Public Document Pack

To: Members of the Pension Fund Committee

Notice of a Meeting of the Pension Fund Committee

Friday, 19 March 2010 at 10.15 am

County Hall, Oxford

Tony Cloke

Tony Cloke
Assistant Head of Legal & Democratic Services

March 2010

Contact Officer: ***Marion Holyman***
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Membership

Chairman – Councillor David Harvey
Deputy Chairman - Councillor Bill Service

Councillors

Jean Fooks	Don Seale	Alan Thompson
Stewart Lilly	John Tanner	

Co-optees

District Councillor Richard Langridge
District Councillor Barry Wood

Notes:

- ***A lunch will be provided***
- ***Date of next meeting: 4 June 2010***
- ***There will be a training session on Long Term Performance Review prior to the meeting, starting at 9.30 am, in the meeting room***

Declarations of Interest

This note briefly summarises the position on interests which you must declare at the meeting. Please refer to the Members' Code of Conduct in Section DD of the Constitution for a fuller description.

The duty to declare …
You must always declare any "personal interest" in a matter under consideration, ie where the matter affects (either positively or negatively):
(i) any of the financial and other interests which you are required to notify for inclusion in the statutory Register of Members' Interests; or
(ii) your own well-being or financial position or that of any member of your family or any person with whom you have a close association more than it would affect other people in the County.

Whose interests are included …
"Member of your family" in (ii) above includes spouses and partners and other relatives' spouses and partners, and extends to the employment and investment interests of relatives and friends and their involvement in other bodies of various descriptions. For a full list of what "relative" covers, please see the Code of Conduct.

When and what to declare …
The best time to make any declaration is under the agenda item "Declarations of Interest". Under the Code you must declare not later than at the start of the item concerned or (if different) as soon as the interest "becomes apparent".
In making a declaration you must state the nature of the interest.

Taking part if you have an interest …
Having made a declaration you may still take part in the debate and vote on the matter unless your personal interest is also a "prejudicial" interest.

"Prejudicial" interests …
A prejudicial interest is one which a member of the public knowing the relevant facts would think so significant as to be likely to affect your judgment of the public interest.

What to do if your interest is prejudicial …
If you have a prejudicial interest in any matter under consideration, you may remain in the room but only for the purpose of making representations, answering questions or giving evidence relating to the matter under consideration, provided that the public are also allowed to attend the meeting for the same purpose, whether under a statutory right or otherwise.

Exceptions …
There are a few circumstances where you may regard yourself as not having a prejudicial interest or may participate even though you may have one. These, together with other rules about participation in the case of a prejudicial interest, are set out in paragraphs 10 – 12 of the Code.

Seeking Advice …
It is your responsibility to decide whether any of these provisions apply to you in particular circumstances, but you may wish to seek the advice of the Monitoring Officer before the meeting.

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 and Temporary Appointments

2. Declarations of Interest - see guidance note

3. **Minutes** (Pages 1 - 8)

To approve the minutes of the meeting held on 4 December 2009 **(PF3)** and to receive for information any matters arising on them.

4. Petitions and Public Address

5. **Overview of Past and Current Investment Position** (Pages 9 - 28)

10:20

Tables 1 to 10 are compiled from the custodian's records. The custodian is the Pension Fund's prime record keeper. He accrues for dividends and recoverable overseas tax within his valuation figures and may also use different exchange rates and pricing sources compared with the fund managers. The custodian also treats dividend scrip issues as purchases which the fund managers may not do. This may mean that there are minor differences between the tabled figures and those supplied by the managers.

The Independent Financial Adviser will review the investment activity during the past quarter and present an overview of the Fund's position as at 31 December 2009 using the following tables:

Table 1	provides a consolidated valuation of the Pension Fund at 31 December 2009
Tables 2 to 7	provide details of the individual manager's asset allocations and compare these against their benchmark allocations
Table 8	shows net investment/disinvestments during the quarter
Tables 9 to 10	provide details on the Pension Fund's Private Equity
Tables 11 to 19	provide investment performance for the consolidated Pension Fund and for the four Managers for the quarter ended 31 December 2009

In addition to the above tables, the performance of the Fund Managers over the past 18 months has been produced graphically as follows:

Graph 1 – Value of Assets

Graph 2 - Alliance Bernstein

Graph 3 - Baillie Gifford

Graph 4 – Legal & General

Graphs 5 and 6 - UBS

The Committee is RECOMMENDED to receive the tables and graphs, and that the information contained in them be borne in mind, insofar as they relate to items 7, 8 and 9 on the agenda.

EXEMPT ITEMS

The Committee is RECOMMENDED that the public be excluded for the duration of items 6, 7, 8, 9, 10, 11 and 12 in the Agenda since it is likely that if they were present during those 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.

THE REPORTS RELATING TO THE EXEMPT ITEMS HAVE NOT BEEN MADE PUBLIC AND SHOULD BE REGARDED AS STRICTLY PRIVATE TO MEMBERS AND OFFICERS ENTITLED TO RECEIVE THEM.

NOTE: In the case of items 7 and 8, there are no reports circulated with the Agenda. Any exempt information will be reported orally.

6. Overview and Outlook for Investment Markets (Pages 29 - 36)

10:30

Report of the Independent Financial Adviser (**PF6**)

The report sets out an overview of the current and future investment scene and market developments across various regions and sectors. The report itself does not contain exempt information and is available to the public. The Independent Financial Adviser will also report orally and any information reported orally will be exempt information.

The public should be excluded during this item because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following prescribed category:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, in that such disclosure would prejudice the trading activities of the fund managers involved and would prejudice the position of *the authority's investments in funding the Pension Fund.*

The Committee is RECOMMENDED to receive the report, tables and graphs, to receive the oral report, to consider any further action arising on them and to bear the Independent Financial Adviser's conclusions in mind when considering the Fund Managers' reports.

7. Baillie Gifford

10:45

(1) The Independent Financial Adviser will report orally on the performance and strategy of Baillie Gifford drawing on the tables at Agenda Items 5 and 6.

(2) The representatives (Leslie Robb and Iain McCombie) of the Fund Manager will:

(a) report and review the present investments of their part of the Fund and their strategy against the background of the current investment scene for the period which ended on 31 December 2009;

(b) give their views on the future investment scene.

In support of the above is their report for the period to 31 December 2009.

At the end of the presentation, members are invited to question and comment and the Fund Managers to respond.

The public should be excluded during this item because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following prescribed category:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, in that such disclosure would prejudice the trading activities of the fund managers involved and would prejudice the position of the authority's investments in funding the Pension Fund.

The Committee is RECOMMENDED to note the main issues arising from the presentation and to take any necessary action, if required.

8. Legal & General

11:25

(3) The Independent Financial Adviser will report orally on the performance and strategy of Legal & General drawing on the tables at Agenda Items 5 and 6.

(2) The representatives (Daniel Blass and Jonathan Cloke) of the Fund Manager will:

(a) report and review the present investments of their part of the Fund and their strategy against the background of the current investment scene for the period which ended on 31 December 2009;

(b) give their views on the future investment scene.

In support of the above is their report for the period to 31 December 2009.

At the end of the presentation, members are invited to question and comment and the Fund Managers to respond.

The public should be excluded during this item because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following prescribed category:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, in that such disclosure would prejudice the trading activities of the fund managers involved and would prejudice the position of the authority's investments in funding the Pension Fund.

The Committee is RECOMMENDED to note the main issues arising from the presentation and to take any necessary action, if required.

9. Report of Main Issues arising from Reports of the Fund Managers not represented at this meeting

12:05

The Independent Financial Adviser will report orally on the main issues arising from the reports from Alliance Bernstein and UBS in conjunction with information contained in the tables (Agenda Item 5).

The public should be excluded during this item because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following prescribed category:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, in that such disclosure would prejudice the trading activities of the fund managers involved and would prejudice the position of the authority's investments in funding the Pension Fund.

The Committee is RECOMMENDED to note the main issues arising from the reports and to take any necessary action, if required.

10. Summary by the Independent Financial Adviser

12:10

The Independent Financial Adviser will, if necessary, summarise the foregoing reports of the Fund Managers and answer any questions from members.

The public should be excluded during this item because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following prescribed category:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, in that such disclosure would prejudice the trading activities of the fund managers involved and would prejudice the position of the authority's investments in funding the Pension Fund.

11. Review of Independent Financial Adviser (Pages 37 - 42)

12:15

Report of the Head of Finance & Procurement (**PF11E**)

The Pension Fund employs the services of an Independent Financial Adviser (IFA). It is appropriate to review the activities of the IFA on an annual basis. Peter Davies, the current IFA, was appointed from February 2009 for five years with an option to extend for a further five years. This is therefore his first annual review.

The public should be excluded during this item because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following prescribed category:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information)
and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, in that such disclosure would lead to the disclosure of the amount proposed to be incurred.

12. Review of Use of External Consultants (Pages 43 - 48)

12:25

Report of the Assistant Chief Executive and Chief Finance Officer (**PF12E**)

The 2009/10 business plan for the Pension Investments team includes reviewing the need for external consultants and specifically whether it would be advantageous to have a permanent arrangement rather than appoint on an ad hoc basis. This report is the outcome of that review.

The public should be excluded during this item because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the *following prescribed category:*

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information)
and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, in that such disclosure would lead to the disclosure of the amount proposed to be incurred.

ITEMS FOLLOWING THE RE-ADMISSION OF THE PRESS AND PUBLIC

13. Investment of Pension Fund Cash (Pages 49 - 52)

12:35

Report of the Assistant Chief Executive and Chief Finance Officer (**PF13**)

The report sets out proposed changes to the management of Pension Fund cash balances managed by the County Council. The changes are necessary as a result of new legislation which prevents the pooling of cash balances for investment purposes from 1 April 2010 and requires pension fund cash balances to be held in a separate bank account from 1 April 2011.

The Pension Fund Committee is RECOMMENDED to:

(a) ***note the requirement for a separate bank account for Pension Fund transactions from 1 April 2011;***

(b) ***delegate authority to the Assistant Chief Executive and Chief Finance Officer to apply the Council's approved Treasury Management Strategy separately to the management of Pension Fund cash;***

(c) ***delegate authority to the Assistant Chief Executive and Chief Finance Officer to open separate Pension Fund bank, deposit and investment accounts as appropriate; and***

(d) ***delegate authority to the Assistant Chief Executive and Chief Finance Officer to borrow money for the Pension Fund in accordance with the regulations.***

14. Pension Fund Business Plan and Budget for 2010/11 (Pages 53 - 62)

12:40

Report of the Assistant Chief Executive and Chief Finance Officer (**PF14**)

This report sets out the annual business plan and budget for the 2010/11 financial year and also includes proposals for member training.

The Committee is RECOMMENDED to:

(a) ***approve the Business Plan, as set out at Annex 1 to the report, for 2010/11;***

(b) ***approve the Investment Management and Scheme Administration Budget for 2010/11, as set out in Annex 2 to the report;***

(c) ***comment on the proposals for member training as set out in the report; and***

(d) ***subject to (c) above, agree the arrangements for member training.***

15. The Funding Strategy Statement (Pages 63 - 76)

12:50

Report of the Assistant Chief Executive and Chief Finance Officer (**PF15**).

This report updates the Committee in respect of the recent consultation exercise on potential changes in the Funding Strategy Statement, and in light of the comments received, proposes a number of changes to the current Statement.

The Committee is RECOMMENDED to amend the Funding Strategy Statement as set out in paragraph 14 in the report.

LUNCH

16. Applications for Admission to the Oxfordshire Pension Fund (Pages 77 - 78)

14:00

Report of the Assistant Chief Executive and Chief Finance Officer (PF16)

This report presents three applications for admission to the Local Government Pension Fund as follows:

(a) The outsourcing of revenue and benefit services by Cherwell District Council
(b) The outsourcing of the Child and Adolescent Mental Health Service from Children, Young People & Families
(c) The re-tendering of the Oxfordshire Highways contract.

The Committee is RECOMMENDED to approve the above applications subject to the agreement to the terms of the Admission Agreements and this Committee being informed when the agreements are signed.

17. **Local Government Pension Scheme (LGPS) - Draft (Miscellaneous) Regulations 2010** (Pages 79 - 82)

14:10

Report of the Assistant Chief Executive and Chief Finance Officer (**PF17**)

On 24 December 2009, the Department for Communities and Local Government wrote to all LGPS Stakeholders in England and Wales inviting their comments on draft proposed changes to the regulations. This report covers the main elements of the proposal and seeks the Committee's views of any issues it wishes to cover in a response to the Government.

The Committee is RECOMMENDED to note the report and to consider what response, if any, it wishes to send to the Government in respect of this consultation.

18. **Write Off's** (Pages 83 - 84)

14:20

Report of the Assistant Chief Executive and Chief Finance Officer (**PF18**)

The report provides information on write off's which have taken place under the Council's Scheme of Financial Delegation.

The Pension Fund Committee is RECOMMENDED to note this report.

19. **Compensation Payments** (Pages 85 - 86)

14:25

Report of the Assistant Chief Executive and Chief Finance Officer (**PF19**)

At the December 2009 meeting, the Committee delegated responsibility for the determination of compensation payments below £5,000 in cases of complaint under the Internal Disputes Resolution Procedure to the Assistant Head of Shared Services. This report sets out the details of the one case determined since the last Committee meeting.

The Committee is RECOMMENDED to note the report.

20. **Pensions Increase**

14:30

The Assistant Chief Executive and Chief Finance Officer reports that the Department for Communities and Local Government has advised that there is a 0% increase to all occupational pensions for April 2010 as a result of a negative value for the retail price index at September 2009. Basic state pensions will increase by 2.5% from 12 April 2010.

The Committee is RECOMMENDED to note the report.

21. Corporate Governance and Socially Responsible Investment

14:35

The Assistant Chief Executive and Chief Finance Officer reports that an audit of Fund Manager voting practices was undertaken for the period from October 2008 to September 2009. Managers are required to vote in line with RREV recommendations unless they clear any variation to this with officers. One query has been raised with Baillie Gifford where they state that they had voted in line with RREV recommendations, although the audit picked up that they had not. Baillie Gifford have apologised for this error as soon as it was brought to their attention and have indicated that they have strengthened their processes in this area.

This would appear to be the case because in December Baillie Gifford notified officers that they wanted to vote against RREV recommendations in relation to one resolution at the Extraordinary General Meeting of Cairn Energy on 21 December. The resolution was to allow the company to restructure the Capricorn long term incentive scheme (Capricorn is Cairn Energy’s exploration focused subsidiary). This would have enabled executives to receive maximum payouts from their 2007 and 2008 awards despite failing to achieve their performance targets and demonstrate properly that the Capricorn business has added significant shareholder value since 2007.

The Assistant Chief Executive and Chief Finance Officer has no other issues to report for this quarter but it should be noted that all the managers have included pages within their valuation reports which provide details on their voting at company AGMs, engagement with companies and their involvement with other socially responsible initiatives.

The Committee is RECOMMENDED to note the report.

22. Annual Pension Forum

14:40

In looking at the possible dates for the 2010 Forum, the Assistant Chief Executive and Chief Finance Officer reports that the only dates on which members have no scheduled commitments are Friday 10 December or Wednesday 15 December 2010.

The Committee is asked to decide on which of the two dates it wishes to hold the Forum.

Pre-Meeting Briefing
There will be a pre-meeting briefing at County Hall on **Monday 15 March 2010** at **3 pm** for the Chairman, Deputy Chairman and Opposition Group Spokesman.

PENSION FUND COMMITTEE

MINUTES of the meeting held on Friday, 4 December 2009 commencing at 10.15 am and finishing at 12.56 pm

Present:

Voting Members:	Councillor David Harvey – in the Chair Councillor Jean Fooks Councillor Steve Hayward (in place of Councillor Don Seale) Councillor Stewart Lilly Councillor Bill Service Councillor John Tanner Councillor Alan Thompson
District Council Representatives:	District Councillor Richard Langridge
Beneficiaries Observer:	Peter Fryer
Independent Financial Adviser:	Peter Davies
By Invitation:	Tony Wheeler (consultant)

Officers:

Whole of meeting	Mr S Collins (Assistant Head of Shared Services (Financial Services)), Mr P Gerrish (Head of Finance & Procurement), Mrs D Ross (Corporate Core) and Ms M Holyman (Corporate Core)

The Committee considered the matters, reports and recommendations contained or referred to in the agenda for the meeting, together with a schedule of addenda tabled at the meeting and decided as set out below. Except insofar as otherwise specified, the reasons for the decisions are contained in the agenda, reports and schedule, copies of which are attached to the signed Minutes.

37/09 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS

(Agenda No. 1)

Apologies for absence and temporary appointments were received as follows:

Apology from	Temporary Appointment
Councillor Seale	Councillor Hayward
Councillor Wood (co-opted member)	

The Committee was advised that Brenda Churchill had resigned as beneficiaries' observer for health reasons and Peter Fryer had replaced her as the beneficiaries' observer. The Committee sent her their best wishes.

38/09 DECLARATIONS OF INTEREST

(Agenda No. 2)

Councillors Fooks, Harvey, Hayward, Service and Thompson declared personal interests as members of the Pension Fund Scheme under the provisions of Section 18 of the Local Government and Housing Act 1989.

39/09 MINUTES

(Agenda No. 3)

The Minutes of the meeting of the Committee held on 4 September 2009 were approved and signed.

On Minute 21/09 (WM Company Presentation on the Pension Fund's Investment Performance for the Twelve Months ended 31 March 2009), the Independent Financial Adviser reported, for clarification, that the reference in paragraph 2, line 5 to the underperformance of bonds was in general and did not relate to the bonds held in the Oxfordshire Fund, which had performed well.

