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OXFORDSHIRE COUNTY COUNCIL

To: Members of the Local Pension Board

Notice of a Meeting of the Local Pension Board

Friday, 15 April 2016 at 10.30 am

Room 3 - County Hall, New Road, Oxford OX1 1ND

P G Clark

Peter G. Clark
Head of Paid Service

April 2016

Contact Officer: ***Julie Dean***
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Membership

Chairman – Graham Burrow

Scheme Representatives on the Board:

Alistair Bastin	Unison
Stephen Davis	Unite
1 vacancy	

Employer Representatives on the Board:

District Councillor Roger Cox	Vale of White Horse District Council
Councillor Bob Johnston	Oxfordshire County Council
David Locke FCA	Oxford Diocesan Schools Trust

Notes:

- ***Date of next meeting: 29 July 2016***

Declarations of Interest

The duty to declare…..
Under the Localism Act 2011 it is a criminal offence to
(a) fail to register a disclosable pecuniary interest within 28 days of election or co-option (or re-election or re-appointment), or
(b) provide false or misleading information on registration, or
(c) participate in discussion or voting in a meeting on a matter in which the member or co-opted member has a disclosable pecuniary interest.

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

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

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

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

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

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

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

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

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

For a full list of Disclosable Pecuniary Interests and further Guidance on this matter please see the Guide to the New Code of Conduct and Register of Interests at Members' conduct guidelines.
http://intranet.oxfordshire.gov.uk/wps/wcm/connect/occ/Insite/Elected+members/
or contact Glenn Watson on (01865) 815270 or glenn.watson@oxfordshire.gov.uk for a hard copy of the document.

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

AGENDA

1. **Welcome by Chairman**

2. **Apologies for Absence**

3. **Declarations of Interest - see guidance note opposite**

4. **Minutes** (Pages 1 - 6)

   To approve the minutes of the meeting held on 18 November 2015 (**LPB4**) and to receive information arising from them.

5. **Petitions and Public Address**

6. **Collaboration Update** (Pages 7 - 14)

   There will be an update on progress.

   The Pension Fund Committee, at their meeting on 11 March 2015, noted the current position (report attached at **LPB6**); agreed a nominee and a named substitute to represent the Committee on the Shadow Joint Committee Oversight Board and asked to receive regular briefings by email unless there were significant issues that arose which would require an informal briefing meeting for Committee members. The Committee also agreed to reserve 1 July 2016 in their diaries as the date for the agreement of the final submission.

7. **Business Plan 2016/17** (Pages 15 - 36)

   The Business Plan for 2016/17, as agreed by the Pension Fund Committee on 11 March 2016, is attached at **LPB7** for review. In particular, it is suggested that the Board review the Risk Register included at Part D, and offer comments on the comprehensiveness of the Register and the appropriateness of the actions to mitigate those risks not deemed to be at target level.

   The Board is advised that the Pension Fund Committee at its meeting on 11 March 2016, agreed all of the recommendations contained in the report. In particular, it noted the risks that were currently not at target level and to keep these under constant review during 2016/17. The Committee also requested the officers to submit a report to every meeting on risks. The Committee also asked the Officers to organise a training session on the Fire & Rescue Pension Scheme.

8. Pension Liabilities and Cash Flow Monitoring (Pages 37 - 40)

To review the latest position on the Pension Funds cash flow, and to consider what further role the Board should undertake in future monitoring. The report which was considered by the Pension Fund Committee on 11 March 2016 is attached at **LPB8.**

The Board are advised that the Committee agreed all of the recommendations contained in the report.

9. Employer Management (Pages 41 - 68)

To review the latest position in respect to the performance of the Scheme Employers, and to offer any comments on the proposed changes to the Administration Strategy and the range of charges.

The full report which was considered by the Pension Fund Committee on 11 March 2016 is attached at **LPB9.** The Board are advised that all the recommendations were agreed. In respect of recommendation (d) the Committee decided to repeat the risk assessment work undertaken by Barnett Waddingham, but not to introduce further measures at this time.

10. Feedback on Training

To review the latest training plan and receive feedback on the training exercise undertaken by Members of the Pension Fund Committee prior to their meeting on 11 March 2016.

