs increased by 3% 2023/24 onwards
- Q3/21 Asset allocation with remaining commitments to Q1/22
- Excludes LDI from AUM
- MHCLG forecast AUM growth 2023-25
- No market growth assumed in AUM

Noting the passive is a fixed bps rate of 0.5, but all other rates flex proportionately eg PM is always 1.875x more than Active Equites, which in turn are always 1.25x more than Active Debt.

BRUNEL
Pension Partnership

Indicative impact – old Pricing Policy on budget 2022/23 costs

The following is an indicative view of the old Pricing Policy being applied to the 2022/23 proposed budgeted costs, in the absence of a full re-work of the AUM and resource data for 2022/23.

The basis for the calculation under the old policy is a high level estimate based on the AUM from the Q1/2022 invoicing together with the current resource allocations which are applied to the budgeted costs for 2022/23.

	Old Policy Budget 2022/23 £	Proposed Charge 2022/23 £	Difference Old vs New 2022/23 £	Change 2022/23 %
Avon	1,309,062	1,440,043	- 130,981	-10.0%
Buckinghamshire	1,252,796	1,286,462	- 33,666	-2.7%
Cornwall	1,177,467	953,633	223,834	19.0%
Devon	1,516,964	1,556,857	- 39,894	-2.6%
Dorset	1,004,064	1,010,587	- 6,523	-0.6%
Environment Agency	1,065,597	1,150,972	- 85,375	-8.0%
Gloucestershire	1,164,364	1,245,464	- 81,100	-7.0%
Oxfordshire	1,146,412	1,113,232	33,180	2.9%
Somerset	972,081	997,573	- 25,491	-2.6%
Wiltshire	1,167,192	1,021,176	146,016	12.5%
TOTAL	**11,776,000**	**11,776,000**	**0**	**0.0%**

Fixed share of costs – proposed allocation

The proposed allocation of the budgeted costs for 2022/23 of £11,433k (pre mark-up) are as follows:

Draft budget 2022/23	£'000
Investments – AUM related and activity costs	6,378
Proposed allocated share of costs	5,055
Total budgeted costs	11,433

Proposed allocated share of costs	£'000	
Total allocated share of costs - current Pricing Policy methodology	6,776	c59% of total costs
Insurance costs	(439)	Costs related to AUM
Investments – incl. consultancy / memberships and subs / legal fees / CTI reporting	(377)	Included in overhead in Launch phase as no alternative to allocate – now suitable for AUM
Investments – tools and monitoring	(456)	Costs related to investments e.g. FactSet and Data views
People – Core & RI team	(230)	Allocated to portfolios to date where direct cost is known. Full allocation to investments going forward
People – reallocation of potential inflation to allocated teams and travel costs in Listed and Private Markets	(219)	No direct data to analyse travel costs by portfolio in current pricing policy
Total proposed allocated costs	**5,055**	**c44% of total costs**

Next Steps

It is anticipated that the Pricing Policy review will proceed as follows:

- Client Group review January 11 2022
- Board approval January 20 2022
- Brunel Oversight Board review January 27 2022
- Special Reserved Matter issued February 1 2022 (deadline March 1 2022)

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Division(s): n/a

ITEM

PENSION FUND COMMITTEE – 4 MARCH 2022

RISK REGISTER

Report by the Director of Finance

RECOMMENDATION

1. **The Committee is RECOMMENDED to note the changes to the risk register and accept that the risk register covers all key risks to the achievement of their statutory responsibilities, and that the mitigation plans, where required, are appropriate.**

Introduction

2. Previously, the Committee has agreed that the risk register should form a standard item for each quarterly meeting. A copy of the report also goes to each meeting of the Pension Board for their review. Any comments from the Pension Board are included in their report to this meeting.

3. The risk register sets out the current risk scores in terms of impact and likelihood, and a target level of risk and a mitigation action plan to address those risks that are currently not at their target score. This report sets out any progress on the mitigation actions agreed for those risks not yet at target and identifies any changes to the risks which have arisen since the register was last reviewed.

4. A number of the mitigation plans are directly linked to the key service priorities identified in the Annual Business Plan. This report should therefore be considered in conjunction with the business plan report elsewhere on this agenda.

Comments from the Pension Board

5. At their meeting on 21 January 2022, the Pension Board considered the latest risk register and recommended that reference be made to the Cyber Security Policy as part of the mitigation for Risks 16 (Loss of Key systems) and Risk 17 (Breach of Data Security). These amendments have been made in the current draft.

Latest Position on Existing Risks/New Risks

6. There are four Amber risks on the current risk register. Three of these remain from the last quarter with one risk re-stated as Amber. Two risks have seen sufficient improvement to be deemed to be now at target and moved from Amber to Green Status. The detail of these is as follows.

7. The risk which has been re-stated from Green to Amber is Risk 15 in respect of the skills and knowledge of the officers working across the LGPS and Fire-Fighters Pension Schemes. The increase in level of risk reflects the increased level of resources required to deliver the proposed business plan elsewhere on the agenda, and whilst it is proposed to make the necessary budget provision to fund the additional staff, at this stage there remains the risk that we will be unable to find sufficient people to take on all the new roles.

8. The three risks that have remained as Amber are Risk 13 - the skills and knowledge of this Committee to effectively undertake their statutory responsibilities, Risk 14 – the equivalent risk in respect of Pension Board Members, and Risk 21 in respect of remedying the age discrimination issues identified through the McCloud case. In respect of Risk 13, it should be noted that whilst still Amber, the risk has potentially increased as a result of changes to two of the five voting members agreed by Council in February, including the loss of one of the more experienced members of the Committee.

9. The status of Risk 22 which relates to the risk of legal challenge in respect of age discrimination in the fire-fighters pension scheme has been amended to Green to reflect the recent decision to implement the Immediate Detriment Framework as far as we are able. Whilst risks remain (see report of the decision elsewhere on today's agenda), it is now seen as unlikely that Oxfordshire will be named in any future cases brought by the Fire Brigades Union as we are taking positive action to remedy the position.

10. The status of Risk 23 has also been moved to Green. The risk of loss of strategic direction for the Fund has been mitigated by the implementation of all recommendations from the Independent Governance Review undertaken by Hymans Robertson and in particular the successful business planning workshop held on 4 February which confirmed the strategic direction of the Fund and the key priorities for 2022/23 (subject to approval of the Busines Plan today).