40/09 OVERVIEW OF PAST AND CURRENT INVESTMENT POSITION

(Agenda No. 5)

The Committee was advised that Tables 1 to 19 were compiled from the custodian's records. The custodian was the Pension Fund's prime record keeper. He accrued for dividends and recoverable overseas tax within his valuation figures and might also have used different exchange rates and pricing sources compared with the fund managers. The custodian also treated dividend scrip issues as purchases which the fund managers might not have done. This might mean that there were minor differences between the tabled figures and those supplied by the managers.

The Independent Financial Adviser reviewed the investment activity during the past quarter and presented an overview of the Fund's position as at 30 September 2009. He also updated the Committee on the current market value of the Fund's investments, which was the same as the value as at 30 September.

RESOLVED: to receive the tables and graphs, and that the information contained in them be borne in mind, insofar as they relate to items 7, 8 and 9 on the agenda.

41/09 EXEMPT ITEMS

RESOLVED: that the public be excluded for the duration of Items 6, 7, 8, 9, 10 and 11 in the Agenda since it is likely that if they were present during those 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.

42/09 OVERVIEW AND OUTLOOK FOR INVESTMENT MARKETS
(Agenda No. 6)

The Committee considered a report (PF6) which set out an overview of the current and future investment scene and market developments across various regions and sectors. The Independent Financial Adviser updated the Committee orally.

RESOLVED: to receive the report, tables and graphs, to receive the oral report and to bear the Independent Financial Adviser's conclusions in mind when considering the Fund Managers' reports.

43/09 UBS GLOBAL ASSET MANAGEMENT
(Agenda No. 7)

The representatives (Mr P Harris and Ms Y Thomas) reported and reviewed the present investments of their part of the Fund and their strategy against the background of the current investment scene for the period which ended on 30 September 2009. The representatives reported that a significant portion of the cash being held for investment in property had now either been committed or invested. The representatives responded to members' questions.

RESOLVED: to note the main issues arising from the reports.

44/09 ALLIANCE BERNSTEIN
(Agenda No. 8)

The representatives (Mr N Davidson and Mr D Stewart) reported and reviewed the present investments of their part of the Fund and their strategy against the background of the current investment scene for the period which ended on 30 September 2009. The representatives responded to members' questions.

RESOLVED: to note the main issues arising from the reports.

45/09 REPORT OF MAIN ISSUES ARISING FROM REPORTS OF THE FUND MANAGERS NOT REPRESENTED AT THIS MEETING
(Agenda No. 9)

The Independent Financial Adviser reported that the performance of Baillie Gifford had been disappointing since the end of March and that the performance of Legal & General had exceeded the benchmarks over both the twelve-month and three-year periods.

RESOLVED: to note the main issues arising from the reports.

46/09 SUMMARY BY THE INDEPENDENT FINANCIAL ADVISER
(Agenda No. 10)

In relation to private equity, the Independent Financial Adviser reported that the commitment to invest in Adams Street Partners and Partners Group Funds would be drawn down over a number of years. Since the last meeting, some cash had been drawn down by these Funds but no investments had been made in quoted private equity investment trusts.

RESOLVED: to note the Independent Financial Adviser's report.

47/09 REVIEW OF HEDGE FUNDS

(Agenda No. 11)

The Committee considered a report (PF11) which reviewed hedge fund investment including the objectives of investing in hedge funds and whether those objectives are being achieved and of investing in hedge fund replication vehicles as an alternative.

RESOLVED: to:

(a) continue with the current allocation to Hedge Funds;

(b) agree that Hedge Funds continue to be managed by UBS Wealth Management.

ITEMS FOLLOWING THE RE-ADMISSION OF THE PRESS AND PUBLIC

48/09 PENSION FUND ANNUAL REPORT AND ACCOUNTS FOR 2008/09

(Agenda No. 12)

(a) Pension Fund Annual Report and Accounts for 2008/09

The Committee considered the Pension Fund Annual Report and Accounts for 2008/09.

RESOLVED: to adopt formally the Pension Fund Annual Report and Accounts 2008/09.

(b) Report to those charged with Governance 2008/09: Oxfordshire County Council Pension Fund

The Committee considered the Report by the External Auditors of the Pension Fund for 2008/09 (PF12(b)). Ms J Awty and Mr S Allsop (KPMG) attended for Item 12(b).

RESOLVED: to accept the report (PF12b) to those charged with governance.

49/09 INVESTMENT MANAGER MONITORING ARRANGEMENTS

(Agenda No. 13)

The Committee considered a report (PF13) on the monitoring arrangements for the Investment Managers for 2010/11.

RESOLVED: to agree the programme of manager meetings as set out in the report, subject to the Head of Finance & Procurement scheduling attendance by Adam Street Partners/Partners Group at one of the meetings in 2010/11.

50/09 ACTUARIAL TENDER AND THE IMPLICATIONS FOR THE FUNDING STRATEGY STATEMENT

(Agenda No. 14)

The Committee considered a report (PF14) on the recent tender exercise to appoint an Actuary for the Pension Fund, following the expiry of our previous contract with Hewitt Associates, and also provides an update on the approach to our Funding Strategy Statement following the appointment of the new Actuary, and further discussions held with a number of Admitted Bodies and with the Department for Comunities and Local Government and addenda circulated at the meeting.

RESOLVED: to:

(a) note the appointment of a new Actuary with effect from 11 December 2009; and

(b) add the option to the consultation on changes to the Funding Strategy Statement of a standard approach to future funding for all admitted bodies, with Scheduled Bodies underwriting the risk for the smaller Community Admitted Bodies.

51/09 PAYMENT OF DEATH BENEFITS

(Agenda No. 15)

The Committee considered a report (PF15) on the Chief Executive’s decision, under delegated powers, in the payment of a death grant and sought delegation for future decisions where there were no contentious circumstances.

RESOLVED: to:

(a) note the decision in making payment of the death benefits detailed in the report;

(b) delegate authority to the Assistant Head of Shared Services (Financial Services), after consultation with the Chairman of the Pension Fund Committee, to determine non-contentious cases, subject to reporting to the next meeting of the Committee on such determinations.

52/09 DEPARTMENT OF COMMUNITIES AND LOCAL GOVERNMENT - CONSULTATION PAPER - LEARNING & SKILLS COUNCIL STAFF

(Agenda No. 16)

The Committee considered a report (PF16) on the recent consultation paper from the Government, and sought the Committee's view on any draft response it wished to make to the Government and addenda circulated at the meeting.

RESOLVED: to note the report and to respond to the Government expressing its concerns in respect of the proposed changes to the LGPS for such a small number of staff and to suggest the Government explores other options and, in particular, admission for the transferred staff to the Teachers' Pension Scheme.

53/09 INTERNAL DISPUTES RESOLUTION PROCEDURE - PAYMENT OF COMPENSATION

(Agenda No. 17)

The Committee considered a report (PF17) about a recent complaint submitted under the Internal Disputes Resolution Procedure. The complaint investigation had found fault within Pension Services, which had financially disadvantaged a Scheme Member. As the issue could not be resolved under the relevant Regulations, the Committee was recommended to agree a compensation payment which would hopefully avoid the need for the matter to be determined by the Pensions Ombudsman under a maladministration finding.

The Committee was also asked to consider whether such decisions in future cases could be determined by Officers, subject to an appropriate limit on the payment.

The Committee also considered the addenda circulated at the meeting.

RESOLVED:

(a) based on the evidence of the report, and to compromise any future claim against the Council to the Pensions Ombudsman, to award compensation to Mr P of £2,629 to offset the requirement to repay compensatory pension to the same sum; and

(b) to delegate authority to the Assistant Head of Shared Services (Financial Services), following consultation with the Chairman of the Pension Fund Committee and the County Solicitor, to determine payment of compensation up to £5,000 in settlement of any complaint relating to a possible claim of maladministration of the Pension Fund. All such cases should be reported to the next full meeting of the Committee for its information. Cases above £5,000 would need to be brought to the Committee for approval.

54/09 CORPORATE GOVERNANCE AND SOCIALLY RESPONSIBLE INVESTMENT

(Agenda No. 18)

The Assistant Chief Executive and Chief Finance Officer reported that she had nothing specific to report this quarter but it should be noted that all the managers had included pages within their valuation reports which provided details on their voting at company AGMs, engagement with companies and their involvement with other socially responsible initiatives.

RESOLVED: to note the report.

55/09 ANNUAL PENSION FORUM

(Agenda No. 19)

The Assistant Chief Executive and Chief Finance Officer reported that Mr Davies, the Independent Financial Adviser, the Pension Fund's Actuary and Mr Collins would give presentations at the meeting of the Forum which would take place on 9 December 2009.

RESOLVED: to note the report.

.... in the Chair

Date of signing 2010

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TABLE 1

OXFORDSHIRE COUNTY COUNCIL PENSION FUND - OVERALL VALUATION OF FUND AT 31 DECEMBER 2009

Investment	COMBINED PORTFOLIO 1.10.09	UBS Overseas Equities and Property		Alliance Bernstein Global Equities		Baillie Gifford UK Equities		Legal & General UK Equity Passive		Legal & General Fixed Interest		Other Investments		COMBINED PORTFOLIO 31.12.09		
	Value £' 000	Value £' 000	% of Total Value	Value £' 000	% of Total Value	Value £' 000	% of Total Value	Value £' 000	% of Total Value	Value £' 000	% of Total Value	Value £' 000	% of Total Value	Value £' 000	% of Total Value	OCC Customised Benchmark
EQUITIES																
UK Equities	**307,153**	**0**	0.0%	**27,572**	**12.2%**	**187,875**	**98.6%**	**113,244**	**100.0%**	**0**	**0.0%**	**0**	**0.0%**	328,691	**31.7%**	**31.0%** *
US Equities	67,916	0	0.0%	68,912	30.6%	0	0.0%	0	**0.0%**	0	0.0%	0	0.0%	68,912	6.6%	
European Equities	66,291	0	0.0%	63,258	28.0%	0	0.0%	0	**0.0%**	0	0.0%	0	0.0%	63,258	6.1%	
Japanese Equities	6,086	0	0.0%	9,378	4.1%	0	0.0%	0	**0.0%**	0	0.0%	0	0.0%	9,378	0.9%	
Pacific Basin Equities	6,508	0	0.0%	5,994	2.7%	0	0.0%	0	**0.0%**	0	0.0%	0	0.0%	5,994	0.6%	
Emerging Markets Equities	47,564	9,855	5.3%	43,407	19.3%	0	0.0%	0	**0.0%**	0	0.0%	0	0.0%	53,262	5.1%	
UBS Global Pooled Fund	102,132	122,952	65.3%											122,952	11.9%	
Total Overseas Equities	**296,497**	**132,807**	**70.6%**	**190,949**	**84.7%**	**0**	**0.0%**	**0**	**0.0%**	**0**	**0.0%**	**0**	**0.0%**	**323,756**	**31.2%**	**32.0%** *
BONDS																
UK Gilts	28,565	0	0.0%	0	0.0%	0	0.0%	0	**0.0%**	22,470	13.3%	0	0.0%	22,470	2.2%	3.0%
Corporate Bonds	72,415	0	0.0%	0	0.0%	0	0.0%	0	**0.0%**	65,649	39.0%	0	0.0%	65,649	6.3%	6.0%
Overseas Bonds	22,308	0	0.0%	0	0.0%	0	0.0%	0	**0.0%**	20,610	12.2%	0	0.0%	20,610	2.0%	2.0%
Index-Linked	59,922	0	0.0%	0	0.0%	0	0.0%	0	**0.0%**	51,927	30.8%	0	0.0%	51,927	5.0%	5.0%
Total Bonds	**183,209**	**0**	**0.0%**	**0**	**0%**	**0**	**0%**	**0**	0.0%	**160,656**	**95.3%**	**0**	**0.0%**	**160,656**	**15.5%**	**16.0%**
ALTERNATIVE INVESTMENTS																
Property	37,089	54,593	29.0%	0	0.0%	0	0.0%	0	**0.0%**	0	0.0%	1,174	0.8%	55,767	5.4%	8.0%
Private Equity	74,065	0	0.0%	0	0.0%	0	0.0%	0	**0.0%**	0	0.0%	72,345	47.8%	72,345	7.0%	10.0%
Hedge Funds	28,463	0	0.0%	0	0.0%	0	0.0%	0	**0.0%**	0	0.0%	29,577	19.6%	29,577	2.9%	3.0%
Total Alternative Investments	**139,617**	**54,593**	**29.0%**	**0**	**0.0%**	**0**	**0.0%**	**0**	0.0%	**0**	**0.0%**	**103,096**	**68.2%**	**157,689**	**15.2%**	**21.0%**
CASH	**71,882**	**834**	**0.4%**	**6,881**	3.1%	**2,605**	**1.4%**	**0**	0.0%	**7,820**	4.7%	**48,086**	**31.8%**	**66,226**	**6.4%**	**0.0%**
TOTAL ASSETS	998,359	188,234	100.0%	225,402	100.0%	190,480	100.0%	113,244	100.0%	168,476	100.0%	151,182	100.0%	1,037,018	100.0%	100.0%
% of total Fund		18.15%		21.74%		18.37%		10.92%		16.25%		14.58%		100.00%		

* The benchmark indices for UK Equities and Overseas Equities may fluctuate marginally each quarter reflecting changes in the FTSE All World Index
A revised customised benchmark was introduced from 1 October 2009

PF_MAR1910R09.xls

TABLE 2

Oxfordshire County Council Pension Fund for Quarter ended 31 December 2009

UBS Global Asset Management - Asset Allocation

Market Value £ 188,234,000

Overseas Equity Portfolio

Asset	Control Range	Benchmark Allocation	Actual Allocation	+ or - Benchmark	Index
	%	%	%	%	
Overseas Equities					
Comprising					
Global Pooled Fund	85 - 100	93.6%	93.0%	-0.6%	See Split below *
Emerging Markets	0 - 10	6.4%	7.0%	+0.6%	MSCI Emerging Markets Free
Cash	0 - 10	**0.0%**	0.0%		
Total		**100.0%**	**100.0%**		

*** Global Pooled Fund Split:-**					
North America		31.2%			FTSE North American Developed
Europe (ex UK)		31.2%			FTSE Europe (ex UK) Developed
Asia Pacific (inc. Japan)		31.2%			FTSE Asia-Pacific (inc Japan) Developed
Total Global Pooled		**93.6%**	**93.0%**	-0.6%	

<u>Target Objective</u> - To seek to outperform the Benchmark by 1% per annum over rolling 3-year periods (gross of management fees).

Property Portfolio

Asset	Control Range	Benchmark Allocation	Actual Allocation	+ or - Benchmark	Index
	%	%	%	%	
Property	90 - 100	**100.0%**	98.5%	-1.5%	IPD UK All Balanced Funds Index Weighted Average
Cash	0 - 10	**0.0%**	1.5%	+1.5%	
Total		**100.0%**	**100.0%**		

<u>Target Objective</u> - To seek to outperform the Benchmark by 1% per annum over rolling 3-year periods (net of costs and fees).

TABLE 3

Oxfordshire County Council Pension Fund for Quarter ended 31 December 2009

Alliance Bernstein - Asset Allocation

Market Value £ 225,402,000

Global Equities Portfolio

Asset	**Control Range**	**Benchmark Allocation**	**Actual Allocation**	**+ or - Benchmark**	**Index**
	%	%	%	%	
UK Equities		8.7%	12.2%	+3.5%	FTSE All World
Overseas Equities		91.3%	84.7%	-6.6%	
Comprising					
North America		44.7%	30.6%	-14.1%	
Europe (ex UK)		19.3%	28.0%	+8.7%	
Japan		7.9%	4.1%	-3.8%	
Asia Pacific (ex Japan)		7.7%	2.7%	-5.0%	
Emerging Markets		11.7%	19.3%	+7.6%	
Total Global Equities		100.0%	96.9%	-3.1%	
Cash			3.1%	+3.1%	
Total			**100.0%**		

Target Objective - To outperform the Benchmark by 3.0% per annum over rolling 3 year periods (gross of management fees)

TABLE 4

Oxfordshire County Council Pension Fund for Quarter ended 31 December 2009

Legal & General- Asset Allocation

Market Value £ 113,244,000

UK Equities - Passive					
Asset	**Control Range**	**Benchmark Allocation**	**Actual Allocation**	**+ or - Benchmark**	**Index**
	%	%	%	%	
UK Equities	N/A	100.0%	100.0%	+0.0%	FTSE 100
Cash	Nil	0.0%	0.0%	+0.0%	
Total		**100.0%**	**100.0%**		

Target Objective - To track the FTSE 100 Index

TABLE 5

Legal and General - Asset Allocation

Market Value £ 168,476,000

Fixed Income					
Asset	**Control Range**	**Benchmark Allocation**	**Actual Allocation**	**+ or - Benchmark**	**Index**
	%	%	%	%	
UK Gilts	0 - 36	18.75%	13.3%	-5.5%	FTSE A All Gilts Stocks
Corporate Bonds	20 - 55	37.50%	39.0%	+1.5%	IBoxx Sterling Non-Gilt All Stocks Index
Index-Linked	15 - 46	31.25%	30.8%	-0.5%	FTSE A Over 5 Year Index-linked Gilts
Overseas Bonds	0 - 24	12.50%	12.2%	-0.3%	JP Morgan Global Gov't (ex UK) Traded Bond
Cash	0 - 10	0.00%	4.7%	+4.7%	
Total		**100.0%**	**100.0%**		

Target Objective - To outperform the Benchmark by 0.4% per annum over rolling 3 year periods (gross of management fees)

TABLE 6

Oxfordshire County Council Pension Fund for Quarter ended 31 December 2009

Baillie Gifford - Asset Allocation

Market Value £ 190,480,000

UK Equities					
Asset	**Control Range**	**Benchmark Allocation**	**Actual Allocation**	**+ or - Benchmark**	**Index**
	%	%	%	%	
UK Equities	N/A	100.0%	98.6%	-1.4%	FTSE Actuaries All-Share
Cash	Nil	0.0%	1.4%	+1.4%	
Total		**100.0%**	**100.0%**		

Target Objective - To seek to outperform the Benchmark by 1.25% per annum over rolling 3 year periods (gross of management fees).