11. Issues/Items to be reported back to Scheme Members

At the last meeting of the Board it was requested that a standard item be included at the end of each agenda to consider what issues/items the Board wishes to report back to scheme members.

LOCAL PENSION BOARD

MINUTES of the meeting held on Wednesday, 18 November 2015 commencing at 10.30 am and finishing at 12.55 pm

Present:

Independent Chairman (proposed) (non voting)	Graham Burrow

Voting Members:

Alistair Bastin
District Councillor Roger Cox
Stephen Davis
Duncan Hall
David Locke FCA

Officers:

Whole of meeting	Sean Collins (Corporate Finance); Julie Dean (Corporate Services)

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

1/15 TERMS OF REFERENCE FOR THE LOCAL PENSION BOARD

(Agenda No. 5)

The Board **AGREED** to formally adopt the Terms of Reference for the Board, subject to paragraph 68 being amended to read as follows (amendment in bold italics):

'This Constitution shall be reviewed on each material change to those parts of the Regulations covering local pension boards and at least every ***2 years.'***

2/15 APPOINTMENT OF INDEPENDENT CHAIR

(Agenda No. 1)

The Board were advised that according to national guidance on the creation and operation of the Pension Boards, an independent chair would have no pre-existing employment, financial or other material interest in either the Administering Authority or in any scheme employer in a fund administered by the Administering Authority and would not be a scheme member in a fund administered by the Administering Authority.

It was understood that Graham Burrow, Head of Pensions of the Gloucestershire Local Government Pension Scheme (LGPS) Pension Fund had none of these links with the Oxfordshire Fund. It was therefore proposed that the Board confirm the appointment of Graham Burrow as independent Chair of the Oxfordshire Local Pension Board.

Upon being satisfied that the proposal was that this reciprocal arrangement would be at no extra cost to the Authority, it was **AGREED**:

(a) to confirm that Graham Burrow be appointed the independent Chair of the Pension Board; and
(b) that paragraph 53 of the of the Board's Constitution which relates to the special responsibility allowance payable to the independent Chairman of the Board, be waived for the duration of Mr Burrow's appointment.

3/15 APOLOGIES FOR ABSENCE

(Agenda No. 2)

An apology was received from Councillor Bob Johnston.

4/15 DECLARATIONS OF INTEREST - SEE GUIDANCE NOTE OPPOSITE

(Agenda No. 3)

There were no declarations of interest.

5/15 PETITIONS AND PUBLIC ADDRESS

(Agenda No. 4)

There had been no requests to address the Board or to submit a petition.

6/15 COMMUNICATION OF PENSION BOARD BUSINESS WITH EMPLOYERS AND SCHEME MEMBERS

(Agenda No. 6)

Following a discussion it was **AGREED** to take the following steps with regards to communication of Pension Board business with employers and scheme members that would complement the arrangements which were already in place:

- to request the officers to set up a Local Pension Board Website;
- to include a standard item at the end of each agenda that considers which issues/items Board members feel should be reported back to scheme members;
- to set up an email address for the Board.

7/15 WORK PROGRAMME
(Agenda No. 7)

The Board was invited to begin to develop a work programme for the forthcoming year. To assist with consideration on this matter, Sean Collins gave the Board a presentation on a number of key fund documents, these being:

- The Annual Report & Accounts 2014/15
- The Fund Risk Register
- A recent Pension Fund Committee report on employer issues
- The draft Key Performance Indicator framework which had been developed by the Scheme Advisory Board

All documents were attached at LPB7.

The aim of this session was also to provide the Board members with training in respect of the major features of the Oxfordshire Pension Fund. It also aimed to identify areas which the Board may wish to follow up at a future meeting.

The Board noted that the Pension Fund Committee would be discussing their future work programme at their meeting on 4 December 2015. This would include a discussion on the support and advice they would wish to receive from the Board.

The major work issues that the Pension Fund Committee was, or would be, facing in the next year, as highlighted by Sean Collins, were as follows:

- Education of employers in Pension Fund matters – to look at the communication process to ensure that it is fit for purpose.