11. As noted above, the only other change this quarter to the Risk Register is to add the Cyber Security Policy to the mitigations for Risks 16 and 17. A report will be brought to a future meeting of this Committee to review the current policy and report on the outcome of the annual disaster recovery and security breach tests.

Lorna Baxter
Director of Finance

Contact Officer: Sean Collins
Tel: 07554 103465

February 2022

Risk Register

Identification of Risks:

These are the risks that threaten the achievement of the Pension Fund's objectives. Risks have been analysed between:

- Funding, including delivering the funding strategy;
- Investment;
- Governance
- Operational; and
- Regulatory.

Key to Scoring

	Impact	Financial	Reputation	Performance
5	Most severe	Over £100m	Ministerial intervention, Public inquiry, remembered for years	Achievement of Council priority
4	Major	Between £10m and £100m	Adverse national media interest or sustained local media interest	Council priority impaired or service priority not achieved
3	Moderate	Between £1m and £10m	One off local media interest	Impact contained within directorate or service priority impaired.
2	Minor	Between £100k and £500k	A number of complaints but no media interest	Little impact on service priorities but operations disrupted
1	Insignificant	Under £100k	Minor complaints	Operational objectives not met, no impact on service priorities.

Likelihood

4	Very likely	This risk is very likely to occur (over 75% probability)
3	Likely	There is a distinct likelihood that this will happen (40%-75%)
2	Possible	There a possibility that this could happen (10% - 40%)
1	Unlikely	This is not likely to happen but it could (less than 10% probability)

RAG Status/Direction of Travel

	Risk requires urgent attention
	Risks needs to be kept under regular review
	Risk does not require any attention in short term
↑	Overall Risk Rating Score is Increasing (Higher risk)
↔	Risk Rating Score is Stable
↓	Overall Risk Rating Score is Reducing (Improving Position)

Ref	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in Place to Mitigate Risk	Current Risk Rating			RAG Status and Direction of Travel	Further Actions Required	Date for completion of Action	Target Risk Rating			Date of Review	Comment
							Impact	Likelihood	Score				Impact	Likelihood	Score		
1	Investment Strategy not aligned with Pension Liability Profile	Financial – Business as Usual	Pension Liabilities and asset attributes not understood and matched.	Long Term - Pension deficit not closed.	Service Manager	Triennial Asset Allocation Review after Valuation.	4	1	4	↔			4	1	4	February 2022	At Target
2	Investment Strategy not aligned with Pension Liability Profile	Financial – Business as Usual	Pension Liabilities and asset attributes not understood and matched.	Short Term –Insufficient Funds to Pay Pensions.	Service Manager	Monthly cash flow monitoring and retention of cash reserves.	4	1	4	↔			4	1	4	February 2022	At Target
3	Investment Strategy not aligned with Pension Liability Profile	Financial – Business as Usual	Poor understanding of Scheme Member choices.	Long Term - Pension deficit not closed. Short Term –Insufficient Funds to Pay Pensions.	Service Manager	Monthly cash flow monitoring and retention of cash reserves.	3	1	3	↔			3	1	3	February 2022	At Target
4	Under performance of asset managers or asset classes	Financial – Business as Usual	Loss of key staff and change of investment approach at Brunel or underlying Fund Managers.	Long Term - Pension deficit not closed.	Financial Manager	Quarterly assurance review with Brunel. Diversification of asset allocations.	3	2	6	↔			3	2	6	February 2022	At Target
5	Actual results vary to key financial assumptions in Valuation	Financial – Business as Usual	Market Forces	Long Term - Pension deficit not closed.	Service Manager	Actuarial model is based on 5,000 economic scenarios, rather than specific financial assumptions.	3	2	6	↔			3	2	6	February 2022	At Target
6	Under performance of pension investments due to ESG factors, including climate change.	Financial – Business Plan Objective	Failure to consider long term financial impact of ESG issues	Long Term - Pension deficit not closed.	Financial Manager	ESG Policy within Investment Strategy Statement requiring ESG factors to be considered in all investment decisions.	4	1	4	↔			4	1	4	February 2022	At Target.

Ref	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in Place to Mitigate Risk	Current Risk Rating			RAG Status and Direction of Travel	Further Actions Required	Date for completion of Action	Target Risk Rating			Date of Review	Comment
							Impact	Likelihood	Score				Impact	Likelihood	Score		
7	Loss of Funds through fraud or misappropriation.	Financial – Business as Usual	Poor Control Processes within Fund Managers and/or Custodian	Long Term - Pension deficit not closed	Financial Manage	Review of Annual Internal Controls Report from each Fund Manager. Clear separation of duties.	3	1	3	↔			3	1	3	February 2022	At Target
8	Employer Default - LGPS	Financial – Business as Usual	Market Forces, increased contribution rates, budget reductions.	Deficit Falls to be Met by Other Employers	Pension Services Manager	All new employers set up with ceding employing under-writing deficit, or bond put in place.	3	2	6	↔			3	2	6	February 2022	At Target
9	Inaccurate or out of date pension liability data – LGPS and FSPS	Financial & Administrative – Business Plan Objective	Late or Incomplete Returns from Employers	Errors in Pension Liability Profile impacting on Risks 1 and 2 above.	Pension Services Manager	Monitoring of Monthly returns	3	1	3	↔			3	1	3	February 2022	At Target
10	Inaccurate or out of date pension liability data – LGPS and FSPS	Administrative – Business Plan Objective	Late or Incomplete Returns from Employers	Late Payment of Pension Benefits.	Pension Services Manager	Monitoring of Monthly returns. Direct contact with employers on individual basis.	3	1	3	↔			3	1	3	February 2022	At Target
11	Inaccurate or out of date pension liability data – LGPS and FSPS	Administrative – Business Plan Objective	Late or Incomplete Returns from Employers	Improvement Notice and/or Fines issued by Pension Regulator.	Pension Services Manager	Monitoring of Monthly returns. Direct contact with employers on individual basis.	4	1	4	↔			4	1	4	February 2022	At Target
12	Insufficient resources to deliver responsibilities- – LGPS and FSPS	Administrative – Business as Usual	Budget Reductions	Breach of Regulation	Service Manager	Annual Budget Review as part of Business Plan.	4	1	4	↔			4	1	4	February 2022	At Target
13	Insufficient Skills and Knowledge on Committee – LGPS and FSPS	Governance – Business Plan Objective	Poor Training Programme	Breach of Regulation. Loss of Professional Investor Status under MIFID II	Service Manager	Training Review	4	2	8	↔	Training Programme put in place on review of new Committee requirements.	September 2022	4	1	4	February 2022	Initial Knowledge Assessment score of 37.92 indicates significant gap in current level of skills and knowledge. Subsequent loss of experienced member.