TABLE 7

Alternative Investments - Asset Allocation

Market Value £ 101,922,000

Private Equity and Hedge Funds					
Asset	**Control Range**	**Benchmark Allocation**	**Actual Allocation**	**+ or - Benchmark**	**Index**
	%	%	%	%	
Private Equity	6-10	6.0%	7.0%	+1.0%	FTSE Smaller Companies (ex investment trusts)
Hedge Funds	Nil	3.0%	2.9%	-0.1%	3 month LIBOR + 3%
Total		**9.0%**	**9.8%**	+0.8%	

Target Objective for Private Equity - To seek to outperform the Benchmark by 1% over rolling 3 year periods.

Target Objective for Hedge Funds - To seek to outperform the 3 month LIBOR + 3% over rolling 3 year periods

TABLE 8

OXFORDSHIRE COUNTY COUNCIL PENSION FUND
TOTAL PORTFOLIO PROGRESS REPORT
PERIOD 1 OCTOBER 2009 TO 31 DECEMBER 2009

Asset	Market Value 1.10.09	%	Net Purchases and Sales					Changes in Market Value					Market Value 31.12.09	%
			UBS	Alliance Bernstein	Baillie Gifford	Legal & General	Other	UBS	Alliance Bernstein	Baillie Gifford	Legal & General	Other		
	£000		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
EQUITIES														
UK Equities	307,153	31	0	568	(162)	5,500	0	0	(475)	9,485	6,621	0	328,691	32
US Equities	67,916	7	0	(2,479)	0	0	0	0	3,475	0	0	0	68,912	7
European Equities	66,291	7	0	(3,031)	0	0	0	0	(2)	0	0	0	63,258	6
Japanese Equities	6,086	1	0	2,655	0	0	0	0	637	0	0	0	9,378	1
Pacific Basin Equities	6,508	1	0	(298)	0	0	0	0	(216)	0	0	0	5,994	1
Emerging Market Equities	47,564	5	1,200	774	0	0	0	858	2,866	0	0	0	53,262	5
Global Pooled Fund	102,132	10	16,300	0	0	0	0	4,520	0	0	0	0	122,952	12
Total Overseas Equities	296,497	30	17,500	(2,379)	0	0	0	5,378	6,760	0	0	0	323,756	31
BONDS														
UK Gilts	28,565	3	0	0	0	(5,396)	0	0	0	0	(699)	0	22,470	2
Corporate Bonds	72,415	7	0	0	0	(6,115)	0	0	0	0	(651)	0	65,649	6
Overseas Bonds	22,308	2	0	0	0	(806)	0	0	0	0	(892)	0	20,610	2
Index-Linked Bonds	59,922	6	0	0	0	(6,961)	0	0	0	0	(1,034)	0	51,927	5
ALTERNATIVE INVESTMENTS														
Property	37,089	4	14,886	0	0	0	1,174	2,618	0	0	0	0	55,767	5
Private Equity	74,065	7	0	0	0	0	1,418	0	0	0	0	(3,138)	72,345	7
Hedge Funds	28,463	3	0	0	0	0	37	0	0	0	0	1,077	29,577	3
SUB TOTAL	926,477	93	32,386	(1,811)	(162)	(13,778)	2,629	7,996	6,285	9,485	3,346	(2,061)	970,792	93
CASH *	71,882	7	(14,541)	2,402	965	415	5,103	0	0	0	0	0	66,226	6
GRAND TOTAL	998,359	100	17,845	591	803	(13,363)	7,732	7,996	6,285	9,485	3,346	(2,061)	1,037,018	100

* Movement in cash is not confined to investment transactions but also includes dividend income and the payment of fees. Further details of cash movements can be found in the Managers' individual valuations.

OXFORDSHIRE COUNTY COUNCIL PENSION FUND **TABLE 9**

VALUATION OF OTHER INVESTMENTS AS AT 31 DECEMBER 2009

	HOLDING	COST £	AVERAGE COST £	MARKET PRICE £	MARKET VALUE £	UNREALISED GAIN/LOSS £
PRIVATE EQUITY						
Managed by Mr P Davies, IFA						
Quoted Investment Trusts						
3I Group	1,690,641	4,815,140	2.848	2.829000	4,782,823	(32,316)
Candover Investments	236,060	1,687,945	7.150	4.172500	984,960	(702,985)
Electra Private Equity	1,016,179	13,886,422	13.665	12.060000	12,255,119	(1,631,303)
F&C Private Equity Trust	4,160,000	7,339,178	1.764	1.067500	4,440,800	(2,898,378)
Graphite Enterprise Trust	852,512	2,420,093	2.839	3.047500	2,598,030	177,937
H G Capital Trust	1,782,500	9,319,756	5.228	8.435000	15,035,388	5,715,632
Henderson Private Equity	1,200,000	2,122,781	1.769	1.297500	1,557,000	(565,781)
KKR Private Equity Investors	220,000	1,906,499	8.666	5.232684	1,151,191	(755,308)
Northern Investors	520,000	516,217	0.993	1.477500	768,300	252,083
Oxford Technology 3 Venture Capital Trust	593,612	582,797	0.982	0.460000	273,062	(309,736)
Oxford Technology 4 Venture Capital Trust	1,021,820	995,164	0.974	0.60000	613,092	(382,072)
Schroder Private Equity	3,759,084	2,433,798	0.647	1.388318	5,218,805	2,785,007
Standard Life European Private Equity Trust	4,315,443	5,043,503	1.169	0.990000	4,272,289	(771,214)
SVG Capital	2,050,000	6,978,576	3.404	1.269000	2,601,450	(4,377,126)
		60,047,868			**56,552,308**	**(3,495,560)**
Unlisted Private Funds						
Midlands Growth Fund	2,509	306,254	122	7.500	18,818	(287,436)
Limited Partnerships Fund of Funds						
Partners Group Secondary 2006 L.P.		4,158,088			4,486,910	328,822
Partners Group Secondary 2008 L.P.		3,146,192			2,482,995	(663,197)
Partners Group Asia-Pacific 2007 L.P.		2,474,005			2,049,876	(424,130)
Adams Street 2007 Non US Fund		1,760,853			1,617,020	(143,832)
Adams Street 2008 Global Fund						
Adams Street 2008 Direct Fund		577,342			556,442	(20,900)
Adams Street 2008 Non US Fund		656,292			579,893	(76,400)
Adams Street 2008 US Fund		2,253,423			2,679,166	425,743
Adams Street 2009 Global Fund						
Adams Street 2009 Direct Fund		205,721			183,093	(22,628)
Adams Street 2009 Non US Developed Mkts Fund		61,396			51,922	(9,474)
Adams Street 2009 Non US Emerging Mkts Fund		26,165			16,890	(9,275)
Adams Street 2009 US Fund		503,281			488,645	(14,636)
Oxford Technology ECF Limited Partner AC		765,000			581,360	(183,640)
		16,587,759			**15,774,213**	**(813,546)**
Cash Held by Custodian for Private Equity		90,850			90,850	
Cash held by Custodian following disinvestment of GTAA fund		12,615,908			12,615,908	
CASH HELD IN HOUSE		35,378,980			35,378,980	
TOTAL OF ALL INVESTMENTS		**125,027,618**			**120,431,076**	**(4,596,542)**

TABLE 10

OXFORDSHIRE COUNTY COUNCIL PENSION FUND
PRIVATE EQUITY TRANSACTIONS DURING QUARTER ENDED 31 DECEMBER 2009

DATE	HOLDING	TRANSACTION	BOOK COST £	SALE PROCEEDS £	REALISED GAIN/LOSS £
		LIMITED PARTNERSHIP FUND OF FUNDS			
		DRAWDOWNS			
02/10/2009		Adams Street 2009 US Fund	27,901		
02/10/2009		Adams Street 2007 Non US Fund	76,018		
13/10/2009		Adams Street 2009 Non US Emerging Mkts Fund	5,171		
14/10/2009		Adams Street 2009 Non US Developed Mkts Fund	15,296		
16/10/2009		Adams Street 2008 Non US Fund	36,873		
21/10/2009		Adams Street 2009 Direct Fund	24,786		
23/10/2009		Adams Street 2008 Direct Fund	37,168		
29/10/2009		Adams Street 2007 Non US Fund	62,388		
10/11/2009		Partners Group Secondary 2008 L.P.	(471,289)		
16/11/2009		Oxford Technology ECF Limited Partner AC	105,000		
18/11/2009		Adams Street 2008 Non US Fund	41,129		
18/11/2009		Adams Street 2008 US Fund	58,903		
26/11/2009		Partners Group Secondary 2008 L.P.	686,746		
27/11/2009		Adams Street 2009 US Fund	24,532		
09/12/2009		Adams Street 2007 Non US Fund	62,349		
11/12/2009		Adams Street 2008 US Fund	75,223		
23/12/2009		Adams Street 2009 US Fund	282,748		
24/12/2009		Partners Group Asia - Pacific 2007 L.P.	190,522		
24/12/2009		Adams Street 2008 Direct Fund	45,811		
24/12/2009		Adams Street 2009 Direct Fund	30,571		
			1,417,846		

Table 11

OXFORDSHIRE COUNTY COUNCIL PENSION FUND

INVESTMENT PERFORMANCE TIME WEIGHTED RATES OF RETURN FOR THE QUARTER, TWELVE MONTHS, THREE YEARS and FIVE YEARS ENDED 31st December 2009

Combined Portfolio

ASSET	% Weighting of Fund as at 31 December 2009	Value as at 31 December 2009	QUARTER ENDED 31st December 2009 BENCHMARK RETURN	QUARTER ENDED 31st December 2009 OXFORDSHIRE TOTAL FUND	12 MONTHS ENDED 31st December 2009 BENCHMARK RETURN	12 MONTHS ENDED 31st December 2009 OXFORDSHIRE TOTAL FUND	THREE YEARS ENDED 31st December 2009 BENCHMARK RETURN	THREE YEARS ENDED 31st December 2009 OXFORDSHIRE TOTAL FUND	FIVE YEARS ENDED 31st December 2009 BENCHMARK RETURN	FIVE YEARS ENDED 31st December 2009 OXFORDSHIRE TOTAL FUND
	%	£	%	%	%	%	%	%	%	%
GLOBAL EQUITIES	12.8%	132,807	3.6	3.3	21.2	26.1	2.7	-5.9	-	-
UK EQUITIES	31.7%	328,691	5.5	6.0	30.1	27.3	-1.3	-2.3	6.5	5.2
OVERSEAS EQUITIES	18.4%	190,949	2.1	3.2	18.9	29.7	2.7	2.8	8.2	8.3
UK GOVERNMENT BONDS	2.2%	22,470	-2.0	-1.7	-1.2	-0.1	5.5	6.5	5.0	5.7
UK CORPORATE BONDS	6.3%	65,649	0.5	0.6	10.8	12.7	2.6	3.3	3.5	4.1
OVERSEAS BONDS*	2.0%	20,610	-0.0	0.3	1.2	2.2	-	10.2	-	-
UK INDEX LINKED GILTS	5.0%	51,927	1.5	1.6	5.6	6.7	5.8	6.2	5.9	6.1
PRIVATE EQUITY	7.0%	72,345	-7.7	-4.2	57.7	18.2	-12.5	-7.2	-0.5	4.7
HEDGE FUNDS	2.9%	29,577	0.9	3.9	4.2	10.6	7.3	-0.2	9.1	3.5
PROPERTY ASSETS	5.4%	55,767	7.9	7.3	-1.8	-4.5	-10.9	-16.8	0.1	-3.5
CASH/ALTERNATIVES	6.4%	66,226	-	-1.0	-	0.1	-	-2.9	-	0.5
TOTAL FUND	100.0%	**1,037,018**	**3.1**	**3.1**	**21.1**	**19.0**	**0.3**	**-2.2**	**6.1**	**4.6**

*** This includes L&G Currency Hedging for Overseas bonds**

OXFORDSHIRE COUNTY COUNCIL PENSION FUND

INVESTMENT PERFORMANCE TIME WEIGHTED RATES OF RETURN FOR THE QUARTER, TWELVE MONTHS, THREE YEARS and FIVE YEARS ENDED 31st December 2009

Alliance Bernstein - Global Equities | **Table 12**

ASSET	QUARTER ENDED 31st December 2009		12 MONTHS ENDED 31st December 2009		THREE YEARS ENDED 31 December 2009		FIVE YEARS ENDED 31st December 2009	
	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND
	%	%	%	%	%	%	%	%
UK EQUITIES	6.1	-0.7	28.0	8.9	-0.6	-14.3	6.6	-0.4
OVERSEAS EQUITIES	3.4	3.9	20.5	28.9	3.0	-2.5	8.2	6.0
North American Equities	4.8	5.8	14.8	14.0	1.7	-8.8	5.1	-1.1
European Equities	0.5	-0.1	20.0	26.5	1.9	-1.9	9.5	9.1
Japanese Equities	-4.0	9.0	-5.8	22.1	-4.4	-5.3	2.5	5.4
Pacific Basin (excl. Japan)	4.1	4.1	51.2	43.7	12.0	6.9	16.6	9.9
Emerging Market Units	7.8	7.4	62.5	78.0	13.3	14.7	20.6	19.9
CASH/ALTERNATIVES		-3.0	-	n/a	-	n/a	-	n/a
TOTAL ASSETS	**3.6**	**3.1**	**21.2**	**25.5**	**2.7**	**-5.8**	**7.8**	**3.8**

Target Objective - To outperform the Benchmark by 3.0% per annum over rolling 3 year periods (gross of management fees)

INVESTMENT PERFORMANCE TIME WEIGHTED RATES OF RETURN FOR THE QUARTER, TWELVE MONTHS, THREE YEARS and FIVE YEARS ENDED 31st December 2009

Legal & General - UK Equities Passive Mandate **Table 13**

	QUARTER ENDED 31st December 2009		12 MONTHS ENDED 31st December 2009		THREE YEARS ENDED 31 December 2009		FIVE YEARS ENDED 31st December 2009	
ASSET	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND
	%	%	%	%	%	%	%	%
UK EQUITIES	6.2	6.2	27.3	27.7				
CASH/ALTERNATIVES	-	-	-	-	-	-	-	-
TOTAL ASSETS	**6.2**	**6.2**	**27.3**	**27.7**	**-**	**-**	**-**	**-**

Target Objective - To track the FTSE 100 Index

Legal & General - Bonds **Table 14**

	QUARTER ENDED 31st December 2009		12 MONTHS ENDED 31st December 2009		THREE YEARS ENDED 31 December 2009		FIVE YEARS ENDED 31st December 2009	
ASSET	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND
	%	%	%	%	%	%	%	%
UK GILTS	-2.0	-1.7	-1.2	-0.1	5.5	6.3	5.0	5.7
UK CORPORATE BONDS	0.5	0.6	10.8	12.7	2.7	3.9	3.5	4.3
OVERSEAS BONDS*	-0.0	0.3	1.2	2.2	-	10.2	-	-
UK INDEX LINKED	1.5	1.6	5.6	6.7	5.8	6.3	5.9	6.1
CASH/ALTERNATIVES*	-	n/a	-	n/a	-	n/a	-	n/a
TOTAL ASSETS	**0.3**	**0.2**	**5.7**	**6.8**	**5.0**	**5.7**	**5.1**	**5.6**

*** Cash held by L&G is used for hedging the Overseas Bond position. This is therefore included in the Overseas Bond category in order to produce a hedged return.**

Target Objective - To outperform the Benchmark by 0.4% per annum over rolling 3 year periods (gross of management fees)

INVESTMENT PERFORMANCE TIME WEIGHTED RATES OF RETURN FOR THE QUARTER, TWELVE MONTHS, THREE YEARS and FIVE YEARS ENDED 31st December 2009

UBS Global Asset Management - Overseas Equities **Table 15**

	QUARTER ENDED 31st December 2009		12 MONTHS ENDED 31st December 2009		THREE YEARS ENDED 31 December 2009		FIVE YEARS ENDED 31st December 2009	
ASSET	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND
	%	%	%	%	%	%	%	%
OVERSEAS EQUITIES	2.1	3.2	18.9	29.7	2.7	2.8	8.4	8.1
TOTAL CASH	-	-	-	-	-	-	-	-
TOTAL ASSETS*	**2.1**	**3.2**	*	*	*	*	*	*

*** Prior to September 2009 these assets were previously held in one portfolio with the Property assets.**

Target Objective - To seek to outperform the Benchmark by 1% per annum over rolling 3-year periods (gross of management fees).

UBS Global Asset Management - Property **Table 16**

	QUARTER ENDED 31st December 2009		12 MONTHS ENDED 31st December 2009		THREE YEARS ENDED 31 December 2009		FIVE YEARS ENDED 31st December 2009	
ASSET	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND
PROPERTY	7.9	7.5	-1.8	-4.4	-10.9	-16.8	0.1	-3.5
TOTAL CASH*	-	0.2	*	*	*	*	*	*
TOTAL ASSETS**	**7.9**	**6.3**	**	**	**	**	**	**

*** Historic returns for this category refer to the portfolio whilst both Overseas Equities and Property were held within one portfolio**

**** The Quarter ending September 2009 is the first full period of investment in a separate Property portfolio. These assets were previously held in one portfolio with the Overseas Equities.**

Target Objective - To seek to outperform the Benchmark by 1% per annum over rolling 3-year periods (gross of management fees).

