

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 Pension 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 Pensions Regulator to a high service standard for our members
 - To achieve a 100% funding level
 - To ensure there are sufficient liquid resources to meet the liabilities of the Fund as they fall due, and
 - To maintain as near stable and affordable employer contribution rates as possible.

6. Part A of the plan sets out the broad service activity undertaken by the Fund. 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. Deliver further improvements to the governance arrangements of the Fund. There were 3 specific measures of success set out in the 2021/22 Business Plan in respect of this priority. The progress against these is set out in the table below.

Measure of Success	Key Progress Achieved	Outstanding Actions
New Committee Constitution in place - GREEN	New constitution agreed by full Council in March 2021, elected member appointments made in May, alongside agreement to the scheme member and Oxford Brookes University representatives. Academy and District Council representatives subsequently agreed.	None
New ways of working for the Committee and Board to be in place to	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.
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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 forecast £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 **must do** work for the Fund, what the Fund **should** be doing, what it **could** do and what it **would** like to do where resources were not an issue (referred to in the workshop as the **MOSCOW** 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

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