- Fund Valuation - The next fund Valuation process for 31 March 2016 to 1 April 2017 – the contribution rate is set every 3 years by the Fund's Actuary,

  NB: since this meeting it has been decided, at the request of the Pension Fund Committee, to ask Barnett Waddington, the Committee's Actuary to deliver a training session to both the Committee and the Board on the valuation process. The date for this has been set for 10 June 2016 (during the scheduled meeting of the Committee) – though the time is to be confirmed.

- Member training – during discussion in relation to the Governance Compliance Statement, the Board **AGREED** to request a report on the Committee's approach to member training for the Committee and now the Board, how needs were understood and how training was planned. The Board also discussed the allowance of substitutes, for possible future consideration.

- The approach to risk management - with regard to breaches on the part of the Committee of its statutory responsibility to send Annual Benefit Statements to all members of the Fund by a particular deadline, the Board **AGREED** to look at the problem in more depth and to advise the Committee accordingly. The Board was informed that the Committee was due to agree a set of Key

Performance Indicators which would serve to indicate where there are issues to focus on.

Mr Collins also **AGREED** to report to the Board on whether the Annual Position Statements were also sent to dependents of Pensioners and to those that have deferred their pension. He informed the Board that there was a proposal to install a member self –service as part of the IT system so that people could view their latest position statement. He added also that best practice in pension regulated guidance had not been produced as yet.

The Board also **AGREED** to request the officers to:

(a) produce an indication of trends for people coming out of the Pension Scheme, together with demographics; and
(b) produce the key statistics over a longer period of time of the Fund's funding level.

Mr Collins then briefly reviewed what was to be considered at the Pension Fund Committee at its meeting on 4 December 2015. He reminded the Board that the Committee may wish to request the Board to look into an issue and give provide advice on it.

Mr Collins advised the Board that a report was to be submitted to the Committee on 4 December on the Government's requirement for the pooling of Fund's to create a small number of Funds, each with a capacity of £25b (termed 'Collaboration'), in a bid to reduce fees and costs, and to create better governance and larger mandates with more bargaining power. The Government's consultation was awaited and outline arrangements were required by February 2016.

NB: Since this meeting the Committee decided at its meeting on 4 December to hold a special meeting on 29 January 2016 at which Board members will be invited, to ensure that both are fully briefed on collaboration and views sought on proposals for Oxfordshire.

8/15 BOARD TRAINING PROGRAMME

(Agenda No. 8)

The Board was invited to discuss the approach they wished to follow in meeting their training needs, to include external courses, joint training sessions with the Pension Fund Committee and specific sessions delivered on the day of the Board meetings.

During the discussion members of the Board asked for the following;

- Meetings to be held approximately halfway between meetings of the Pension Fund Committee to allow any advice to go forward to the Committee.
- Training on a subject/issue could be integrated into the item being discussed.
- Possibility of a joint training day with the Committee on three to four subjects.

9/15 DATES FOR FUTURE MEETINGS

(Agenda No. 9)

Please note that since this meeting the following dates have been circulated and agreed:

- 15 April 2016
- 29 July2016
- 21 October 2016
- 13 January 2017

.... in the Chair

Date of signing ....

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Division(s): N/A

PENSION FUND COMMITTEE – 11 MARCH 2016

COLLABORATION UPDATE

Report by Chief Financial Officer

Introduction

1. At their additional meeting on 29 January 2016, the Committee agreed a submission to the Government on their intentions towards future pension investment collaboration. The submission was a joint submission on behalf of the 10 administering authorities signed up to Project Brunel.

2. The submission was agreed by the respective Pension Fund committees of all 10 administering authorities and subsequently sent to the Government by their deadline of 19 February 2016. At the time of writing this report, there has been no formal response to the submission.

3. On the assumption that the Government will accept the submission as the basis for a full proposal from Project Brunel, this report looks at the next steps in developing the final submission by the 15 July 2016 deadline.

Informal Feedback and Next Steps

4. Whilst we have not received any formal response to the submission since 19 February 2016, members of the Project Brunel team met with key officials from Her Majesty's Treasury and the Department for Communities and Local Government to discuss the submission. The two key areas these discussions focussed upon were the commitment to future investment in infrastructure and the governance arrangements. There was no discussion on the fact that the pool falls below the £25bn criteria, at just under £23bn.