INVESTMENT PERFORMANCE TIME WEIGHTED RATES OF RETURN FOR THE QUARTER, TWELVE MONTHS, THREE YEARS and FIVE YEARS ENDED 31st December 2009

UBS Global Asset Management - Hedge Funds **Table 17**

	QUARTER ENDED 31st December 2009		12 MONTHS ENDED 31st December 2009		THREE YEARS ENDED 31 December 2009		FIVE YEARS ENDED 31st December 2009	
ASSET	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND
Hedge Funds	0.9	4.0	4.2	10.7	7.3	-0.2	9.1	3.5
TOTAL CASH	-	0.1	-	0.2	-	3.3	-	-
TOTAL ASSETS	**0.9**	**3.9**	**4.2**	**10.6**	**7.3**	**-0.2**	**9.1**	**3.5**

Target Objective - To seek to outperform the 3 month LIBOR + 3% over rolling 3 year periods

Baillie Gifford - UK Equities Active Mandate **Table 18**

	QUARTER ENDED 31st December 2009		12 MONTHS ENDED 31st December 2009		THREE YEARS ENDED 31 December 2009		FIVE YEARS ENDED 31st December 2009	
ASSET	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND	BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND
	%	%	%	%	%	%	%	%
UK EQUITIES	5.5	5.8	30.1	26.9	-1.3	-2.0	6.5	5.4
TOTAL CASH	-	0.1	-	1.3	-	4.3	-	4.1
TOTAL ASSETS	**5.5**	**5.8**	**30.1**	**26.4**	**-1.3**	**-1.7**	**6.5**	**5.5**

Target Objective - To seek to outperform the Benchmark by 1.25% per annum over rolling 3 year periods (gross of management

<u>INVESTMENT PERFORMANCE TIME WEIGHTED RATES OF RETURN FOR THE QUARTER, TWELVE MONTHS, THREE YEARS and FIVE YEARS ENDED 31st December 2009</u>

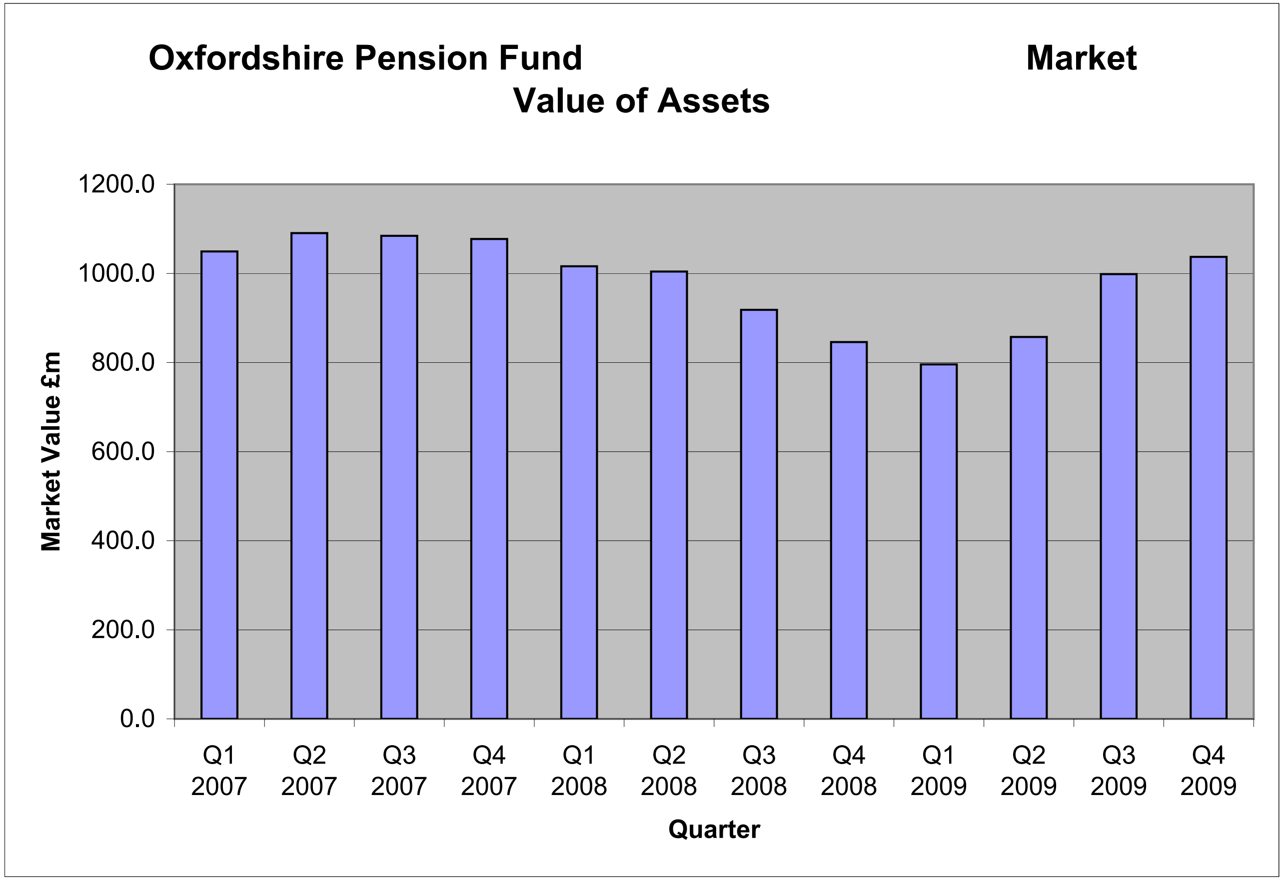
Independent Advisor - Private Equity and Internally managed cash **Table 19**

ASSET	QUARTER ENDED 31st December 2009 BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND	12 MONTHS ENDED 31st December 2009 BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND	THREE YEARS ENDED 31 December 2009 BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND	FIVE YEARS ENDED 31st December 2009 BENCHMARK RETURN	OXFORDSHIRE TOTAL FUND
PRIVATE EQUITY	-7.7	-4.2	57.7	18.2	-12.5	-7.2	-0.5	4.7
TOTAL CASH*	0.1	0.2	0.5	2.5	3.6	3.8	4.1	6.0
TOTAL ASSETS	**-5.1**	**-2.6**	**37.5**	**10.1**	**-6.5**	**-5.0**	**1.7**	**3.8**

*** Cash within this portfolio includes all internally managed cash and the balance held at BoNY (including the liquidated TAA investment previously held by UBS).**

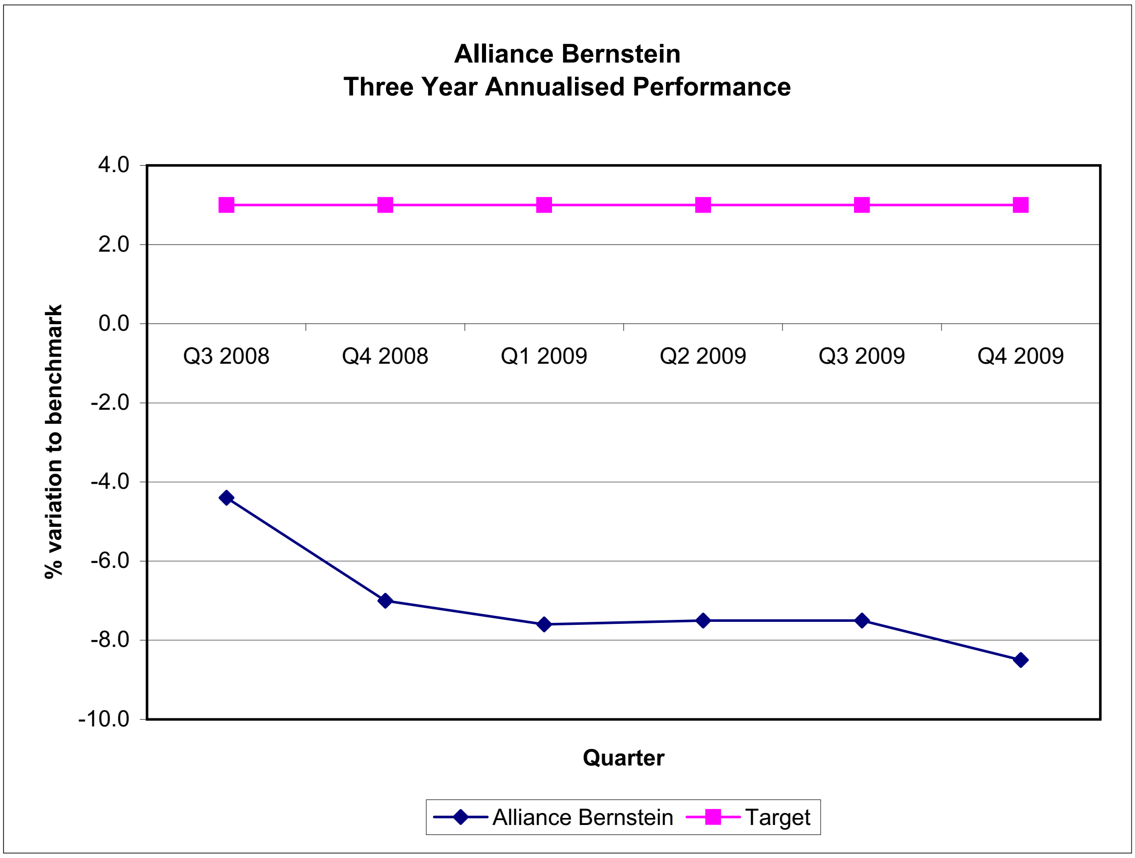
<u>Target Objective</u> - To seek to outperform the Benchmark by 1% over rolling 3 year periods.

GRAPH 1



Quarter	Market Value £m
Q1 2007	1049.1
Q2 2007	1090.4
Q3 2007	1084.2
Q4 2007	1077.2
Q1 2008	1016.1
Q2 2008	1004.2
Q3 2008	918.2
Q4 2008	845.9
Q1 2009	795.8
Q2 2009	857.4
Q3 2009	998.4
Q4 2009	1037.0

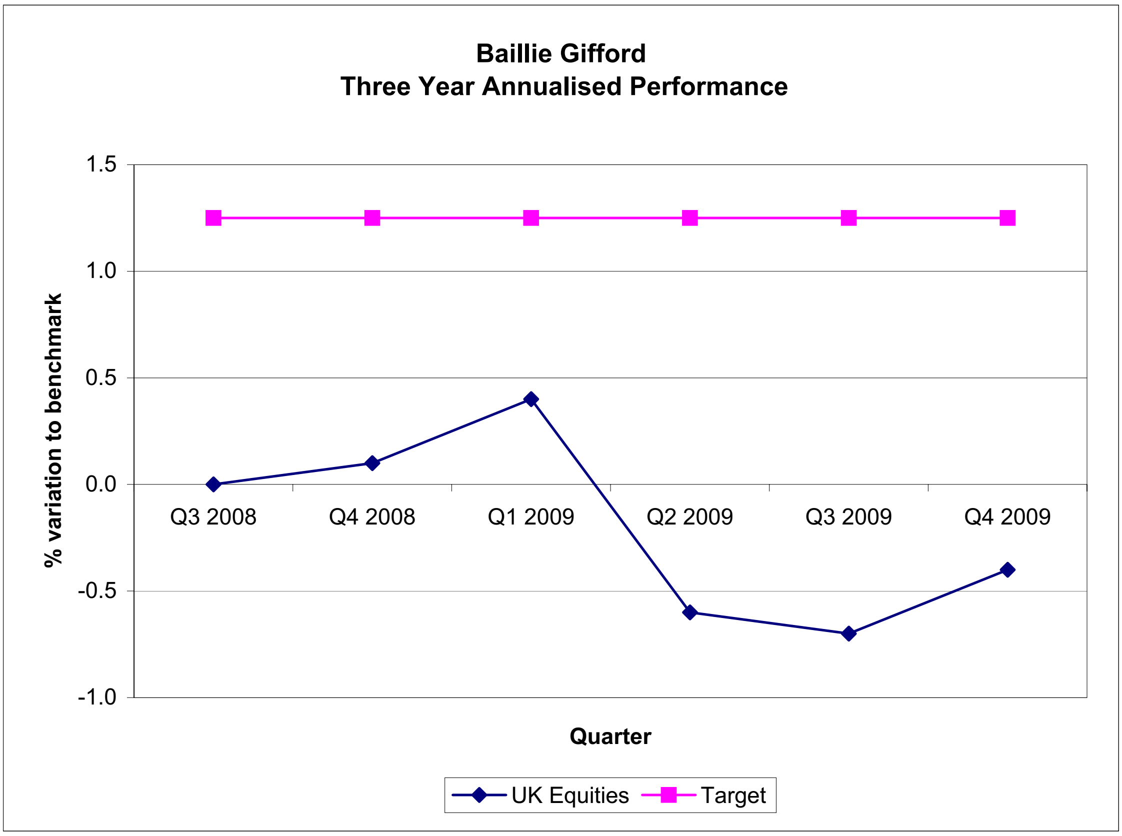
GRAPH 2



Alliance Bernstein Three Year Annualised Performance

	Alliance Bernstein	Target
Q3 2008	-4.4	3.0
Q4 2008	-7.0	3.0
Q1 2009	-7.6	3.0
Q2 2009	-7.5	3.0
Q3 2009	-7.5	3.0
Q4 2009	-8.5	3.0

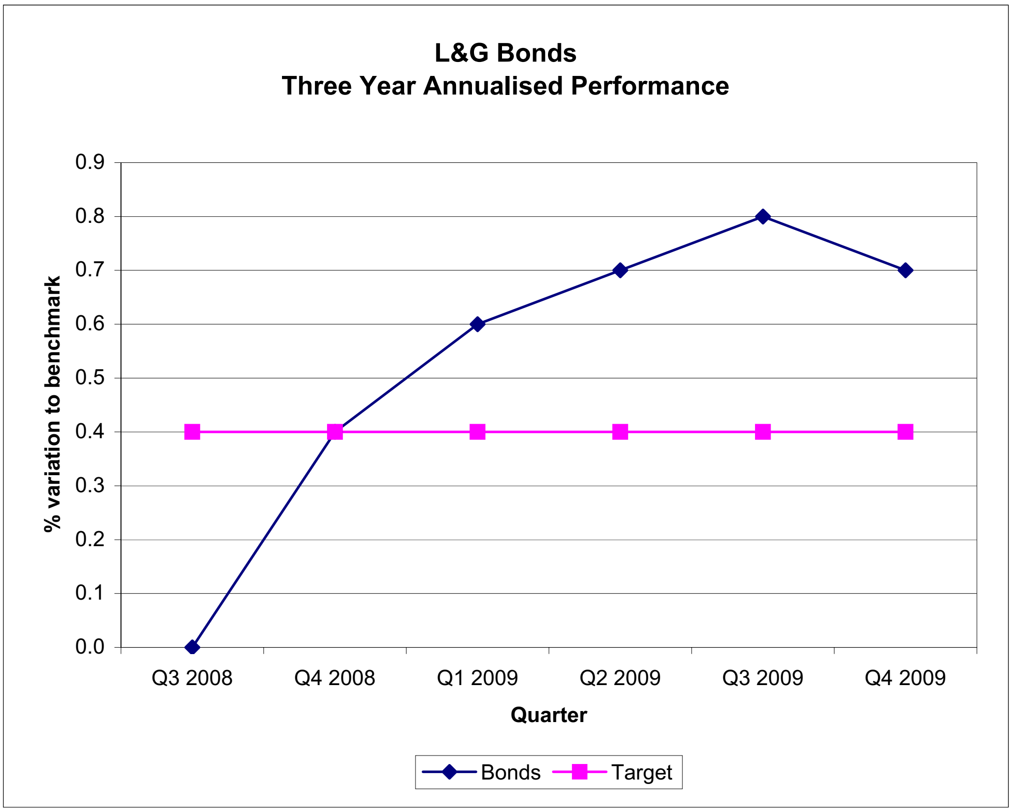
GRAPH 3



Baillie Gifford Three Year Annualised Performance

	UK Equities	Target
Q3 2008	0.0	1.25
Q4 2008	0.1	1.25
Q1 2009	0.4	1.25
Q2 2009	-0.6	1.25
Q3 2009	-0.7	1.25
Q4 2009	-0.4	1.25