Ref	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in Place to Mitigate Risk	Current Risk Rating			RAG Status and Direction of Travel	Further Actions Required	Date for completion of Action	Target Risk Rating			Date of Review	Comment
							Impact	Likelihood	Score				Impact	Likelihood	Score		
14	Insufficient Skills and Knowledge amongst Board Members	Governance – Business Plan Objective	Turnover of Board membership	Insufficient Scrutiny of work of Pension Fund Committee leading to Breach of Regulations	Service Manager	Training Policy	4	2	8	↔	Training Programme in place and targeted to gaps in skills and knowledge of Board		4	1	4	February 2022	Initial Knowledge Assessment score for Board 60.42 indicating gap in current level of skills and knowledge.
15	Insufficient Skills and Knowledge amongst – LGPS and FSPS Officers	Administrative – Business as Usual	Poor Training Programme and/or high staff turnover	Breach of Regulation and Errors in Payments	Service Manager	Training Plan. Control checklists.	3	2	6	↑			3	1	3	February 2022	Proposed Business Plan for 2022/23 depends on appointment of a number of new posts.
16	Key System Failure – LGPS and FSPS	Administrative – Business as Usual	Technical failure	Inability to process pension payments	Pension Services Manager	Disaster Recovery Programme, and Cyber Security Policy	4	1	4	↔			4	1	4	February 2022	At Target
17	Breach of Data Security – LGPS and FSPS	Administrative – Business as Usual	Poor Controls	Breach of Regulation, including GDPR	Pension Services Manager	Security Controls, passwords etc. GDPR Privacy Policy and Cyber Security Policy.	4	1	4	↔			4	1	4	February 2022	At Target
18	Failure to Meet Government Requirements on Pooling	Governance – Business Plan Objective	Inability to agree proposals with other administering authorities.	Direct Intervention by Secretary of State	Service Manager	Full engagement within Brunel Partnership	5	1	5	↔	Review once Government publish revised pooling guidance.	TBC	5	1	5	February 2022	At Target
19	Failure of Pooled Vehicle to meet local objectives	Financial – Business Plan Objective	Sub-Funds agreed not consistent with our liability profile.	Long Term - Pension deficit not closed	Service Manager	Full engagement within Brunel Partnership	4	1	4	↔		On-going	4	1	4	February 2022	At Target
20	Significant change in liability profile or cash flow as a consequence of Structural Changes	Financial – Business as Usual	Significant Transfers Out from the Oxfordshire Fund, leading to loss of current contributions income.	In sufficient cash to pay pensions requiring a change to investment strategy and an increase in employer contributions	Service Manager	Engagement with key projects to ensure impacts fully understood	4	1	4	↔	Need to Review in light of current Government consultation to switch HE and FE employers to Designating Bodies.	TBC	4	1	4	February 2022	At Target
21	Insufficient Resource and/or Data to comply with consequences of McCloud Judgement	Administrative – Business Plan Objective	Significant requirement to retrospectively re-calculate member benefits	Breach of Regulation and Errors in Payments	Pension Services Manager	Engagement through SAB/LGA to understand potential implications and regular communications with scheme employers about potential retrospective data requirements.	4	3	12	↔	Establish project plan. Respond to consultation, and work with SAB to seek guidance on mitigating key risks where data not available. Look to bring in additional resources.	On-Going	2	2	4	February 2022	Awaiting Government response to consultation exercise on new Regulations to assess full impact.

Ref	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in Place to Mitigate Risk	Current Risk Rating			RAG Status and Direction of Travel	Further Actions Required	Date for completion of Action	Target Risk Rating			Date of Review	Comment
							Impact	**Likelihood**	**Score**				**Impact**	**Likelihood**	**Score**		
22	Legal Challenge on basis of age discrimination in Firefighters Pension Schemes	Legal & Administrative – Business Plan Objective	Pressure from Fire Brigades Union to act in advance of new Regulations	Court Order to deliver remedy	Pension Services Manager	Seeking to follow consistent approach in line with Scheme Advisory Board guidance.	4	1	4	↓			4	1	4	February 2022	Now at Target following decision to implement Immediate Detriment Framework.
23	Loss of strategic direction	Governance – Business Plan Objective	Loss of key person	Short term lack of direction on key strategic issues	Director of Finance		2	2	4	↓			2	2	4	February 2022	Now at Target following implementation of recommendations of Independent Governance Review and Business Planning Workshop.

PENSION FUND COMMITTEE – 4 MARCH 2022

ADMINISTRATION REPORT

Report by the Director of Finance

RECOMMENDATION

The Committee is RECOMMENDED to

a) determine what, if any, further information they require to ensure they are in a position to monitor that service standards are consistent with their responsibilities under the Regulations.
b) agree that current standards are at an acceptable level, or the further actions being taken are reasonable to address the shortfall in performance.
c) agree the write off of £37.48

Executive Summary

1. This report updates the Committee on the key administration issues including the iConnect project, service performance measurement and any write offs agreed in the last quarter.

Workload and Performance

2. As previously reported the vetting of incoming returns is not being dealt with in required timescales. As of 18 November 2021, a review of the returns received and vetted for the period April to October 2021 showed that 52.07% of returns had been vetted. Of the outstanding returns to be vetted 0.68% were held up due to delays in admission agreements being put in place leaving 47.25% of returns to be vetted in addition to the returns being made for the period November 2021 to March 2022.

3. At the meeting in November the team leader set out a plan to clear both the outstanding vetting of returns and to vet the returns due to be made for the period November 2021 to March 2022. This plan included upping resource by including senior administrators in the vetting process and setting a target for all team members of 15 files per week.

4. As of January 2022, the statistics show that 60.08% of returns had been vetted. Of the outstanding returns to be vetted 0.72% were held up due to delays in admission agreements being put in place leaving 39.20% returns to be vetted alongside the returns received in February and March to avoid a knock-on effect to end of year processing. To manage this process the team leader has set a revised target for each team member of 19 files to be completed each week.

