

## **PENSION FUND COMMITTEE – 10 SEPTEMBER 2021**

### **REVIEW OF THE BUSINESS PLAN 2021/22**

#### **Report by the Director of Finance**

#### **RECOMMENDATION**

**The Committee is RECOMMENDED to note progress against each of the key service priorities as set out in the report.**

#### **Introduction**

1. This report sets out the latest progress against the key service priorities set in the business plan for the Pension Fund for 2021/22. The Plan was agreed by the last meeting of the old Committee in March 2021.
2. The key objectives for the Oxfordshire Pension Fund as set out in the Business Plan for 2021/22 remain consistent with those agreed for previous years. These are summarised as:
  - To administer pension benefits in accordance with the LGPS regulations, and the guidance set out by the Pensions Regulator
  - To achieve a 100% funding level
  - To ensure there are sufficient liquid resources to meet the liabilities of the Fund as they fall due, and
  - To maintain as near stable and affordable employer contribution rates as possible.
3. The service priorities for the year do not include the business as usual activity which will continue alongside the activities included in the service priorities. Business as usual activities are monitored as part of the Administration Report and the report on Investment Performance.

#### **Key Service Priorities – Progress to Date**

4. There were 4 service priorities included in the 2021/22 Plan each with a number of key measures of success. The latest position on each is set out in the paragraphs below. The assessment criteria agreed by the previous Committee for each measure of success is as follows:
  - Green – measures of success met, or on target to be met
  - Amber – progress made, but further actions required to ensure measures of success delivered
  - Red – insufficient progress or insufficient actions identified to deliver measures of success

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

Measure of Success	Key Progress Achieved	Outstanding Actions
Metrics, benchmarks and targets in place for all portfolios to assess progress against the 7.6% per annum reduction in carbon emissions - GREEN	Benchmark report produced for all equity portfolios and the corporate bond investments as at December 2019 and December 2020. Initial reductions in carbon emissions of 17.7%. Recommendation to this Committee on switch of passive allocations to new climate related benchmarks.	Work to be undertaken with Brunel to identify metrics and benchmarks for remaining portfolios.
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 - RED	No action to date – Focus has been on the development of the climate related passive benchmarks and investing in climate solutions.	Review of current engagement and voting reports to assess quality of existing target outcomes set for engagement, and how success is measured. Review voting and escalation processes and assess whether timescales for achieving desired change are realistic.

6. There have been 2 key developments in the implementation of our Climate Change Policy over the last quarter, both of which are reflected in separate reports on today's agenda. The first is the development of the new climate related benchmarks by Brunel in conjunction with FTSE Russell, and the subsequent development of new Brunel passive portfolios in conjunction with Legal and General Investment Management. As noted in the separate report,

these are significant developments in the investment industry, allowing us to address a key concern around passive investments as well as providing a secondary benchmark against which to assess the performance of the active equity portfolios.

7. The second key development is the production of our first report in line with the requirements of the Taskforce on Climate-related Financial Disclosures (TCFD). As noted in the separate report on the agenda, this TCFD report has been produced 2 years in advance of the expected statutory requirement. The report also covers the progress made in the first year since the introduction of our Climate Change Policy, which includes a 17.7% reduction in the carbon emissions of the listed equity and corporate bond portfolios, in excess of the 7.6% target annual reduction.
8. What is clear from the work on the TCFD report is that the additional requirements of delivering the full reporting associated with the implementation of our climate change policy and the impending statutory reporting is going to place an increasing burden on the Fund's Officers. A report will be brought to a future meeting of this Committee setting out the proposed additional resources required for approval.
9. Deliver further improvements to the governance arrangements of the Fund. There were 3 specific measures of success set out in the 2021/22 Business Plan in respect of this priority. The progress against these is set out in the table below.

Measure of Success	Key Progress Achieved	Outstanding Actions
New Committee Constitution in place - GREEN	New constitution agreed by full Council in March 2021, elected member appointments made in May, alongside agreement to the scheme member and Oxford Brookes University representatives. Academy and District Council representatives subsequently agreed.	None
New ways of working for the Committee and Board to be in place to satisfaction of members - GREEN	Report on all 9 outstanding recommendations on today's agenda, including proposed way forward on each.	Recommendations to be implemented.
Full Training Programme in place, with levels of	Initial skills and knowledge assessment completed	

engagement and skills and knowledge scores increasing - GREEN	for 70% of Committee Members and 100% of Board Members. Training programme and review process included in today's agenda.	
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10. A full report on the Governance review is included elsewhere on today's agenda. The report which has been produced with the support of Hymans Robertson includes an action plan to deliver against the 9 outstanding actions of the independent governance review carried out by Hymans. Agreement and implementation of the action plan will deliver the objectives included within this priority.
11. Further improve the data management arrangements between the Fund and both scheme employers and scheme members. There were 4 measures of success set for this service priority within the Business Plan, and progress against these measures is set out below.