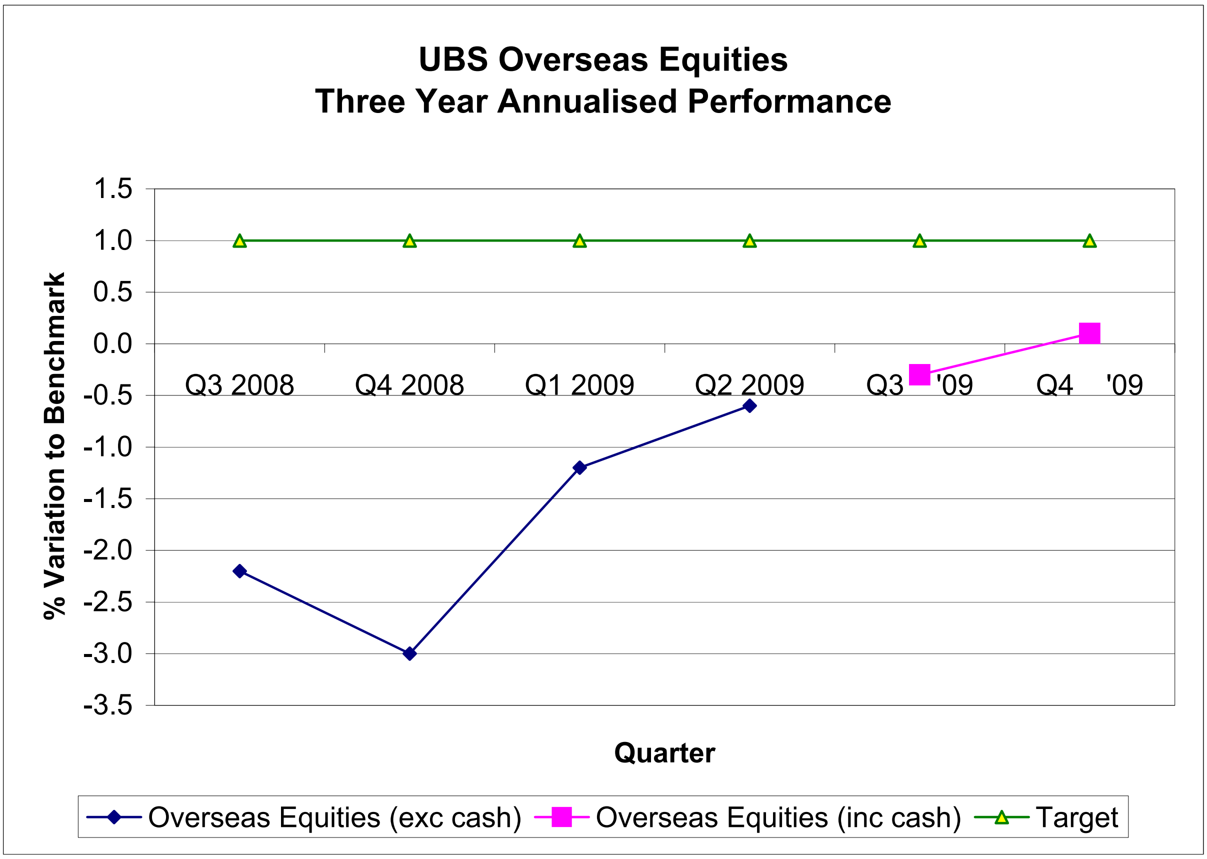
GRAPH 4



L&G Bonds Three Year Annualised Performance

	Bonds	Target
Q3 2008	0.0	0.4
Q4 2008	0.4	0.4
Q1 2009	0.6	0.4
Q2 2009	0.7	0.4
Q3 2009	0.8	0.4
Q4 2009	0.7	0.4

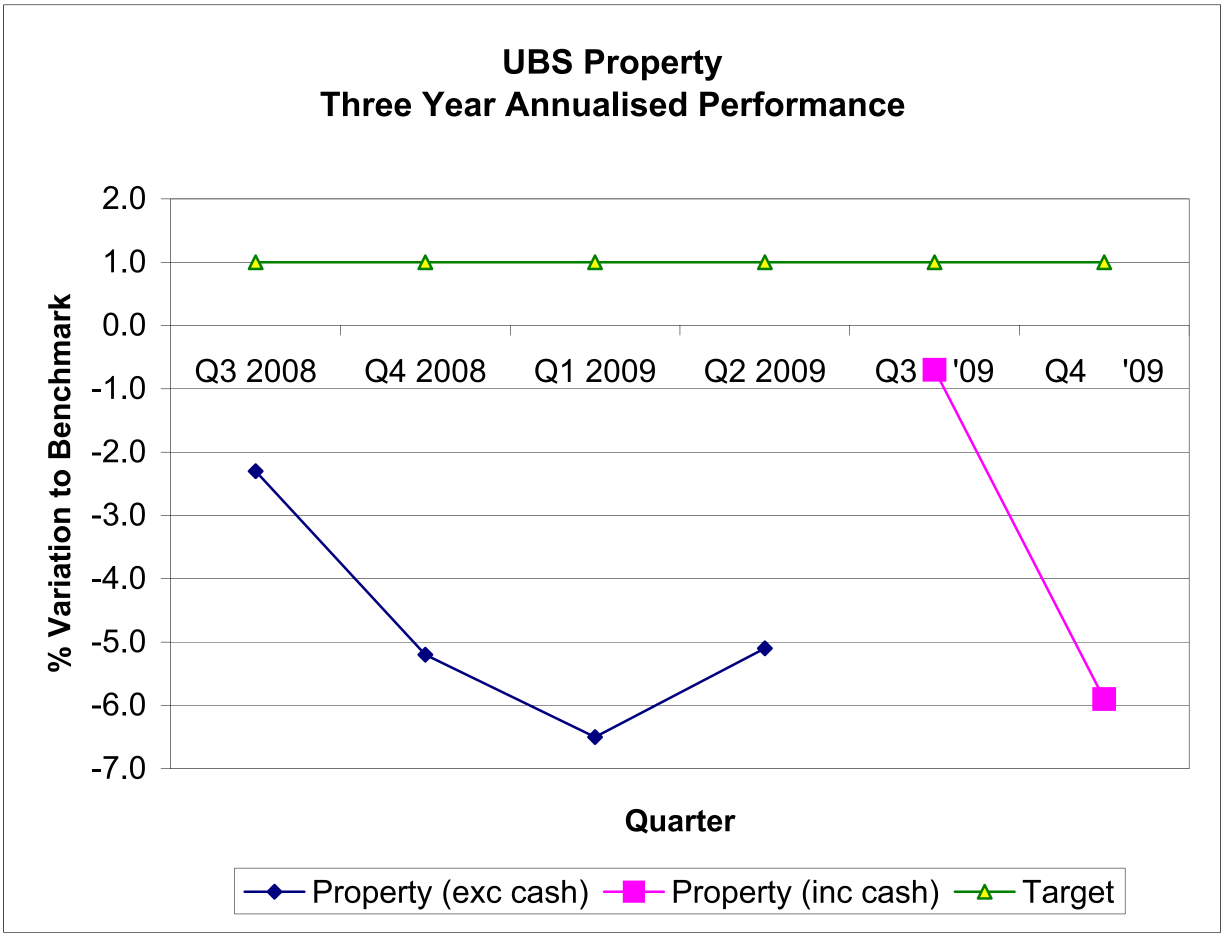
GRAPH 5



UBS Three Year Annualised Performance

	Overseas Equities (exc cash)	Overseas Equities (inc cash)	Target
Q3 2008	-2.2		1.0
Q4 2008	-3.0		1.0
Q1 2009	-1.2		1.0
Q2 2009	-0.6		1.0
Q3 '09		-0.3	1.0
Q4 '09		0.1	1.0

GRAPH 6



UBS Three Year Annualised Performance

	Property (exc cash)	Property (inc cash)	Target
Q3 2008	-2.3		1.0
Q4 2008	-5.2		1.0
Q1 2009	-6.5		1.0
Q2 2009	-5.1		1.0
Q3 '09		-0.7	1.0
Q4 '09		-5.9	1.0

Division(s): N/A

PENSION FUND COMMITTEE – 19 MARCH 2010

OVERVIEW AND OUTLOOK FOR INVESTMENT MARKETS

Report by the Independent Financial Adviser

The Economy

1. All of the major economies recorded positive GDP growth in the final quarter of 2009. The UK's provisional annualised figure of +0.4% was below expectations, and compared poorly with the +5.7% seen in the United States and +1.7% in the Eurozone. Forecasts for 2010 have been increased slightly since November – except for the UK – but there is still great uncertainty over how economies will react to the withdrawal, or reduction, of the massive fiscal and monetary stimuli introduced by governments and Central Banks in 2008/9.

(In the Table below, the consensus estimates at the time of the December Committee are shown in brackets).

Consensus real growth (%)					Consumer prices (%)
	2007	2008	2009E	2010E	2009E
UK	+3.0	+0.7	(- 4.4) - 4.7	(+1.4) +1.4	+ 2.9 (CPI)
USA	+2.0	+1.2	(- 2.5) - 2.5	(+2.5) +3.0	- 0.4
Eurozone	+2.6	+0.8	(- 3.8) - 3.9	(+1.2) +1.4	+ 0.3
Japan	+2.0	- 0.2	(- 5.7) - 5.3	(+1.4) +1.5	- 1.4
China	+11.9	+ 9.0	(+8.2) + 8.7	(+8.6) +9.6	- 0.6

[Source: The Economist, 13.02.10]

2. China appears to be on track to return to its recent trend growth rate, but the Chinese authorities acted at the start of 2010 to restrict bank lending in order to reduce the risk of the economy overheating. India's Central Bank has also recently raised its reserve requirements.

3. While interest rates are expected to remain at their lowest levels for some months yet in the other major economies, several stimulus packages have run their course. The Bank of England, for instance, has paused its Quantitative Easing programme after purchasing £200bn of (mainly gilt-edged) bonds. The prospect of a 'double-dip' recession in the UK or Eurozone cannot be dismissed yet.

4. In the UK, the pre-Budget Report in December contained little to appease worries about the level of the fiscal deficit in the coming years, and any measures to reduce the deficit will now have to wait until after the General Election expected to be held on May 6th.

Markets

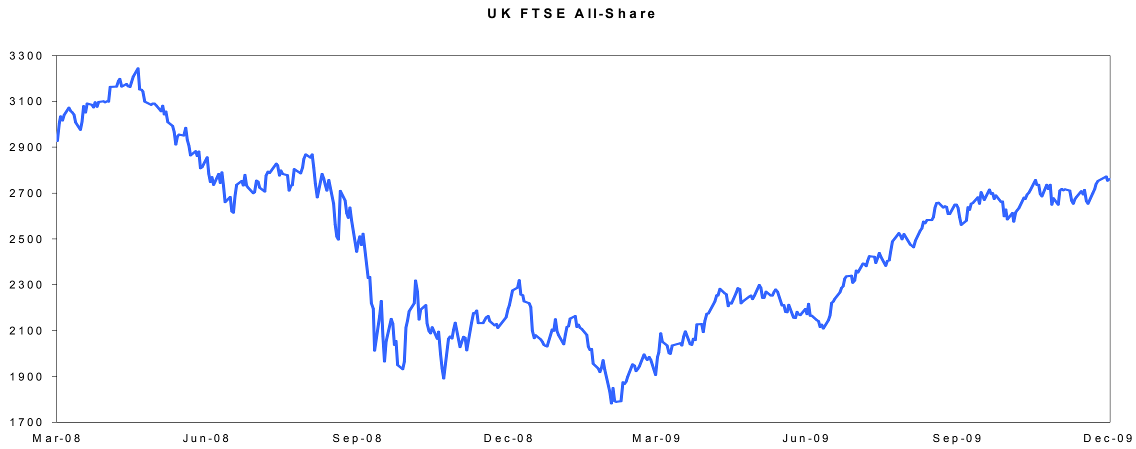
5. After their massive gains during the 3rd quarter, **equity markets** were far more subdued in the 4th quarter. After falling slightly in October, all regions recovered in November and December to record single-figure gains for the quarter, as shown in this Table.

Capital return (in £, %) to 31.12.09		
	3 months	**12 months**
FTSE All-World Index	+ 3.2	+17.8
FTSE All-World North America	+ 4.3	+12.1
FTSE All-World Asia Pacific	+ 1.3	+22.2
FTSE All-World Europe (ex-UK)	+ 0.5	+17.1
FTSE All-World UK	+ 5.4	+ 22.7
FTSE All-World Emerging Markets	+ 7.5	+58.7

[Source: FTSE All-World Review, December 2009]

N.B. The five geographical areas are sub-categories of the All World Index

6. Despite the very sharp gains, amounting to 50 – 60% from their March 2009 lows, markets are still significantly lower than they were in Spring 2008.

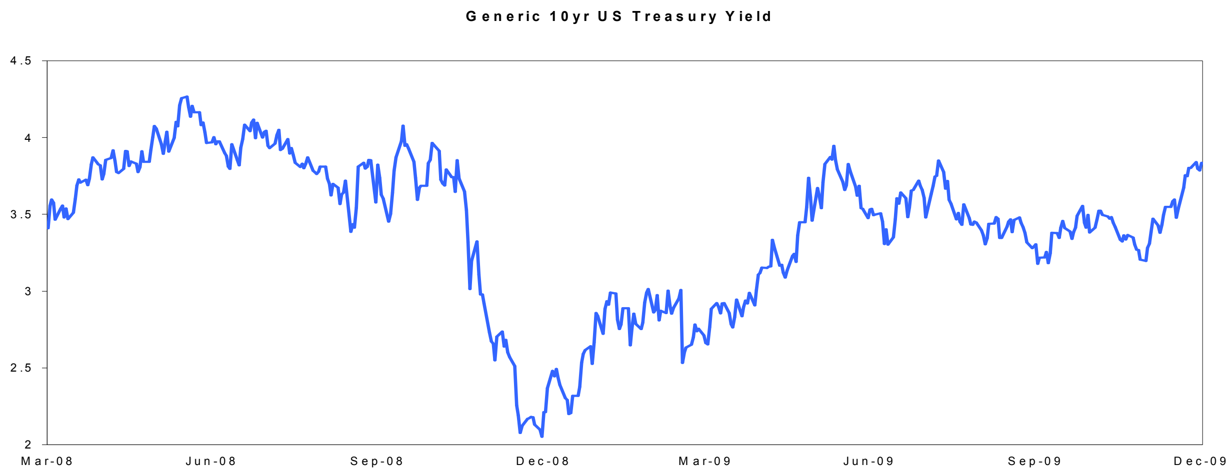


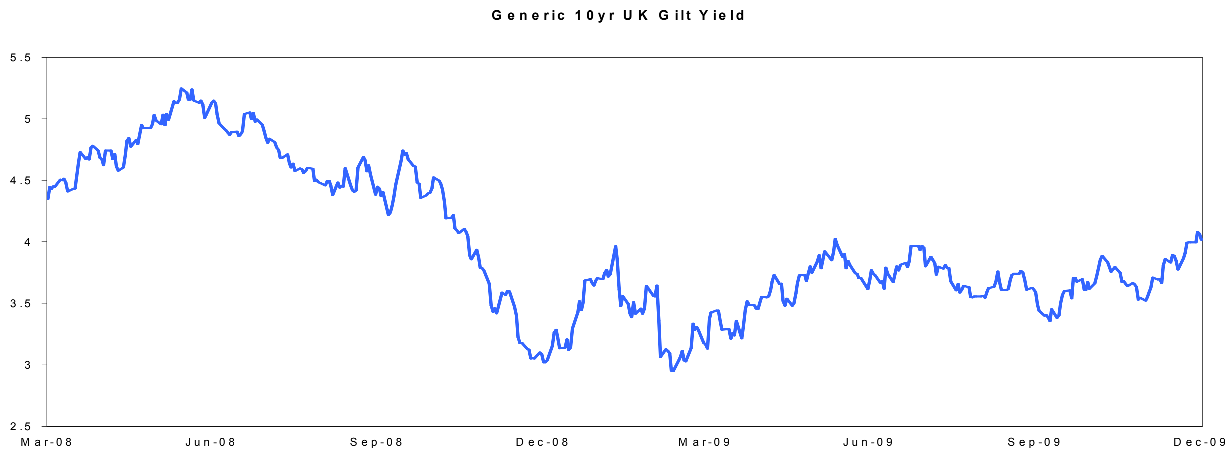
7. At the end of November, **government bond markets** were trading at their end-September levels, but sharp price falls ensued in December. The financial problems of several Dubai entities, which announced a ‘debt standstill’ at the end of November, reminded investors of the potential risks of sovereign debt, and attention then turned to other heavily indebted nations, such as Greece, Spain and Ireland. Some large bond investors, such as PIMCO in the US, pointed out the scale of new issuance which would be needed by the US and UK in the near future and yields on these government bonds rose sharply in December, resulting in a 4% price fall for the 10-year bonds. Yields in Germany and Japan, by contrast, remained stable.

10-year government bond yields (%)				
	Sept 2008	**Dec 2008**	**Sept 2009**	**Dec 2009**
US	3.84	2.22	3.31	3.84
UK	4.46	3.02	3.59	4.01
Germany	4.04	2.95	3.23	3.40
Japan	1.48	1.18	1.30	1.29

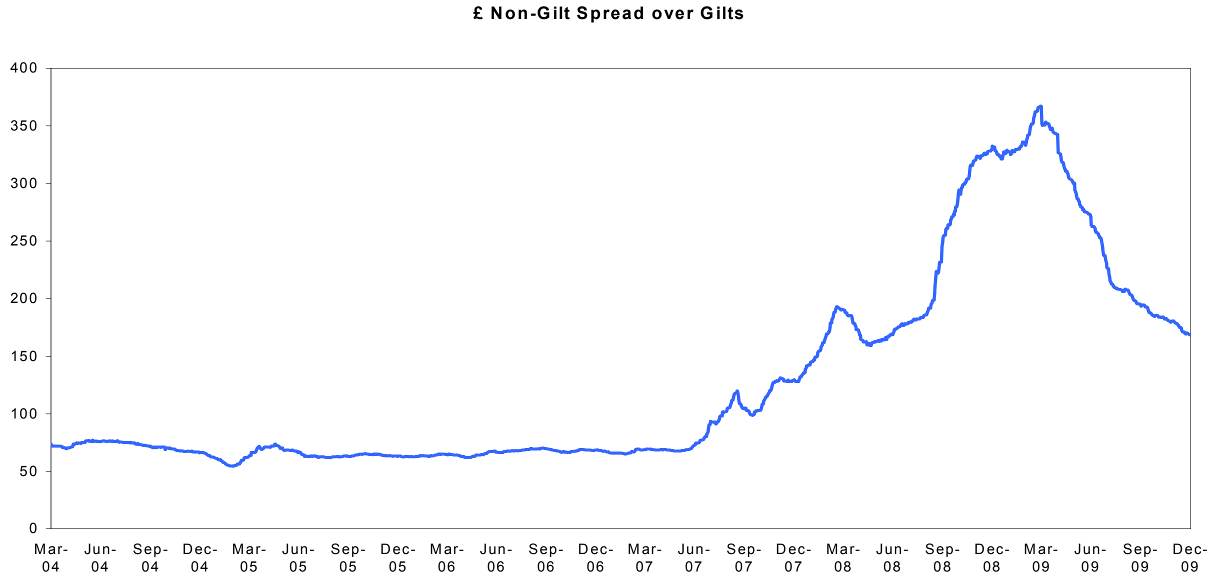
[Source: Financial Times]

8. In the course of 2009, Treasuries and Gilts have experienced a complete change of sentiment, from being regarded as a safe haven after the upheavals of 2008 to being viewed with suspicion themselves at the end of the year.