5. The number of tasks to do in the employer team has risen in the last month by 661 cases. In part this is due to the new release which has added in additional information for checking which means that there can now be up to 3 cases per record. In addition, some cases (aggregation) are being held whilst a system issue is resolved. And lastly Oxford Brookes University uploads have created over 400 new starters which are being investigated.

6. There are 20 admission agreements to be finalised.

7. At the last meeting of this committee members agreed that the benefit team could continue working to a reduced SLA standard until March 2022. However, this committee did not want to continue with reduced SLA standards after March 2022. This was confirmed at the recent strategic planning meeting in February, with the committee acknowledging that additional resources may well be required to meet normal SLA. The current statistics below are showing progress towards meeting SLA:

	SLA Overall %	Statutory Overall %	Total Cases Completed
April	57.14	54.22	1,365
May	67.83	64.01	1,085
June	69.37	65.12	1,536
July	74.88	62.91	2,047
August	91.47	73.73	1,804
September	86.97	68.81	1,682
October	82.87	69.49	2,064
November	84.79	79.75	1,789
December	85.01	82.03	1,316
January	85.54	90.75	1,363

Annex 1 gives full breakdown of the statistics.

8. The team are aware of the need to bring work back into SLA from 01 April. In working towards this the team leader and trainer have been working on specific subjects, reviewing process and paperwork to identify where this is creating any hold up within the processing. They have also identified that how work is being pended on the system can result in an incorrect reflection of timescale for completion. A training session has been held and the outcome will be reviewed again in next monthly statistics.

9. Other areas where work is not being completed within target have been reviewed and possible causes identified. These will be addressed by the training and individual reviews in monthly 1-2-1 meetings.

10. There are currently 2,685 open cases. The leaver and aggregation cases are those that are most likely to be out of SLA deadline for the next 2 – 3 months due to an unexpected bulk of cases from Oxfordshire County Council and Oxford Brookes University, coupled with issue that we are unable to complete

aggregation cases (actuals) due to a software error for which we are waiting for a fix. The majority of other work which is out of specification is recorded as pending – this is the next area to be reviewed.

11. In addition, there is a large number of historical death cases where there is outstanding information which is needed to enable files to be finalised. This work is being scheduled as a project.

12. Fire Service – for the period August to October the number of files completed within SLA deadline are:

August	92.19%
September	93.33%
October	88.89%

13. Of the 14 cases open at 31 January 2022, 3 have been completed in February 1 is in checking, 6 are waiting on more information before the file can be actioned, and 4 are backlog cases which we are looking to clear as soon as possible.

14. Fire Remedy work – framework has now been adopted, and we are looking at what can / can't be included in the retirement quotes and are waiting for further guidance on this from LGA. Communications will be issued to affected members / pensioners once this is received.

Data Quality

15. The new in-house reporting will provide data quality scores rather than Heywood running these reports. Testing of the system has identified some areas where results are not as expected. These are being reviewed with Heywood so that data scores can be reported on a quarterly basis from June 2022 onwards.

Contribution monitoring

16. This process sits within the Investment team. Scheme employers are required to make payment over of contributions by 19th month following payroll. There are no issues to report except for the ongoing issue of APCOA detailed below.

17. As reported last quarter the only concern reported was with APCOA who have consistently failed to make their deficit payment despite a number of reminders This matter has now been escalated to the Head of Pensions, and is to be reported to the Pension Regulator.

Projects

18. The output from the strategic planning meeting will be reported in the Business Plan report. For projects which are not included in the business plan further work needs to be completed to schedule these into team workload.

Staffing

19. The creating of the training post within benefit administration team is already showing benefit with positive feedback from the team. As part of this processes are being reviewed and updated.

20. The recruitment process to appoint 4 new administrators was not as successful as anticipated with only 2 appointments being made. One of these was internal. Therefore, further recruitment needs to be undertaken.

21. Last quarter this report stated that as part of the project planning the next stage of reviewing team structure will be scheduled into the workload. Proposals in the business plan set out discussion on posts and additional resources for the team.

Communications

22. In the last quarter the activities for employer and member engagement have been:

Employer engagement:

Introduction to the LGPS – we have held two Introduction to the LGPS training in the last three months November 2021 (11 attendees) and January 2022 (5 attendees) – from a wide cross section of employers

Employer Meeting – no Employer meeting has taken place. Next one is scheduled for March 2022

Talking Pensions – the monthly employer newsletter was sent out on 30th November, 22nd December and 1st February to approximately 220 employer contacts.

Member engagement:

Reporting Pensions – the winter edition of the quarterly Active member newsletter was published on 19th January. It was distributed to LGPS employers, posted on our website and on My Oxfordshire Pension, plus paper copies were posted to employees who have registered to retain paper communications.

Member talks – Three in total (all via Teams) with two talks at South and Vale (November) and one at Oxford Brookes (January)

Customer survey – the customer survey has been suspended while we investigate an approach which may elicit better response levels.

Bulk emails – 9,592 emails sent out to members

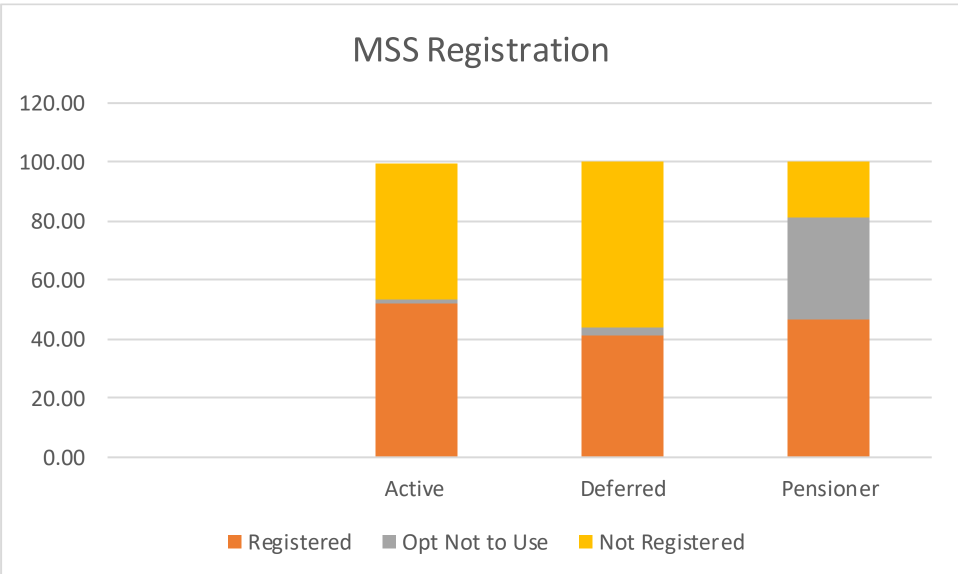
In addition, attendance at meetings of the national LGA Communications Working Group and Local Communications Group. Also, the digital engagement sub-group; LGPSMember.org review sub-group and accessibility sub-group

23. The website review of employer pages, Firefighter pages and Investment pages and maintenance of member pages is ongoing. Visits to the website which had shown a steady increase declined at the end of the year. Then big increase in January. The member pages remain the most popular.