Measure of Success	Key Progress Achieved	Outstanding Actions
Improved scores recorded in customer satisfaction surveys - AMBER	Customer satisfaction scores sent out regularly	Increase number of survey responses to build meaningful feedback.
Increase take up of Member Self Service (MSS) - GREEN		Further develop the scope of MSS and improve the functionality for scheme members.
Further Improvements in data quality scores - GREEN	Resolution of long term Guaranteed Minimum Pension (GMP) issues	Resolve outstanding issues with missing addresses and historic cases with missing data.
Clear Policy in place for calculating benefits where underpin benefits cannot be established due to missing data - AMBER	Full review of all data previously received from scheme employers and analysis of gaps underway.	Complete review of data gaps and produce policy paper for Committee setting out the scale of the issue, the key risks in collecting outstanding data and key risks associated of undertaking benefit calculations in absence of data.

12. There has been limited progress in this quarter in respect of this priority, although this is as expected as the focus has been on completing the work

necessary to produce the annual benefit statements for all active and deferred members in line with the statutory deadline of the end of August 2021 (see Administration report for further details). It should be noted that this annual exercise should itself lead to improvements to the data quality which will be reflected in the reports we now need to produce for the Pension Regulator. It is also expected that the publication of annual benefit statements to the Members Self Service portal will again lead to an increase in the numbers of members who activate their account.

13. In respect of the work associated with the McCloud judgement, we are still awaiting central guidance before we can finalise the project plan and complete the assessment of the data requirements and where policy decisions will be required by this Committee. A full report including any additional resource requirements will be brought to a future meeting of this Committee.
14. 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.

15. We have now completed the transition of all listed asset classes to Brunel with 80% of the Fund's assets now invested in Brunel portfolios. The majority of the remaining 20% will transition to Brunel as money is distributed back to the Fund from the legacy private market investments, and Brunel call down the commitments already made against the new private market portfolios. Final decisions for this Committee in relation to the Diversified Growth Fund and the listed private equity investments will be taken later this financial year.
16. As reported last quarter, a number of changes have been agreed to the standard quarterly performance reports and Brunel are currently taking this forward. There has been a short delay in the project but revised reports should still be available for the Committee later this year.
17. 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. The assurance process undertaken by the Client Funds has been enhanced during the last quarter with representatives of the Client Group sitting in as observers on the meeting of the Brunel Investment Team as they carried out their latest review of the listed portfolios.

18. Part C of the Business Plan sets out the Fund's budget for 2021/22 which totals £15,588,000. The table below provides information on expenditure during the first quarter of the year and provides a forecast outturn for the year as a whole.

	<b>Budget</b>	<b>YTD</b>	<b>%</b>	<b>Forecast Outturn</b>	<b>Variance</b>
	<b>2021/22</b>	<b>2021/22</b>		<b>2021/22</b>	<b>2021/22</b>
	<b>£'000</b>	<b>£'000</b>		<b>£'000</b>	<b>£'000</b>
<b>Administrative Expenses</b>					
Employee Costs	1,335	291	22%	1,210	-125
Support Services Including ICT	812	437	54%	812	0
Printing & Stationary	82	11	14%	82	0
Advisory & Consultancy Fees	165	0	0%	165	0
Other	59	0	0%	59	0
<b>Total Administrative Expenses</b>	<b>2,453</b>	<b>739</b>	<b>30%</b>	<b>2,328</b>	<b>-125</b>
<b>Investment Management Expenses</b>					
Management Fees	11,316	3,007	27%	11,500	184
Custody Fees	25	10	42%	30	5
Brunel Contract Costs	1,065	268	25%	1,065	0
<b>Total Investment Management Expenses</b>	<b>12,406</b>	<b>3,286</b>	<b>26%</b>	<b>12,595</b>	<b>189</b>
<b>Oversight &amp; Governance</b>					
Investment Employee Costs	263	64	24%	263	0
Support Services Including ICT	12	7	60%	15	3
Actuarial Fees	190	97	51%	190	0
External Audit Fees	40	5	12%	40	0

Internal Audit Fees	16	0	0%	16	0
Advisory & Consultancy Fees	89	9	10%	80	-9
Committee and Board Costs	61	1	2%	50	-11
Subscriptions and Memberships	58	10	17%	50	-8
<b>Total Oversight &amp; Governance Expenses</b>	<b>729</b>	<b>193</b>	<b>26%</b>	<b>704</b>	<b>-25</b>
<b>Total Pension Fund Budget</b>	<b>15,588</b>	<b>4,218</b>	<b>27%</b>	<b>15,627</b>	<b>39</b>

19. At this time it is forecast that the expenditure for 2021/22 will total £15.827m which represents an overspend of £39,000 or 0.25%. The main element of this overspend is on investment management fees, which as previously explained are directly linked to the total assets under management. An improvement in investment performance which increases the overall value of the Fund therefore will lead to an increase in investment fees paid.
20. The only other significant variation is on the employee costs for the administration service which as covered within the Administration report elsewhere on this agenda continues to experience a number of vacancies across the team.
21. Part D of the Business Plan sets out the broad Training Plan for Committee Members, based on the draft Policy previously agreed by the Committee. As noted above, a full training programme produced in conjunction with Hymans Robertson has been included in the separate report on the governance review elsewhere on today's agenda. Once adopted, this will be monitored as part of this report in line with the process set out in the governance review.

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August 2021