9. The spread on **UK Corporate Bonds** relative to gilts continued to narrow, though at a slower pace than in the two previous quarters. In absolute terms, however, prices fell because of the setback in gilt prices described above.



10. For the second successive quarter, **UK Property** values rose strongly. This rise was driven by the demand for prime commercial buildings, while values of secondary property continue to languish. Prime yields in the Retail and Office sectors reduced from 7% to 6%, on average, during 2009, but the rental market is weak in all sectors. The 12-month falls in rental levels were 6.9% in Retail, 13.0% in Offices and 4.9% in Industrials (IPD data).

Median fund returns to 31.12.09	**3 months**	**12 months**
Balanced Funds (n= 25)	+ 8.3%	+ 1.3%
Specialist Funds (n= 35)	+11.8%	- 1.8%

[Source: IPD UK pooled property funds]

11. In **Commodities**, the Oil price remained fairly static in the $75 – 80 range, while the Gold price retreated from its November peak of $1,200 to just below $1,100 at the end of the year. I am including a graph of the Copper price, as an illustration of the dramatic effects of the recession - and the subsequent recovery - on the prices of industrial metals.

12. Among **currencies**, sterling made gains of 1% and 2% against the dollar and the euro respectively during the quarter, although the dollar has strengthened by 3% against sterling and 4% against the euro in the first six weeks of 2010.

Outlook

13. After a confident start to 2010, equities worldwide have been hit by news of the tightening of credit in China, Greece's fiscal problems and President Obama's plans to restrict the trading activities of banks. The combined effect has been to cut equity prices by some 8% in the space of three weeks.

14. When the meeting was held in Oxford on February 8th to review the Pension Fund's current asset allocation, equity levels were close to those of end-September 2009. Although none of the asset class weights fell outside the ranges agreed at the September Committee, it was clear that the level of Cash was edging up to its 5% limit, by virtue of net inflows into the Fund.

15. It was decided to bring the Cash level down from £49m to £31m, by moving £18m to UBS' Overseas Equities portfolio. This switch would bring Overseas Equities slightly above their target weight of 32%, while UK Equities were similarly placed relative to their 31% target. As a minimum cash sum of £15m is retained to meet drawdowns or purchases of Private Equity, there remains some £16m which is intentionally held in cash at present.

16. Bearing in mind all the uncertainties around economic growth, corporate profits and sovereign risk, I believe it is prudent to maintain this cash balance as an insurance against further near-term setbacks in equity and bond markets.

RECOMMENDATION

17. **The Committee is RECOMMENDED to note this report.**

PETER DAVIES
Independent Financial Adviser

March 2010

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Agenda Item 11

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 12

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Division(s): N/A

PENSION FUND COMMITTEE – 19 MARCH 2010

INVESTMENT OF PENSION FUND CASH

Report by Assistant Chief Executive & Chief Finance Officer

Introduction

1. The Oxfordshire Pension Fund maintains a balance of cash arising from the receipt of employer and employee contributions exceeding the amount of payments made on behalf of the Fund. The cash managed in-house by the Administering Authority, provides a working balance for the fund to meet its short term commitments and forms 0-5% of the Fund's strategic asset allocation.

2. Historically Oxfordshire County Council has pooled Pension Fund cash with its own cash and deposited surplus balances in the name of the Administering Authority returning interest earned to the Pension Fund at the average rate achieved.

3. In December 2009, new investment regulations were laid before Parliament and came into force on 1 January 2010. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 S.I.No. 3093 state that from 1 April 2011 the administering authority must hold in a separate bank account all monies held on behalf of the Pension Fund on that date, and all monies received by the Pension Fund on or after that date.

4. From 1 April 2010, the Administering Authority will no longer have the legal power to pool pension fund money with its own cash and invest the pooled sums.

5. The regulations also state that the Administering Authority must formulate an investment policy to govern how the authority invests any Pension Fund money that is not needed immediately to make payments from the fund.

Current Arrangements

6. Current practice is that Pension Fund cash balances are held within the Council's Consolidated Bank Account. Investment of the Pension Fund temporary surplus cash balances is currently made by the Council in its own name in accordance with the approved Treasury Management Strategy. Pension Fund cash is not separately identified in these investments but is pooled together with the Council's own cash balances. The average rate of interest earned on all short, medium and long-term deposits managed by the Council's in-house Treasury Management team is applied to the average monthly Pension Fund cash balance, and paid to the Pension Fund. Pooling of cash has enabled the pension fund to achieve a higher level of

diversification and interest rates above the level that would have been achieved on short-term cash deposits.

Separate Bank Account

7. A project is currently being undertaken to identify the costs, system and procedural changes that will be required to comply with the new regulations and to ensure that a separate bank account for the Pension Fund is operational by 1 April 2011.

8. The full impact of the requirement for a separate bank account is not yet known, however, initial indications are that there may be implications for payroll, income collection and accounts payable, ICT and SAP. A further report will be prepared for the Pension Fund Committee when the full implications are known.

Investment of Pension Fund Cash Balances from 1 April 2010

9. To facilitate the separate investment of Pension Fund cash during the transition period between 1 April 2010 and 1 April 2011, the Treasury Management and Pensions Investment team will calculate the Pension Fund cash balance held within the Administering Authority's bank account at the end of each dealing day. The end of day balances will be regularly transferred to instant access, short term notice deposit accounts, or money market funds held in the name of the Pension Fund, rather than the Administering Authority.

10. Fixed term deposits arranged on behalf of the Pension Fund after 1 April 2010, will be arranged in the name of the Pension Fund and will be recorded separately from the Council's cash deposits.

11. 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. Lending limits related to the Council's in-house deposits will however not apply. The Pension Fund cash balances are only a small proportion of the total cash balances and application of the same % restrictions to the Pension Fund cash may result in lending limits below minimum deposit levels accepted by counterparties. The Pension Fund cash balances managed in-house by the County Council will be deposited in sterling with a minimum of two counterparties. Any changes to approved counterparties on the Council's lending list will be applied to the in-house Pension Fund cash balances.

Borrowing for Pension Fund

12. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 gives 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. 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. It is proposed that authority be delegated to the Assistant Chief Executive and Chief Finance Officer (S.151 Officer) to borrow money for the Pension Fund in accordance with the regulations but only in exceptional circumstances.

RECOMMENDATIONS

The Pension Fund Committee is RECOMMENDED to:

(a) note the requirement for a separate bank account for Pension Fund transactions from 1 April 2011;

(b) delegate authority to the Assistant Chief Executive and Chief Finance Officer to apply the Council's approved Treasury Management Strategy separately to the management of Pension Fund cash;

(c) delegate authority to the Assistant Chief Executive and Chief Finance Officer to open separate Pension Fund bank, deposit and investment accounts as appropriate; and

(d) delegate authority to the Assistant Chief Executive and Chief Finance Officer to borrow money for the Pension Fund in accordance with the regulations.

SUE SCANE
Assistant Chief Executive & Chief Finance Officer

Background papers: Nil

Contact Officer: Paul Gerrish, Head of Finance and Procurement
Tel: (01865) 323969

March 2010

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Division(s): N/A

PENSION FUND COMMITTEE – 19 MARCH 2010

OXFORDSHIRE PENSION FUND BUSINESS PLAN AND BUDGET FOR 2010/11

Report by Assistant Chief Executive & Chief Finance Officer

Introduction

1. Following the publication of the Myners Report, the Pension Fund Committee requested that officers draw up an annual business plan, which should contain financial estimates for the investment and administration of the Pension Fund and appropriate provision for member training.

2. This report sets out the annual business plan for 2010/11 and also includes an investment management and scheme administration budgets and proposals for member training.

Review of the 2009/10 Business Plan

3. All eight of the tasks set out in the 2009/10 Business Plan for Investments were completed successfully, including undertaking induction programmes for the new IFA and councillors, reviewing the level of investment in hedge funds and private equity and reviewing the need for external consultants.

4. The delivery against the tasks set out in the 2009/2010 Administration Business Plan have been partly met. Full staffing was achieved within the year and work was reorganised on a functional basis to concentrate training and achieve better focus. This re-organisation did take longer than anticipated but as a result a high level of data cleansing was achieved. As a result functions are more in specification deadline, with the exception of leavers and re-employments where the volumes remain challenging. Working with employers to improve data flow and reduce the number of queries has continued, with some notable successes, but there is more to do. Work on process improvements and admission bodies are continuing.

Oxfordshire Pension Fund 2010/11 Business Plan

5. Annex 1 sets out a recommended business plan for the 2010/11 financial year. The plan summarises the investment and pension administration tasks to be carried out during 2010/11, and the target dates for these.

Oxfordshire Pension Fund 2010/11 Budget

6. Annex 2 sets out the Fund's investment management and scheme administration budget for 2010/11 and compares it with the budget set for 2009/10. A report comparing the investment management and scheme

administration outturn figures against the budget for 2009/10 will be produced for the September 2010 Committee meeting.

7. The **Fund Management Fee** budget has increased from £2.4m to £3.0m, due to a projected increase in the average market value of the assets under management compared with 2009/10. This reverses a reduction from 2008/09 to 2009/10 where the fee budget reduced from £3.4m to £2.4m.

8. The increase in the **Global Custody Fee** is also due to the projected higher average valuation of the Fund's investments compared with the previous financial year.

9. The **Independent Financial Adviser** budget has reduced because we have reduced the provision for special assignments in the coming year.

10. The income budget for **Stock Lending fees** has been substantially increased to reflect the experience of 2009/10 where there has been a substantial increase in stock lending. It should be noted that the business plan includes a review of this activity with a report to the Committee later this year.

11. The **Financial Services Recharge** has varied marginally due to small changes in personnel on the investment side.

12. The increase in the **Financial Services Recharge** for administration reflects the fact that the team in now fully staffed.

13. The estimated increase in the **Audit Fee** is as a result of the increase in the market value of the Fund. Previously the Oxfordshire Fund was in the middle band, but it has now moved into the upper band.

14. There has been a small decrease in **Other Costs** due to a reduction in the Pension Fund committee costs.

Member Training Budget and Programme

15. Following the recommendations of the Myners Review on Institutional Investment in the UK, a member training budget is now agreed each year. Although it is anticipated that the 2009/10 budget will be underspent it is recommended that the 2010/11 budget be maintained at the same level.

16. CIPFA have published a booklet entitled 'Pensions Finance Knowledge and Skills Framework – Technical Guidance for Elected Representatives and non-executive Members in the Public Sector. A copy of this has been ordered with a view to reviewing its content and reporting on any member training implications to the next Committee.

17. Subject to the outcome of the above review, Member training for the coming year will be delivered in the same way as it has been in recent years, i.e. by:

    1. Internal training sessions prior to Committee

2. External conferences and seminars
3. Individual one-to-one briefings when requested
4. Teleconferences and video messages
5. Circulation of topical articles of interest

18. In accordance with the Committees wishes, officers will continue to organise a programme of internal training sessions for members. These sessions will normally precede the quarterly Pension Fund Committee meetings. However, member views are sought on whether an additional half day training session should be organised once a year with an external speaker. This would be time efficient for councillors who struggle to attend external seminars which usually take up an entire day.

19. There are a number of external organisations that provide member training seminars and workshops, often at no cost to the Council. There are also conferences and seminars run regularly during the year which can be funded using the member training budget. Officers will keep members informed of these events and others throughout the year.

20. In the past officers have offered members individual briefing/tuition sessions on a one-to-one basis. These have not taken place recently, but if any member wishes to have a one-to-one training session then they should just let Paul Gerrish know.

21. As well as formal events, with the increased use of technology, there are more and more teleconferences and video messages being used by Fund Managers and other organisations. Details of these events can be circulated to members during the year.

22. Throughout the year members may also be provided with topical articles and newspaper cuttings, which officers consider to be of interest.

23. These proposals for member training are clearly for the benefit of members. The purpose is to ensure that members of the Pension Fund Committee can fulfil their responsibilities. As a consequence the Committee is asked whether:

- the proposals meet their needs
- whether anything needs to be added to the proposals
- which proposals are particularly attractive or beneficial

RECOMMENDATION

24. **The Committee is RECOMMENDED to:**

(a) approve the Business Plan, as set out at Annex 1, for 2010/11;

(b) approve the Investment Management and Scheme Administration Budget for 2010/11, as set out in Annex 2;

(c) comment on the proposals for member training as set out in the report; and

(d) subject to (c) above, agree the arrangements for member training.

SUE SCANE
Assistant Chief Executive & Chief Finance Officer

Background papers:	Nil
Contact Officer:	Paul Gerrish, Head of Finance & Procurement Tel: (01865) 323969 Mob: 07717 888 631

March 2010

ANNEX 1

Oxfordshire Pension Fund Business Plan 2010/11

Investments

Task	Comments	Deadline
Review the voting arrangements	We currently have a contract with RREV for UK Equities and ask managers to vote in accordance with RREV recommendations. This contract was put in place about five years ago and its annual renewal is due in May. It seems appropriate to review the arrangements, including consideration of Overseas equities.	June 2010
Self-assessment against CIPFA guide to implementing the new Myners principles	A revised set of Myners principles has been developed for Pension Funds. CIPFA published guidance in December 2009 on implementing these principles.	September 2010
Review of the Statement of Investment Principles (SIP)	The current, published in the Annual Report, has been amended incrementally over the past few years. New investment regulations were introduced in 2009 requiring new things to be included. It is timely therefore to undertake a thorough review.	September 2010
Introduce a separate bank account for the Pension Fund	New investment regulations introduced in 2009 require pension Fund administering authorities to keep separate bank accounts for Pension Fund and County Council transactions. This requirement needs to be implemented by April 2011.	April 2011

Task	Comments	Deadline
Review of stock lending arrangements	The custodian of Pension Fund assets (BNY Mellon) lend the Pension Fund stock, sharing the income derived from this activity with the Fund. The Pension Regulator is urging trustees to review the terms under which this practice is undertaken. Key issues are the collateral offered and the counterparties used.	December 2010

Pensions Administration

Task	Actions	Measure of Success	Deadlines
To maintain current staffing level	1. Maintain current staffing levels	1. Turnover in line with OCC average	On - going
To maintain training programme to meet work needs and individual aspirations. Note work now organised on a functional basis.	1. To train team members to deal with all aspects of the allocated functions. 2. To move team members to different functions, to assist their learning, providing this supports work requirements. 3. Encourage team members to study for appropriate qualifications	1. Team members are trained to enable them to meet demands of specific functions. 2. 98% of work is done correctly first time 3. 80% + of team members undertake / hold appropriate pension qualification	On – going On – going March 2011
Monitoring of work performance	1. To review monitoring system to meet reporting requirements 2. To bring all functions into specification deadline 3. To review and reduce specification deadlines where appropriate 4. To introduce task management on a phased basis	1. To provide figures detailing work in specification on monthly basis 2. All functions, with exception of leavers and re-employments to be in specification deadline by August 2010. 3. Leavers and re-employments to be in specification deadline by December 2010. 4. Identify functions where specification deadline can be reduced to improve response times. 5. Task management to be introduced, on a phased basis, as functions have been reviewed	Monthly August 2010 December 2010 March 2011 On – going

Task	Actions	Measure of Success	Deadlines
2010 Valuation	1. To work with employers to improve data flow to pensions 2. To resolve outstanding issues, as far as possible, ahead of valuation 3. To provide information to actuary within specified timescale 4. To assist with provision of information to scheme employers and dealing with any queries arising.	1. Accurate and timely end of year files received 2. To identify issues – work with specified employers to resolve outstanding queries 3. To send file to actuaries identifying any omissions / errors 4. Data sent to employers to meet their budget deadlines	30 April 2010 On – going 31 August 2010 31 January 2011
Admission Agreements	1. To monitor employer contributions 2. To maintain register of all employing bodies 3. To update admission agreements as necessary 4. To work with employers and other parties to ensure consistent procedures when services are outsourced	1. Have early identification of any issues. 2. To update / review register monthly 3. That pension issues are completed on time when services are outsourced.	On - going
Continuous Improvement	1. To plan review of functions in accordance with SLA 2. To monitor these on a monthly basis	1. That planned timetable is adhered to, and that changes are implemented within timescale.	On - going
Implementation of New Regulations.	1. To reply to consultation / implement regulatory changes as necessary	1. That any changes are implemented in a timely manner and processes updated accordingly 2. That the response to any consultations is made within the necessary time frame	Ad hoc

ANNEX 2

OXFORDSHIRE PENSION FUND

INVESTMENT MANAGEMENT AND SCHEME ADMINISTRATION BUDGET 2010/2011

	2010/11 Budget £000		2009/10 Budget £000
Investment Management			
Fund Management Fees	3,000		2,400
Global Custody Fee	95		70
Independent Financial Adviser	57		60
Consultancy Fees	62		62
Performance Measurement Service	13		12
Member Training	12		12
Financial Services Recharges	221		216
Other	5		5
	3,465		2,837
LESS: Stock lending fees	230		125
Total Investment Management	3,235		2,712
Scheme Administration			
Financial Services Recharges	944		936
Printing & Stationery	35		35
Postage	23		23
Software S upport & Licensing	130		125
Actuary Fees	90		90
District Audit Fees	83		50
Appointed Person Fees	2		2
Other	43		50
	1350.0		1311.0
LESS: Recharge for Fire & Teachers Administration	29.0		28.0
Other Income (SIB & Divorce)			
	29.0		28.0
Total Scheme Administration	1321.0		1283.0
Total Investment Management and Scheme Administration cost to be charged to the Fund	4,556		3,995

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Division(s): N/A

PENSION FUND COMMITTEE – 19 MARCH 2010

THE FUNDING STRATEGY STATEMENT

Report by Assistant Chief Executive & Chief Finance Officer

Introduction

1. This Committee considered potential changes to the Funding Strategy Statement for the Oxfordshire Pension Fund at both its September and December 2009 meetings. At the December meeting, the Committee agreed a final approach to a formal consultation exercise, having considered issues raised by the Fund's new Actuary, as well as issues raised in discussions with the Department for Communities and Local Government.