Month	Home page – unique views	Member pages views	Employer pages views	Overall
2021				
August	465	1361	155	1981
September	520	1613	309	2442
October	573	1812	356	2741
November	540	1777	247	2564
December	530	1329	226	2085
2022				
January	657	2259	330	3246

Member Self Service

24. Overall, there has been a slight reduction in the number of active members signed up to use MSS. Whereas the annual exercise of sending activation codes out to members who have not yet registered has resulted in a slight increase in the number of members signed up.



Employers

25. Activate Learning – there has been a change of staff at this employer. The new payroll manager is working with our employer team to make submissions of

data. However, several of these have missed deadline and as a result a fine of £75.00 has been issued.

Customer Surveys – Feedback and Complaints

26. Following on from the strategic planning workshop members have asked team to look at ways of engaging with customers to encourage feedback. Information has been sought from other funds and a review of what are the most successful ways to get response to surveys.

27. In the financial year 2021 / 2022 there has been 46 informal complaints made to date. 4 cases are still open of which 3 are overdue for reply.

28. Eight formal complaints have been made in the financial year 2021 / 2022 to date, of which four are open cases and one has been withdrawn. There is also one case, sitting with the scheme employer, which has been referred back for further review.

Debt Management

29. Previous reports to this committee have focussed on the value of pension being written off since recovery of these amounts has not been possible. The audit report has highlighted the need for committee to also receive information on outstanding invoices issued by the fund where payment has not been received.

30. Over the past two years there have been attempts to fill the job role to monitor and chase these payments – unfortunately without success. Ahead of going out to advert again discussions are taking place about other options available to monitor and recover these outstanding amounts.

31. The total of outstanding invoices amounts to £53,888.57, of this amount £41,324.96 relates to three cases identified in the 2014 national fraud initiative report. Of these, one case has been referred to debt collection team and two cases had repayment plans put in place. However, both payments have now stopped, and individuals are being chased for payment. The remaining outstanding invoices amounting to £12,536.61 are in the main due from scheme employers for training fees, fines, or reimbursement of actuarial costs.

32. There have been five deaths in the quarter where payroll adjustments cannot be recovered amount to a write off £37.48.

Audit Report

33. A copy of the final report from the latest internal audit is attached at Annex 2. The report gives an overall gives an overall conclusion of internal controls being maintained as green.

Consultation – Pension Dashboard

34. DWP has issued a consultation on the draft Pensions Dashboard Regulations 2022. This consultation closes on 13 March 2022.

35. It is intended that the pensions dashboard will collect information from all funds so that individuals can find their pensions. The information on the dashboard will be sourced from annual benefit statements issued by the fund.

36. There is a very tight timescale for implementation and given the uncertainties around Sargeant and McCloud, the LGA has advised that all funds should respond to the consultation. Officers are currently drafting a response which will be circulated separately to members for comment.

Contact Officer: Sally Fox - Pension Services Manager - Tel: 01865 323854
Email: sally.fox@oxfordshire.gov.uk February 2022

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Benefit Adminisation Monthly SLA Statistics

Subject	Legal Deadline	SLA Deadline	Standard SLA Target	Temporary SLA Target From March 2021	January 2022: Total Number Completed	Total Completed Within Target	Total Completed Over Target	% Achieved in SLA deadline	% Achieved in Legal deadline	Number of Open Cases
Annual Allowance			90%	75%	0	0	0	0.00		3
APC	N/A	10 working days	90%	75%	8	8	0	100.00		16
Assistant work* **	N/A	10 working days	90%	75%	282	279	3	98.94		57
Concurrents			90%	75%	34	30	4	88.24		96
Deaths	Notify dependants of death benefits within 2 months from date of becoming aware of death	10 working days	95%	75%	65	62	3	95.38		337
Divorce	Provide a quotation 3 months from date of request	10 working days	95%	75%	7	7	0	100.00		13
Enquiries			90%	75%	263	215	48	81.75		83
HR Estimate	N/A	10 working days	90%	75%	3	3	0	100.00		1
Interfund In	N/A	10 working days	90%	75%	64	46	18	71.88		73
Interfund Out	N/A	10 working days	95%	75%	48	37	11	77.08		40
Leavers*	Inform members who left the scheme of their leaver rights and options no more than 2 months from date of notification	40 working days	90%	75%	254	248	6	97.64	97.64	812
Member Estimate	Provide retriement quote no more than 2 months from date of request unless there has been a request already in last 12 months	10 working days	90%	75%	42	40	2	95.24	95.24	43
Re-employments**	N/A	40 working days	90%	75%	121	113	8	93.39		136
Refunds	N/A	10 working days	95%	75%	16	15	1	93.75		11
Retirements	Notify amount of retirement benefits; within 1 months if on or after NPA; or 2 months from date of retirement if before NPA. Retirement Quote no more than 2 months from date of request unless already abother request has been made within 12 months	10 working days	95%	75%	98	83	15	84.69	84.69	309
Transfer In	Obtain transfer information and provide a quotation within 2 months from date of request	10 working days	90%	75%	30	25	5	83.33	83.33	27
Transfer out	Provide a quotation 3 months from date of request	10 working days	95%	75%	28	26	2	92.86	92.86	34
					1,363	1,237	126	85.54	90.75	2,091
					100.00	90.76	9.24			

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OFFICIAL - SENSITIVE

OXFORDSHIRE COUNTY COUNCIL
INTERNAL AUDIT SERVICES

FINAL INTERNAL AUDIT REPORT TO DIRECTOR OF FINANCE

PENSIONS ADMINISTRATION 2021/22

Date Issued: 22 February 2022

MANAGEMENT SUMMARY

Introduction

This audit of Pensions Administration was undertaken as part of the 2021/22 Internal Audit plan, agreed by the Director of Finance and approved by the Audit & Governance Committee. The audit was undertaken during the third quarter of 2021/22.

The audit has been conducted in conformance with the Public Sector Internal Audit Standards.

Audit Objective

Internal Audit's objectives for this audit are to provide an evaluation of, and an opinion on, the adequacy and effectiveness of the system of internal controls that are in place to manage and mitigate financial and non-financial risks of the system. This will serve as a contribution towards the overall opinion on the system of internal control that the Chief Internal Auditor is required to provide annually to the Council, and also as an assurance to the Section 151 officer that financial affairs are being properly administered.

Scope of work

The audit activity focussed on the following key risk areas relating to Pensions Administration:

Regulatory Framework: The audit reviewed the controls in place to ensure the Pensions Administration Team are able to keep up to date with and meet regulatory and legislative requirements and considered how staffing levels and training processes are managed to ensure the timely and accurate completion of Pensions Administration processes. Testing also included review of performance reporting and governance arrangements.

Scheme Member Lifecycle: Sample testing was completed on key administration tasks to confirm that they are being completed accurately and on a timely basis, arrangements for ensuring appropriate segregation of duties were also considered.

Scheme Employers: Testing considered the processes in place to ensure that the correct contributions are collected from scheme employers and members and that payments out are made promptly and accurately. No detailed testing was completed in relation to the timeliness of the set-up of new scheme employers, particularly in terms of delays in notification of TUPE or organisational restructures.

Debtor Management: Testing considered the arrangements in place for the monitoring, follow up and recovery of Pensions debts including review of arrangements for the follow up and resolution of matches identified as part of the National Fraud Initiative (NFI).

Overall Conclusion

Overall conclusion on the system of internal control being maintained	G

RISK AREAS	AREA CONCLUSION	No of Priority 1 Management Actions	No of Priority 2 Management Actions
A: Regulatory Framework	G	0	0
B: Scheme Member Lifecycle	A	0	3
C: Scheme Employers	G	0	0
D: Debtor Management	A	0	2
		0	5

Appendix 1 provides a definition of the grading for each of the conclusions given.

Overall, audit testing found that controls and processes in relation to Pensions Administration are strong and working well.

Whilst there have been some resourcing issues which have meant that temporary changes to SLA targets have been needed, performance is now improving and standard SLA targets will be back in place from the start of the new financial year. There have also been some delays in completing vetting checks on scheme employer data, however these are being managed, monitored and reported on regularly. It is expected that all checks required will have been completed in time for year end processes.

There have been delays in the implementation of the Administration to Pay system. Three of eight areas have now been implemented, with the other five due to have been implemented by the end of January 2022. This timetable has slipped, and the project has been put on hold whilst the team complete the strategic planning process which will cover future developments and projects including the implementation of the remaining parts of Administration to Pay. It is intended that this process will introduce strengthened governance which will increase scrutiny and oversight in terms of delivery, and will look at resourcing and timescales to ensure successful implementation.

The Payjour reporting and sign off process, which demonstrates that there has been sufficient review of activities completed in running the pensions payroll by those officers with the highest levels of system access rights, is currently stalled due to technical difficulties in running the report.

There were some improvements in debtor management and debt recovery over the year. Following the successful recruitment of an Office Administrator, with responsibility for debt monitoring and recovery, outstanding debts were followed up between August and October 2021. Unfortunately, following the resignation of the Office Administrator in late 2021, these processes have paused while recruitment of a replacement is progressed.

Follow up – of the three actions followed up on as part of this audit (two from 2020/21 and one from 2019/20), one had been reported as fully implemented but was not found to have been effectively implemented and two have been partially implemented. Where appropriate, re-stated or revised actions have been agreed within this report. Where implementation is ongoing and the original action is still relevant, Internal Audit will continue to monitor implementation through the standard audit follow up process.

DETAILED AUDIT FINDINGS AND ACTION PLAN

Management actions have been agreed to address control weakness identified during the exit meeting and agreement of the draft Internal Audit report. All management actions will be followed up by Internal Audit to confirm implementation. The progress of implementation will be reported to the Audit Working Group, who report to the Council's Audit & Governance Committee.

We categorise our management actions according to their level of priority:

Priority 1	Major issue or exposure to a significant risk that requires immediate action or the attention of Senior Management.
Priority 2	Significant issue that requires prompt action and improvement by the local manager.
Supplementary Issues	Minor issues requiring action to improve performance or overall system of control.

	Audit Finding, risk exposure and potential impact	**Priority**	**Management Action**
1	**Scheme Member Lifecycle – Delays in Implementation of Admin to Pay** The Administration to Pay system has not yet been fully implemented. The aim of this system is to increase the efficiency of pensions administration processes' by automating the flow of information from the pensions administration part of Altair to the pensions payroll part of the system. Delays were initially noted within the 2019/20 Pensions Administration audit report, where it was reported that coding issues had pushed back implementation to July 2020. In the 2020/21 Pensions Administration audit report, it was noted that there was a revised timetable in place with full implementation expected by January 2022. Review of the position as part of this audit has identified that although the first three of the eight areas were reported as having been implemented in February and March 2021, the five other areas (due for implementation between May 2021 and January 2022) have not been implemented. Whilst it has been reported that part of the delay has been due to resourcing, there is a lack of clarity over how the lack of progress in implementation is being	2	**a) Implementation of Remaining Parts Admin to Pay** Now that priorities have been identified for the business plan for the year, all other project work (which includes implementation of the rest of Administration to Pay) will be reviewed and timetabled as part of the next stage of strategic planning. **Officer responsible:** Sally Fox, Pensions Services Manager **Date to be implemented by:** 30 June 2022