2. Following the December Committee meeting, officers wrote to all scheme employers setting out the background to the consultation, and the detail around the 5 areas the Committee had agreed to consider. The five areas covered were:

   - Recovery Periods
   - Stepping Allowances
   - Definition of Solvency
   - Investment Strategy
   - Approach to Community Admission Bodies

3. A copy of the consultation letter, which also invited comments on any other areas of the Funding Strategy Statement, is attached as Annex 1 to this report.

Consultation Responses

4. A total of 16 responses were received as a result of the consultation letter. The responses covered the full range of employers within the Fund, including the County Council, the City and a District Council, Town and Parish Councils, a college, and a number of small admitted bodies.

5. Not all respondents felt qualified to answer each of the consultation questions. A summary of the answers provided is included as Annex 2 to this report. The range of answers is not related to the type of employer. Opinions have differed between individual employers of a similar type, as opposed to all employers of the same type having a shared view.

6. The responses to question 1 around the proposal to extend the recovery period drew a mixed response, with 8 respondents supporting an extension, and 5 respondents against. Where respondents had added narrative to their responses, it became clear that the mixed response owed something to the

way the question had been interpreted. Amongst those opposed to an extension of the recovery period, there was a view that we should not be transferring today's costs on to future generations, but rather we should be meeting the costs now before they spiral out of control. Amongst those looking for an extension to the recovery period, there was a desire to maintain stable and affordable contribution rates, and to use an extended recovery period to smooth out highs and lows in past service deficits caused by short term movements in the financial markets. As one respondent stated, there is a need to ease the burden on current taxpayers to meet a funding level that on a year to year basis is never required.

7. The responses to question 2 were more clear cut, with 10 respondents supporting a widening of the definition of exceptional circumstances whereby contribution increases can be stepped over six years, to include financial hardship. Only 3 respondents did not support the change, and one of these made it clear that they felt an extension of the recovery period was their preferred smoothing mechanism, leaving 6 year stepping as unnecessary. One respondent in supporting the widening of the definition did want to make it clear that exceptional should mean exceptional, and any employer wishing to follow the option should understand that stepping an increase ultimately led to a higher contribution rate than one required if reached in a single step.

8. The question on definition of solvency provided the clearest answer with 11 respondents against a reduction in the current funding target set at 100% of total liabilities, and only 1 respondent supporting a reduction in the target. One of the respondents against the change though was predicated on the extension of recovery periods providing sufficient mechanisms to maintain stable and affordable contribution rates.

9. Question 4 on the introduction of a dual investment strategy did not produce a consensus on the way forward. 4 respondents were in favour in principle of the introduction of a low risk strategy, but two of those stated that it was not appropriate for themselves at this time. 5 respondents did not support the change, and felt that the additional effort involved did not justify the likely take up of the option. A further 3 respondents commented that whilst the option appeared attractive on paper, they wished to understand the practicalities involved more before they could commit to supporting the proposal.

10. Question 5 did seem a reasonable consensus across all employers, with 11 respondents supporting option (b) which involves valuing all employers on an equal basis, with just 3 respondents supporting the retention of the current basis which builds in a risk premium to the results of the community admitted bodies. Those supporting the change commented that the risks involved in the change were insignificant in terms of the wider costs and risks associated with the Scheme, and that the hidden risks of option (a) were arguably greater.

11. Question 6 allowed respondents to comment on other aspects of the Funding Strategy Statement not formally identified in the consultation document. Only

3 respondents chose to add comments under this question, and none directly relate to the Funding Strategy Statement itself.

12. For the record though, 2 of the respondents used the opportunity to question the longer term affordability of the LGPS and argued for the need for further change. The three areas identified for this change were a reduction in the current accrual rate (from 1/60th of pay for each year's service to 1/80th of pay), a move to a career average scheme, and a switch to a defined contribution scheme (or at least the introduction of a defined contribution option). Given the continuing interest in the costs of the LGPS, and the likely impact of the 2010 Valuation results, these are matters likely to return to agenda after the next General Election.

13. The third respondent used the opportunity to seek better information on potential future contribution rates for employers between valuations. The request was for an annual statement from the Actuary on each employers liabilities, the cost of which to be met from the Fund itself. Whilst understandable, this request has a number of issues. Undertaking detailed forecasts for each individual employer would require significant improvements in the quality of data submissions by employers. There would clearly be significant additional actuarial costs, and even if these were to be charged initially to the Fund, these do in turn need to be recovered from the individual employers. Whilst we will work with our new Actuary therefore to improve the information flows for all employers, it is unlikely that the full request can be met.

Proposed Amendments to the Funding Strategy Statement

14. Having considered the various responses to the consultation letter, it is proposed to vary the current Funding Strategy Statement as follows:

- Recovery Period. The mixed response to the consultation question appeared to hide a reasonable consensus that whilst it is not appropriate to spread today's real costs too far into the future, the ability to smooth contribution rates by extending the recovery period to cope with increased past service deficits caused by the poor performance of the markets at the time of the Valuation is to be welcomed. Such smoothing will avoid future volatility in contribution rates where future valuations are undertaken at more normal market levels, or indeed at market highs where past service deficits are artificially reduced by unsustainable asset valuations. In this latter case it may well be appropriate to shorten recovery periods to avoid a short term and unsustainable reduction in employer contribution rates. It is hoped that there are sufficient flexibilities open to the Actuary to smooth the majority of variations in contribution rates resulting from short term movements in the financial markets. It is expected therefore that under most Valuations, the recovery period will be set at a maximum of 25 years. However it does seem sensible to leave the option to extend recovery periods in extreme cases to avoid a short term increase in contribution rates, to be reduced again when markets recover. It is therefore proposed to amend the Funding Strategy Statement to allow a variation in the recovery period, consistent with the need to maintain stability in the overall employer contribution rate in light of short term market fluctuations. It should be noted that under this amendment, the recovery period would not be extended to reduce increases in contribution rates which are deemed to be more permanent in nature, e.g. those stemming from an increase in longevity assumptions, or from a downward trend in pensionable payroll. It should be further noted that the Administering Authority retains the discretion as to the actual recovery period used in each valuation, and is not required to accept the request from any employer for any particular recovery period.

- Stepping Allowances – As with the extension of the recovery period, there is general support for the use of a six step approach to increasing contribution rates as a means of maintaining as near stable contribution rate as possible. The Administering Authority again retains the right as to when to exercise the discretion to allow an employer to step an increase over 6 years. In these circumstances it is proposed to amend the Funding Strategy Statement to widen the definition of exceptional circumstances under which 6 steps are allowed, to include exceptional financial hardship.
- Definition of Solvency – In light of the clear consultation response, it is recommended to retain the current definition of solvency as 100% of total liabilities, and no amendment is proposed to the Funding Strategy Statement on this matter.
- Investment Strategy – In light of the responses to the consultation, and the absence of any clear response for immediate access to a low risk investment strategy, it is proposed that this issue is not taken forward at this time. It is therefore not proposed to make any changes to the Funding Strategy Statement in respect of this issue.
- Approach to Community Admission Bodies – The strong consensus from the consultation exercise is to move to a single approach to valuation for all scheme employers, irrespective of whether their membership of the Fund is through an admission agreement, or set out directly in the Regulations. It is therefore proposed that the Funding Strategy Statement should be amended to remove those aspects which have provided a distinction in approach between admitted bodies and others, so that future valuations are undertaken on a single set of valuation assumptions.

RECOMMENDATION

15. **The Committee is RECOMMENDED to amend the Funding Strategy Statement as set out in paragraph 14 above.**

SUE SCANE
Assistant Chief Executive & Chief Finance Officer

Background papers:	Full Consultation Document (held in Members Resource Centre)
Contact Officer:	Sean Collins, Assistant Head of Shared Services Tel: (01865) 797190

February 2010

ANNEX 1

Consultation Letter

Dear Colleague

Oxfordshire Pension Fund – Funding Strategy Statement

Under the Local Government Pension Statement Regulations, the Oxfordshire Pension Fund must maintain a Funding Strategy Statement which sets out the framework for the funding of all pension liabilities. The Statement and any changes to the Statement must be agreed following consultation with all Fund stakeholders.

The current Funding Strategy Statement was agreed in February 2005, and was reviewed without change in February 2008. Three factors have now combined to suggest that we should be reviewing the statement again. These factors are:

- The potential for significant increases in employer contributions if the 2010 Valuation is carried out under the current Funding Strategy Statement,
- The growing risks associated with Community Admitted Bodies closing their membership of the fund, with unaffordable closure valuations, and
- The appointment of a new Actuary (Barnett Waddingham) to replace Hewitt Associates, following a formal tender exercise.

The Pension Fund Committee has considered the current Funding Strategy Statement in light of these factors and has identified a number of issues on which they are seeking your views. These issues are set out in the following paragraphs, with a set of consultation questions included as an annex to this letter. The Committee would welcome your views, preferably by way of response to the questions attached in the annex, on the issues raised and on any further changes you would like to see within the Funding Strategy Statement. Responses need to be sent to Sean Collins at the above address by 12 February 2010, to enable them to be reported to the Committee at its meeting on 19 March 2010, when any revisions to the current statement will be determined.

Potential Areas for Change

Recovery Periods – At present the Funding Strategy Statement allows any past service deficit to be recovered over a period of up to 25 years. Prior to the 2004 Valuation, past service deficits were recovered over the estimated future working life of the current scheme members. This led to a recovery period of around 13 years. The Government encourage funds to take a longer term view based on the “constitutional permanence” of the majority of Fund employers, which led to Oxfordshire determining a maximum recovery period of 25 years.

Given the constitutional permanence of local government, there is no strong argument for a maximum 25 year period as opposed to any longer period.

Increasing the current maximum period provides greater scope for smoothing potential high increases in contribution rates resulting from short term factors – indeed where the past service deficits stem from large drops in financial markets, extending the recovery period provides a better opportunity for the markets to restore balance without the need for any real increase in contribution rates. On the other hand, extending recovery periods puts off the requirement to repay costs caused by permanent changes to liabilities e.g. unexpected increases in pay, longevity or ill health retirements. Extending the recovery period out into the future increases the risks that these sorts of factors will accumulate, all driving contribution rates upwards before individual pressures are repaid, so creating bigger past service deficit problems in the future. There is also the risk that whilst local government has its permanence written into the Constitution, the long term future of the Local Government Pension Scheme itself is not so secure. Longer recovery periods will increase the costs associated with any closure of the Scheme.

It should be noted that increasing the maximum recovery period in the funding strategy statement does not itself automatically mean the recovery period is increased for all employers. The Administering Authority would still reserve the right to insist on a shorter recovery period based on the risks associated with each individual employer. Based on this provisio, and an examination of recovery periods used elsewhere in the Country, an increase in the maximum recovery period to 40 years is suggested as an option for consideration.

<u>Stepping Allowances</u> – The present Funding Strategy Statement allows an employer to step up to a new rate over a three year period. This can be extended to a maximum of six annual steps in very tightly defined exceptional circumstances. These do not include allowance for exceptional financial hardship.

It is suggested therefore that a further option for a change to the Funding Strategy Statement is to widen the definition of the exceptional circumstances where an employer can seek approval to step up to a new rate over a six year period to include times of financial hardship. The risk of this change is that it takes the period to move to the new contribution rate over a second Valuation period, so that the employer may never reach the required rate where costs continue to rise. As stepping is a more costly option in the long run, this option runs the risk of placing increased financial pressure on an employer, rather than reducing it.

However, as with increasing the recovery period, increasing the number of steps reduces the risk of rates rising sharply in one valuation, only to drop again at the next when financial markets have recovered, and therefore would be in line with the aim of maintaining as near stable employer contribution rates as possible.

<u>Definition of Solvency</u> – The Funding Strategy Statement currently targets solvency as ensuring the Fund is in a position to meet 100% of its liabilities. The Government has previously introduced scope to target a lower funding level, and raised the issue again in their consultation earlier this year. It is therefore appropriate that the option is included in this consultation.

However, whilst the Committee felt it appropriate to include the option within the consultation, it did not support the option when raised by the recent Government consultation. As noted above, the LGPS itself can be closed by the Government of the day, and a target funding level of less than 100% will not in itself reduce the liabilities. Ultimately 100% of the liabilities will have to be met, so a solvency target of anything less than 100% therefore builds in ultimate failure. The Committee though is prepared to consider alternative viewpoints.

Investment Strategy – The current Funding Strategy is based around a single investment strategy. Given the constitutional permanence of local government, and the immaturity of the Fund (i.e. significantly more active members and contributions coming in, than deferred and retired members with benefits going out), this investment strategy is based on seeking long term high returns, whilst accepting the risks of short term losses and periods of instability in the overall funding level.

Whilst this investment strategy is seen as appropriate for the Fund as a whole, it is accepted that it is not so appropriate for all individual employers within the Fund, particularly those who do not expect/guarantee their long term membership of the Fund, or those with greater levels of maturity. For these employers, an investment strategy based on lower risk may be more suitable, though the price for a more stable contribution rate is that it will be higher than that determined under the current strategy.

Whilst it is not possible to run separate investment funds for each individual employer, the Committee are interested in your views of a dual investment strategy which does allow employers to opt into a low risk fund. At this stage a lot of the practical details of this option remain to be considered (e.g. how often can an employer switch between the main fund and the low risk option), but the Committee wish to examine the level of support for the principle.

Approach to Community Admission Bodies – Within the current Funding Strategy Statement, and the approach adopted by Hewitts, there was an acceptance that the risks associated with the Community Admission Bodies (given their lack of constitutional permanence) should be reflected in a risk premium being added to their contribution rate. This has been achieved through using less optimistic financial assumptions when discounting the value of their liabilities, as well as restricting their rights to benefit to the other flexibilities contained within the Funding Strategy Statement.

It is possible to further strengthen this approach by stipulating shorter recovery periods link to contract lengths, or the estimated future working life of their scheme members, increasing the monitoring role of the Administering Authority, with the increased ability to require an interim valuation where membership numbers appear to be declining, and depending on decisions on the investment strategy, requiring Community Admission Bodies to join the low risk fund.

The difficulty with this model, is whilst it is targeted to reduce the risk of a Community Admission Body closing with an unaffordable deficit, it is likely to increase the risk of the closure itself.

The alternative approach to Community Admission Bodies is therefore to not differentiate in any way, but to ensure valuations are completed on the same basis as for the Scheduled, Designated and Transferee Admission Bodies (where all risks are already underwritten by the sponsoring employer). In conjunction with the other options for change, this approach should provide the best opportunity for contribution rates to remain affordable to all bodies, so that membership, and more importantly, contribution payments can continue. In the event of a Community Admission Body closing and being unable to pay its closing deficit, this cost would fall to all other employers in the Fund. Whilst this option does not increase the contribution rates for any body, nor result in any subsidy in contribution rates between employers, there is a more explicit statement that the Scheduled Bodies etc are underwriting the risks associated with the potential closure of the Community Admission Bodies.

This latter point does need further context in that only 5% of the Fund currently work within Community Admission Bodies, and within this figure are a number of large and stable bodies who even if they were to withdraw from the LGPS are likely to be in a position to meet any closure valuation cost. The impact of a change in funding approach to the Community Admission Bodies is therefore not likely to be significant. (The 2007 Valuation calculated an average past service deficit figure of 5.3% of pensionable pay. If all 5% of the Community Admission Bodies were to close and be unable to pay their past service deficit, there would need to be an increase in contribution rates for the remaining employers of 0.3% of pensionable pay.

(Whilst not strictly relevant to the Pension Fund, respondees may wish to consider the extent to which they work in partnership with Community Admission Bodies, including providing grant funding, and therefore the wider implications of the closure of these bodies if the costs of pensions become unaffordable).

As noted above, the options outlined above are those considered by the Pension Fund Committee on which they would welcome your views. They are also happy to receive views on any further options to amend the Funding Strategy Statement which would support the sustainability of the Fund and the employers within it. Please do therefore submit responses to me by 12 February so they can be considered by the Committee.

Yours sincerely

Sean Collins
Assistant Head of Shared Services (Financial Services)

Oxfordshire Pension Fund – Funding Strategy Statement – Consultation Questions

1. **Do you support an increase in the maximum recovery period from the current 25 years? If so, do you believe that the Funding Strategy Statement should contain a maximum recovery period, and what should this be?**
   N.B. The Administering Authority will always retain the right to insist on a shorter recovery period based on an assessment of risk. Employers remain free to choose their own recovery period subject to the agreement of the Administering Authority, and any maximum period covered within the Funding Strategy Statement.

2. **Do you support a widening of the definition of the exceptional circumstances which would allow an increase to a new employer contribution rate to be stepped over a 6 year period, the wider definition to include exceptional financial hardship?**

3. **Do you support any change to the definition of solvency, which currently targets a long term funding level equal to 100% of the liabilities? Where you support a change, what long term funding level do you believe the Fund should adopt as its target measure for solvency?**

4. As a matter of principle, do you believe that the Fund should offer a low risk investment strategy as an alternative to its current long term investment strategy? If such a low risk alternative was established, under which circumstances would you consider opting into the strategy, and what flexibility would you wish to have to move between low and higher risk alternatives?