	Audit Finding, risk exposure and potential impact	Priority	Management Action
	addressed, or being monitored and escalated to the Pensions Services Manager to ensure that the rest of the project can be progressed in a timely way. The Pensions Services Manager has reported that it is planned that the rest of the system implementation will be included within the strategic plan that the service are in the process of developing. It is planned that the governance structures within this strategic planning process will enable increased scrutiny and accountability in relation to the delivery of the remaining parts of the system and that it will be easier to identify and address any delays. Resourcing will also be reviewed as part of this process to ensure that there is sufficient resource to deliver the rest of the project within the required timescale. It is acknowledged that the Pension Fund Committee are receiving regular updates on the implementation of the project as part of the Administration Report presented at each meeting. In addition to the delays in implementation of the Administration to Pay system, it was noted that for the areas that have been implemented (IFA / Interfund out, TV / transfers out and refunds) the process for the production and circulation of updated staff guidance has not yet been completed. *Risk*: Where there are continued delays in implementation of projects which are anticipated to improve efficiencies, realisation of these efficiencies may be unnecessarily delayed. This could result in increased and unnecessary pressure on the team in completion of scheme member lifecycle tasks. Where the correct process for the production, agreement and circulation of staff guidance on revised processes is not followed, there is a risk that there could be inconsistent practices. There is also a risk that anticipated efficiencies from the revised processes will not be fully achieved.	2	**b) Process Guidance to be Produced, Confirmed and Communicated** For the areas of Admin to Pay that have been implemented, process guidance will be produced and circulated for comment. Once agreed, updated training and guidance will be rolled out. **Officer responsible:** Chris Thompson, Team Leader Pensions **Date to be implemented by:** 31 March 2022

	Audit Finding, risk exposure and potential impact	Priority	Management Action
2	**<u>Scheme Member Lifecycle – Technical Issues with Payjour Report</u>** Previous audits of Pensions Administration noted control weaknesses in relation to the monitoring of tasks carried out by individuals who have access to both sides of Altair (Administration and Payroll). Management actions were agreed in 2017/18, 2018/19 and in 2020/21 that monthly pay journal ('Payjour') reports would be run, showing all tasks undertaken by the members of staff with this access, and would be reviewed and signed off appropriately to evidence effective segregation of duties in the payroll process. Although the management action agreed following the 2020/21 Pensions Administration audit was reported as having been fully implemented in July 2021, since then it has been reported that it has not been possible to get the report to run which has meant that the reporting process and the relevant checks have not been completed. *Risk*: If review of tasks by individuals with access to both the Administrative and Payroll functions of Altair is not completed on a regular basis, potential errors or issues may not be identified and resolved promptly, with the potential for significant financial loss to the Pension Fund.	2	***Management action 1 from 2020/21 Pensions Administration report re-worded:*** **<u>Resolution of Technical Issues in Running of the Payjour Report & Resumption of Monthly Sign Off Process</u>** The issues preventing the running of the Payjour report will be looked into and resolved. Going forward the Payjour report will be run and reviewed on a monthly basis and will be marked off as completed on the payroll checklist. **Officer responsible:** Sally Fox, Pensions Administration Service Manager **Date to be implemented by:** 31 March 2022
3	**<u>Debtor Management - Pensions Debtor Follow Up Processes</u>** The 2019/20 and 2020/21 Internal Audits of Pensions Administration identified an absence of clear process and action being taken in relation to the monitoring and management of pension fund debts. Following on from last year's audit, an Office Administrator was recruited and was made responsible for the debt management and recovery process within the pensions team. Although debt recovery processes have not been formally documented, debt recovery template letters have been created,	2	***Management action 4 from 2019/20 Pensions Administration Audit re-worded:*** **<u>a) Pensions Debt Recovery Resource and Process</u>** Recruitment of a new Office Administrator is underway. This post will be responsible for debt monitoring

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	Audit Finding, risk exposure and potential impact	Priority	Management Action
	and some debt follow up work was undertaken with first and second stage chaser letters sent out in August and cases escalated to the Pensions Services Manager in October. However, at the end of 2021, the Office Administrator resigned, which has meant that the recruitment process for this post needs to start again and debt recovery monitoring and action has stalled. From review of a sample of cases where follow up action had been undertaken, it was noted that there was a case where the letter sent to the debtor chasing payment stated that no payment had been received and that the full invoice total was now due, when the debtor had been paying monthly instalments for several years. As the Office Administrator is no longer in post, it has not been possible to query this with her, however it is noted that a clear understanding of debt history in a case like this is critical for follow up work to be efficient and effective. *Risk*: A lack of clear and appropriate guidance for the monitoring, follow-up, and recovery of Pension debtors may result in processes not being carried out effectively and appropriately by staff. There is also a risk of financial loss as outstanding amounts due to the Fund may not be recovered.		and recovery. The process for the monitoring, follow up and recovery of pension fund debts, now established, will be formally documented. **Officer responsible:** Sally Fox, Pensions Services Manager **Date to be implemented by:** 31 March 2022
		2	**b) Review of Recovery Action Taken to Date** Prior to the new Office Administrator starting in post, current debts and actions taken so far will be reviewed to ensure that any future recovery action taken is appropriate. All relevant information on debt history will be made available to the new Office Administrator and, where relevant, the history of significant / complex debts will be explained. **Officer responsible:** Sally Fox, Pensions Services Manager **Date to be implemented by:** 31 March 2022

APPENDIX 1

Grading:	**G**	**A**	**R**
Conclusion on:			
Overall conclusion on the system of internal control being maintained	There is a strong system of internal control in place and risks are being effectively managed. Some minor action may be required to improve controls.	There is generally a good system of internal control in place and the majority of risks are being effectively managed. However some action is required to improve controls.	The system of internal control is weak and risks are not being effectively managed. The system is open to the risk of significant error or abuse. Significant action is required to improve controls.

APPENDIX 2 – OFFICERS INTERVIEWED

The following staff contributed to the outcome of the audit:

- **Sally Fox, Pension Services Manager**
- **Rachael Salsbury, Technical Manager**
- **Julie Skelly, Team Leader (Pensions)**
- **Chris Thompson, Team Leader (Pensions)**
- **Deione Walton, Senior Pension Fund Investment Officer**

Exit Meeting discussions were held with:

- **Sally Fox, Pension Services Manager**

The auditors are grateful for the cooperation and assistance provided from all the management and staff who were involved in the audit. We would like to take this opportunity to thank them for their participation.

APPENDIX 3 – FINAL REPORT DISTRIBUTION LIST

The following staff received an electronic copy of the Final Report:

- **Stephen Chandler, Interim Chief Executive**
- **Lorna Baxter, Director of Finance**
- **Sean Collins, Service Manager Pensions**
- **Sally Fox, Pensions Services Manager**

Disclaimer

Any matters arising as a result of the audit are only those, which have been identified during the course of the work undertaken and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that could be made.