5. Which of two alternative approaches to Community Admission Bodies would you favour the Fund to follow (a) an approach based on looking to minimise the risks built into the Valuation process, leading to higher employer contribution rates for the Community Admission Bodies, which in turn would reduce any deficit on closure, but potentially increase the risk of closure itself, or (b) an approach where all bodies are valued on the same basis, so that there is no risk premium built into the contribution rates for Community Admission Bodies, so that the remaining employers in the Fund under-write this risk?

6. Are there any further changes you would wish to see to the Funding Strategy Statement, to support an aim of maintaining as near stable contribution rates as possible, as well as sustaining the Fund and the individual employers within the Fund?

Completed by: ……………………………………………………………

On behalf of: ……………………………………………………………

Note: Respondees will not be individually identified in any report to the Pension Fund Committee (or elsewhere), but it may be helpful to be able to distinguish responses from different types/size of employers, particularly in respect to question 5 re the approach to Community Admission Bodies

When complete please return to Sean Collins via email at

sean.collins@oxfordshire.gov.uk

or by post to

Oxfordshire County Council, Shared Services, Unipart House, Garsington Road, Cowley, Oxford. OX4 2GQ

ANNEX 2

Summary of Consultation Responses

Question 1

Do you support an increase in the maximum recovery period from the current 25 years? If so, do you believe that the Funding Strategy Statement should contain a maximum recovery period, and what should this be?

N.B. The Administering Authority will always retain the right to insist on a shorter recovery period based on an assessment of risk. Employers remain free to choose their own recovery period subject to the agreement of the Administering Authority, and any maximum period covered within the Funding Strategy Statement.

Responses

8 respondents were in favour of an increase in the recovery period, with the majority of those suggesting 40 years as a reasonable maximum.

5 respondents were not in favour of any increase in the recovery period, indicating the level of risk attached, and the unfairness of visiting the liabilities of today's employees on future employees/taxpayers as their reasons.

3 respondents felt unable to offer a view on this question.

One of the No answers did accept that in the absence of any other alternative measures, extending the recovery period should be allowed to maintain as near stable contribution rates as possible. The need to maintain as near stable contribution rates as possible was also stated as the supporting argument for one of the Yes answers, which stated that extending the recovery period should be used to ease the burden on current taxpayers to meet a funding level that on a year to year basis is never required.

Question 2

Do you support a widening of the definition of the exceptional circumstances which would allow an increase to a new employer contribution rate to be stepped over a 6 year period, the wider definition to include exceptional financial hardship?

Responses

10 respondents supported the proposal to introduce a wider definition of exceptional circumstances as a means of maintaining stable recovery rates.

3 respondents did not support the proposal, one commenting on the fact that an extension of the recovery period should alleviate the need to step over 6 years.

3 respondents felt unable to answer the question.

Question 3

Do you support any change to the definition of solvency, which currently targets a long term funding level equal to 100% of the liabilities? Where you support a change, what long term funding level do you believe the Fund should adopt as its target measure for solvency?

Responses

11 of the respondents did not support any change in the current definition of solvency which targets funding at 100% of liabilities. One of these responses though was on the basis that extending the recovery period would enable stable and affordable contribution rates to be maintained.

Only 1 respondent supported a lower target funding level as the definition of solvency.

4 respondents felt they were unable to offer an answer to this question.

Question 4

As a matter of principle, do you believe that the Fund should offer a low risk investment strategy as an alternative to its current long term investment strategy? If such a low risk alternative was established, under which circumstances would you consider opting into the strategy, and what flexibility would you wish to have to move between low and higher risk alternatives?

Responses

4 respondents gave a clear answer to support the development of a dual investment strategy, offering a low risk option. As part of these respondents, some made it clear that they felt that whilst they felt it was appropriate for the Fund to offer a low risk investment strategy, they did not feel it would be appropriate for their organisation at this point in time.

5 respondents gave a clear answer to support retention of the current single investment strategy. Responses included the concern that a dual investment strategy introduced considerable extra work for what was likely to be very low take up.

3 respondents felt that further information was required before they could offer a clear view on this proposal, including the practicalities involved on the investment side.

3 respondents offered no answer to this question.

Question 5

Which of two alternative approaches to Community Admission Bodies would you favour the Fund to follow (a) an approach based on looking to minimise

the risks built into the Valuation process, leading to higher employer contribution rates for the Community Admission Bodies, which in turn would reduce any deficit on closure, but potentially increase the risk of closure itself, or (b) an approach where all bodies are valued on the same basis, so that there is no risk premium built into the contribution rates for Community Admission Bodies, so that the remaining employers in the Fund under-write this risk?

Responses

3 respondents supported option (a), to maintain the split approach to scheduled/transferee bodies and community admission bodies.

11 respondents supported option (b) to value all bodies on the same basis. Arguments supporting the change included the view that option (b) through protecting the community admission bodies and so reducing the likelihood of closure was the lowest risk approach. It was also felt that the risk of the default of the community admission bodies was insignificant in terms of the costs of the Fund as a whole.

2 respondents offered no view on this question.

Question 6

Are there any further changes you would wish to see to the Funding Strategy Statement, to support an aim of maintaining as near stable contribution rates as possible, as well as sustaining the Fund and the individual employers within the Fund?

13 of the respondents to the consultation offered no further comment in response to this question.

2 respondents, whilst accepting the points were not directly related to the Funding Strategy Statement, made comments on the overall cost of the Scheme, and suggested potential changes to the LGPS going forward. These changes covered a defined contribution basis (or alternative option), a move to a career average scheme, and a reduction in the accrual rate.

1 respondent asked for the introduction of more regular reports from the actuary on potential changes to future contribution rates. The proposal sought an annual statement, the costs of which would be met by the Fund as a whole, rather than charges to individual employers.

Division(s): N/A

PENSION FUND COMMITTEE – 19 MARCH 2010

APPLICATIONS FOR ADMISSION TO THE OXFORDSHIRE PENSION FUND

Report by Assistant Chief Executive & Chief Finance Officer

Introduction

1. This report seeks Committee approval for the most recent applications for admission to the fund. These applications for transferee admission bodies arise from outsourcing of services by both Cherwell District Council and Oxfordshire County Council.

Cherwell District Council

2. Cherwell District Council (CDC) has outsourced its revenue and benefits service for a period of 5 years from 1 February 2010.

3. This outsourcing will result in the TUPE transfer of 10 staff of which 9 are members of the Local Government Pension Scheme. As a result of this outsourcing Capita Services has sought admission to the Oxfordshire Pension Fund.

4. However, whilst the contract period is for 5 years, the admission will only be for a period of eight days since Capita will be making all the transferred staff redundant on 8 February 2010. This situation has arisen because both CDC and Capita have been seeking to resolve issues around this staff transfer but have been unable to do so in these cases.

5. From 9 February Capita will operate this contract with their own staff who are not eligible to join the LGPS; therefore a closure valuation will be undertaken.

Oxfordshire County Council – CHILDREN, YOUNG PEOPLE & FAMILIES (CYPF)

6. The Child and Adolescent Mental Health Service (CAMHS) is being outsourced from CYPF to the Oxfordshire and Buckinghamshire Mental Health Foundation Trust (OBMH) on 1 April 2010 until 31 March 2012.

7. This outsourcing will result in the TUPE of two members of staff to OBMH.

8. OBMH are applying for transferee admission body status since the pension scheme offered to other staff is not comparable with the LGPS.

Oxfordshire County Council – Highways

9. The Oxfordshire Highways contract has been outsourced since 2000, initially to Isis Accord, which was purchased by Enterprise in 2007. At the time of the original transfer the outsourced staffs were entered into the Accord Pension Scheme (which after 2007 became the Enterprise Pension Scheme).

10. A re-tendering of the highways contract has been carried out and as a result a new provider – Atkins – has been selected. Originally Atkins was due to take over from Enterprise in the summer of 2010, but this has been brought forward to 1 April 2010 to ensure that there is continuity of service, and pension provision for the staff.

11. Atkins is seeking admission to the Local Government Pension Scheme from 1 April 2010, as a transferee admission body, to enable the remaining 58 staff (approximately) from the original transfer to become members of the LGPS.

Admission Agreements

12. In the above cases the admission agreements will be between Oxfordshire County Council, as administering authority, the scheme employer and the transferee admission body.

Financial and Staff Implications

13. In all of the above cases information is being sought from the actuary regarding the past and future liabilities. This information is being discussed individually with each company. Written agreements of where costs will be charged have been sought as necessary.

RECOMMENDATION

14. **The Committee is RECOMMENDED to approve the above applications subject to the agreement to the terms of the Admission Agreements and this Committee being informed when the agreements are signed.**

SUE SCANE
Assistant Chief Executive & Chief Finance Officer

Background papers: Nil

Contact Officer: Sally Fox Tel: 01865 797111

February 2010

Division(s): N/A

PENSION FUND COMMITTEE – 19 MARCH 2010

LOCAL GOVERNMENT PENSION SCHEME (LGPS) – DRAFT (MISCELLANEOUS) REGULATIONS 2010

Report by Assistant Chief Executive & Chief Finance Officer

Introduction

1. On 24 December 2009, the Department for Communities and Local Government (DCLG) wrote to all LGPS Stakeholders in England and Wales inviting their comments on draft proposed changes to the regulations. This report covers the main elements of the proposal and seeks the Committee's views of any issues it wishes to cover in a response to the Government. The Government has asked for response by 18 March 2010, but have agreed to accept the Oxfordshire reply on 19 March 2010.

2. This report looks at the changes which have a significant impact.

Background

3. The background to this latest consultation, as set out in the letter from DCLG, is to make the necessary amendments to correct and insert cross references across four sets of regulations – the Administration Regulations; the Benefits Regulations; the Transitional Regulations and the 1997 Regulations.

4. The consultation paper also includes specific proposals relating to the ill health provisions within the regulations.

Consultation Proposals

5. Regulation 8 – Applies to foundation schools. Proposal to change regulations to remove need for employer consent to allow staff to become members of the Local Government Pension Scheme (LGPS).

6. Regulation 16 – Proposal that any newly re-employed member could link any previous membership to the current membership record, providing this is done within the first twelve months of re-employment. At present members can join up previous LGPS service, but must do so consecutively i.e. at the start of each new employment, they can only link their record from their last employment. To move away from this would mean that scheme employers would have to accept transfers from any previous LGPS service which would have a potentially major impact upon costs.

7. Regulation 47 (1) - proposes the regulations are changed to disallow a refund to be made to members where they are leaving one employment but continuing in another employment. This would be tidier and would allow

members with multiple employments to receive a deferred benefit which could then be linked to future service, or be transferred to another scheme.

8. Schedule 2 – proposed amendment that schools known as city technical colleges or city colleges can, by agreement, become academies and therefore still be employers within the fund.

9. Regulation 14 – proposal to allow the early release of a pension credit from age 60, with the appropriate percentage deduction. This will be at no cost to scheme employers.

10. Ill-health proposals mainly centre on changes in relation to 3rd tier benefits: -

- Concerning the on-going issue that occupational health doctors consider that a person's ability to obtain gainful employment will depend also on other factors such as the person's mental and physical abilities in the absence of illness and the availability of jobs which may be influenced, for example, by economic conditions. They remain of the view that the term 'undertaking gainful employment' is a more appropriate term to that of 'obtaining gainful employment'. DCLG has looked again at the construction of the regulations and is now of the view that the Regulations should be amended to reflect this.

- Regulations are to be changed to confirm that 3rd tier benefits will cease within three years of leaving employment, or normal retirement age, if earlier. Similarly, for clarification purposes, it is proposed to amend Regulation 20(8) (b) so that 3rd tier benefits stop if the member attains age 65 within the 3 year period.

- It is proposed that the Internal Dispute Resolution Procedure is available, so that a member awarded a 3rd tier ill-health benefit, could on appeal have this reviewed to either a 2nd, or 1st tier benefit.

- It was not the intention when Benefits Regulation 20(13) was introduced that the age 45 protection would apply where a member leaves their employment with a LGPS employer with deferred benefits, returns to local government but that employment is terminated on grounds of ill health. Therefore, it has been suggested that this regulation be amended so that it applies to a person who was an <u>active</u> member before 1 April 2008, and <u>who has had continuous membership</u> in respect of which their employment is terminated on the grounds of ill health and who has not received any benefits as a result of that membership.

- It has been proposed that Regulation 23 (death grants: active members) and Regulation 24 (survivor benefits: active members) are amended so that there is protection for a member who reduces their hours of employment as a result of a medical condition which results in early release of ill health benefits, also applies for the calculation of survivor and death benefits. This means that no account shall be taken of the reduction in hours that is attributable to the condition that results in the death of the member when considering survivor benefits.

Comments on the Proposals

11. In the main the proposals are straightforward and clarify the original intention of the regulations.

12. However, the one proposal which gives concern is that set out in regulation 16 allowing members to link previous service with current membership on a non concurrent basis, since this would potentially increase scheme employer costs. There is no way in which any increase in costs could be measured in advance so to agree to this change would be accepting unknown liabilities.

RECOMMENDATION

13. **The Committee is RECOMMENDED to note the report, and to consider what response, if any, it wishes to send to the Government in respect of this consultation.**

SUE SCANE
Assistant Chief Executive & Chief Finance Officer

Background papers: Nil

Contact Officer: Sally Fox, Pension Services Manager Tel: 01865 797111

March 2010

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Division(s): N/A

PENSION FUND COMMITTEE – 19 MARCH 2010

WRITE OFF'S

Report by Assistant Chief Executive& Chief Finance Officer

Introduction

1. In November 2007 a change was made to the Scheme of Financial Delegations to allow write offs, under £7,500, chargeable to the pension fund to be approved by the Assistant Head of Finance (Shared Services) acting as Director and the Head of Finance (Corporate Finance) acting as s151 Officer. Under the Scheme of Financial Delegation, such write offs need to be reported to this Committee for information.

2. For debts between £7,500 and £10,000 chargeable to the pension fund approval would need to be sought from the Assistant Chief Executive and Chief Finance Officer. These write offs will also need to be reported to this Committee for information.

3. Debts in excess of £10,000 would require approval of Pension Fund Committee.

Current Cases

4. The Assistant Head (Shared Services) and the Head of Finance (Corporate Finance) have approved the write off of £132.93, chargeable to the pension fund in respect of three cases: -

    - Member died 25 August 2008 – Pension Services were notified in September 2008. Repayment was requested in October 2008 and since then a further three letters and an invoice have been issued – without result. Overpaid £46.18;

    - Member died 23 April 2005 – the bank returned the May 2005 pension payment and as a result future pension payments were suspended. Since that date various attempts to obtain a death certificate / trace relatives have been undertaken. Pension Services have now obtained a death certificate, but have not been able to contact relatives named. Overpaid £66.73;

    - Member died 16 June 2007 – the bank returned the July 2007 payment. In December 2007 the bank confirmed the next of kin details; since this date Pension Services has sent five letters requesting repayment, without success. Overpaid £20.02.

RECOMMENDATION

5. **The Pension Fund Committee is RECOMMENDED to note this report.**

SUE SCANE
Assistant Chief Executive & Chief Finance Officer

Background papers: Nil

Contact Officer: Sally Fox, Pension Services Manager Tel: 01865 797111

February 2010

Division(s): N/A

PENSION FUND COMMITTEE – 19 MARCH 2010

COMPENSATION PAYMENTS

Report by Assistant Chief Executive & Chief Finance Officer

1. At the December 2009 meeting, this Committee delegated responsibility for the determination of compensation payments in cases of complaint under the Internal Disputes Resolution Procedure to the Assistant Head of Shared Services. The Committee asked the Assistant Head of Shared Services to provide information back to the Committee on each case of compensation agreed. This report sets out the details of the one case determined since the last Committee meeting.

2. In January 2010, the Assistant Head of Shared Services determined an IDRP complaint brought by Mr H. The nature of the complaint was that Pension Services had applied a 40% tax charge on Mr H's retirement grant, reducing the payment received by Mr H by £2,360.29. Mr H felt that he had suffered the tax charge as a result of any clear guidance from the County Council, his employer before his retirement.

3. The Assistant Head of Shared Services determined that the tax charge was properly made, as the payment of Mr H's retirement grant was made after his 75th birthday. This made the payment an unauthorised payment under the tax regulations, and therefore subject to the tax charge, payable by the recipient of the grant. However the Assistant Head of Shared Services agreed with Mr H. that the situation was not one for which he could reasonably be held accountable, as the County Council had not provided any clear advice to employees around the requirements to start payment of their pension before their 75th birthday, and nor had the Council put in place any monitoring arrangements to identify employees approaching their 75th birthday to ensure the process for withdrawal from the scheme, and the payment of the pension could be completed before the 75th birthday. The Assistant Head of Shared Services further determined that the advice to all employers from Pension Services should have been more explicit in setting out the tax implications for individuals in respect of pensions not brought into payment before a member's 75th birthday.

4. The Assistant Head of Shared Services therefore awarded Mr H. compensation of £2,360.29, equal to his tax bill, to restore his financial position to that which would have been the case if the payment had been made on a timely basis. The payment of the compensation was split 50:50 between the Council as employer, and Pension Services.

5. Pension Services have re-issued advice to employers including more explicit information on the tax implications of late payment of pensions, and both Pension Services and the County Council have introduced new practices to prevent future re-occurrences of this issue. It should be noted though that these new checks have identified a small number of potentially similar cases (c6), and future IDRP complaints and compensation payments may follow.

RECOMMENDATION

6. **The Committee is RECOMMENDED to note the report.**

SUE SCANE
Assistant Chief Executive & Chief Finance Officer

Background papers:	Nil
Contact Officer:	Sean Collins, Assistant Head of Shared Services – Financial Services Tel: (01865) 797190

February 2010