It is emphasised that the responsibility for the maintenance of a sound system of management control rests with management and that the work performed by Internal Audit Services on the internal control system should not be relied upon to identify all system weaknesses that may exist. However, audit procedures are designed so that any material weaknesses in management control have a reasonable chance of discovery. Effective implementation of management actions is important for the maintenance of a reliable management control system.

CONTACT PERSONS

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Division(s): n/a

ITEM

PENSION FUND COMMITTEE – 4 MARCH 2022

CLIMATE CHANGE ENGAGEMENT POLICY

Report by the Director of Finance

RECOMMENDATION

1. **The Committee is RECOMMENDED to approve the draft Climate Change Engagement Policy as included as the Annex to this report and instruct Officers to work with the Climate Change Working Group and Brunel to assess the practical implications of the Policy using the latest available data and report back to the June Committee.**

Introduction

2. At its December meeting, this Committee considered and agreed an initial draft Climate Change Engagement Document which set out some of the key principles to be included in the final draft policy. This document had been developed through discussions within the Climate Change Working Group including input from the representative from Fossil Free Oxfordshire.

3. The Committee asked Officers to continue to work with the Climate Change Working Group to produce the final draft version of the Policy for consideration at this meeting. It was noted that any Policy approved by this Committee would then become the basis for a wider policy discussion across the whole of the Brunel Pension Partnership as part of the 2022 Climate Change stocktake with the aim of agreeing a single Policy across the whole of the partnership.

4. The Climate Change Working Group met on 10 February 2022 and considered an initial draft Policy document prepared by the Officers. Members of the Responsible Investment Team at Brunel attended the meeting of the Working Group to comment on the draft and provide advice, but it was agreed that at this stage of the process, the draft Policy reflected the views of the Oxfordshire Pension Fund Committee, and the views were not necessarily endorsed by Brunel. The key elements of the discussion held at the Working Group are set out below, with the amended draft Policy included as an Annex to this report for Committee approval.

Draft Policy

5. The initial draft document set out the intended scope of the policy, with an ambition to cover all asset classes in as consistent manner as possible. The subsequent discussion highlighted the need to take different approaches across asset classes and indeed within asset classes. For example it was highlighted

that the approach to selecting investment assets was very different between the public and private markets, with the greater illiquidity in the private markets making it more important to ensure that Brunel selected Fund Managers who shared their responsible investment ambitions as there was less scope for engagement and dis-investment of underlying positions later within the process. It was also highlighted that there was limited scope for engagement when discussing sovereign bonds for example.

6. It was therefore agreed that the final policy would need to include a number of sub-divisions to reflect the different approaches and criteria that could be applied to the individual asset classes.

7. It was agreed that the initial focus of the Policy should be on the listed equity markets and the corporate bond markets where company engagement was a traditional part of the Fund Manager role, alongside the ability to raise and vote on resolutions at company general meetings, and where data was more generally available to undertake assessment of the underlying investments.

8. Within this initial focus, it was agreed that priority should be on those companies responsible for the highest levels of carbon emissions. The Committee had previously agreed to sign up to Climate Action !00+, so It was agreed that the Climate Action 100+ list of high impact companies should therefore be the initial focus of the Policy. This list currently covers 187 companies who account for over 80% of corporate industrial greenhouse gas emissions.

9. There was a request that the Policy should include a clear timeline for building out the document to include all asset classes. The consensus though was that at this time it was not possible to provide a definitive timeline as too many factors lay outside the control of the Committee, including the development of credible 1.5°C scenarios for all asset classes, and the establishment of comprehensive data to assess the relative merits of all classes of underlying investments. Going forward though it would be important to understand the relative impact of the various asset classes on the Fund’s carbon footprint and prioritise developments where they would have the greatest impact.

10. The members of the Working Group set out some concerns about the criteria used in the initial draft document to classify and assess individual companies. It was highlighted that we needed to adopt a standard approach to this to ensure the data was available to complete a comprehensive assessment. The criteria and classifications included in the initial draft were developed as part of the Climate Action 100+ work and included more detailed underlying sub-criteria with scores against the criteria overseen and controlled by Climate Action 100+.

11. Particular concern was expressed about including a “committed to aligning classification” based on the perceived self-assessment element of this criteria and the ability to express a commitment without any real action behind this to deliver the required net zero changes. It was noted though that Climate Action 100+ would be making an assessment of each of the high impact companies commitments, so there was some external validation of the classification, and

retaining the classification retained an earlier milestone whereby companies could be highlighted for potential action including exclusion.

12. The Working Group spent some time discussing the initial timescales for actions with conflicting views expressed about whether timescales should be shortened or were overly ambitious. The discussion also picked up the wider issues associated with the operation of the policy, and the need to deliver on both the policies objective on limiting global temperature increases to no more than 1.5°C and the over-arching fiduciary duty of this Committee.

13. The consensus was that the policy could not be overly prescriptive and needed to have a broader range of timescales attached to avoid either a fire sale of assets or to force the sale of assets when other criteria supported their retention. Having a wider range of timescales would enable the Fund to be ambitious in setting early targets for the highest impact companies whilst ensuring the timescales to manage the effective transition of lower impact companies was deliverable. It was also important to note that the Fund's overarching Climate Policy was to support the delivery of a net zero economy rather than simply a net zero investment portfolio, and whilst dis-investment would deliver the latter it could hamper the process to deliver the former.

14. It was agreed that maintaining a high level of transparency around the delivery of this policy was important, and if there was an acceptance that companies which failed to meet the required criteria by the specified timescales would not automatically be subject to exclusion, there needed to be clear reporting as to why such companies were being retained within the investment portfolios.

Next Steps

15. As part of the discussion, it was suggested that it would be helpful to understand how the policy would apply to current investment companies. Brunel reported that they expected further data would be published in March 2022 which would support such analysis. This analysis would allow us to report on the percentage of companies on the Climate Action 100+ high impact list which are contained within our portfolios and the proportion of the total emissions of the Fund attributable to these companies.

16. It was further explained that the wider discussions on developing an Engagement Policy across the whole of the partnership would not take place until the second half of 2022 as part of the Climate Change stocktake. As such it was agreed that the Working Group could undertake a further review of the potential practical impacts of implementing the draft policy and report back their findings and any proposed revisions to the draft Policy to the June meeting of this Committee.

Lorna Baxter
Director of Finance

Contact Officers: Sean Collins/Greg Ley
Tel: 07554 103465 / 07393 001071

February 2022

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