5. In respect of feedback, the officials were keen to understand the commitment of the Brunel funds to future investments in infrastructure. This followed up from the previous statements from the Chancellor, and the inclusion of infrastructure investment as the fourth criteria against which collaboration proposals will be judged.

6. The position was confirmed that whilst the Brunel funds are happy to support future infrastructure investment in principle, actual decisions on the level of infrastructure investment could not be pre-determined. They would be dependent on the asset allocation decisions made by the local Pension Fund Committees in light of their own pension liability profiles, and the availability of infrastructure investments which provided investment returns consistent with these pension liabilities.

7. The clear message given to the officials was that it was critical to develop a supply line of appropriate infrastructure proposals available to be considered by the Brunel funds. To this end, it is noted that in the proposals submitted by the Manchester Pension Fund and the London Pension Fund Authority, there is a wish to develop a centre of excellence around investing in infrastructure, including exploring the potential to develop a clearing house for major infrastructure investments.

8. The development of a national infrastructure investment model would be consistent with the findings of the Project Pool work supported by Hymans Robertson, and as such, the officers within Project Brunel would support working closely with the other proposed pools to develop a single solution to support future infrastructure investments.

9. In respect of governance, the challenge from the Government Officials centred on the appropriateness of going forward with an unregulated model. On this point, it was explained that the current position in Project Brunel is that developing a full Authorised Contractual Scheme arrangement regulated by the Financial Conduct Authority is not necessary to deliver the proposed collaborative arrangements, and therefore adds unnecessary cost and time to the implementation on the proposal. Moving to a regulated model is not ruled out in the future, if the needs of the collaborative model so require.

10. It was also stated that in so far as possible, the Collective Asset Pool and Joint Committee model would be developed to incorporate as many of the policies and practices that would be required under a regulated model, to ensure the efficiency and effectiveness of the model.

11. Officials were keen to understand how the model would ensure sufficient control moved from the individual local Pension Fund Committees to the Collective Asset Pool, and where the key investment decisions would be made in the future.

12. In the view of Project Brunel, the best way of moving the issues forward and demonstrating how the model will work is to set up shadow governance arrangements. This will provide more robust governance arrangements for the Project, improve communication flows and help clarify future roles and responsibilities.

13. To this end, the Project has drafted terms of reference for a Shadow Joint Committee Oversight Board, and these are contained at Annex 1 to this report. It is hoped that this Board can meet on a monthly basis until the July submission has been finalised, and an initial meeting date has been set for 22 March 2016. Each of the local Pension Fund Committees are invited to nominate a representative to sit on this Board and a named substitute to attend in their absence.

14. The lead officers for each Fund are continuing to meet, and it is intended to re-construct these meetings as a shadow Operations Group. It is intended to support the Board and the Operations Group through the appointment of a

Project Manager. It has also been suggested that the Project will need to appoint a Chief of Operations and a Risk and Compliance Officer who will act to co-ordinate the work of the officers from the individual funds.

15. The Operations Group is next due to meet on 10 March 2016, and will look to develop its own terms of reference, and job descriptions for the Chief of Operations and the Risk and Compliance Officer and clarify the key decision making processes within the new arrangements.

16. The Committee will need to consider how the information discussed at the Shadow Board and Shadow Operations Group is best fed back, so that all members have the ability to understand and influence the final proposal. One suggestion will be to run informal briefings for all Committee and Pension Board members following each meeting of the Oversight Board.

17. Given the changes to delegations involved in setting up the new Collective Asset Pool, it has been advised that the final agreement of the proposal needs to be made by full Council, on the recommendation of the Pension Fund Committee. The final submission will need to be signed off by full Council at its meeting on 12 July in advance of the Government deadline of 15 July 2016. The Pension Fund Committee is scheduled to meet on 10 June 2016, which is likely to be in advance of the final submission being completed. The Committee will therefore need to consider whether they would wish for an additional meeting to consider the final submission, or delay the scheduled meeting until the final week in June.

Other Pooling Submissions

18. At the time of writing the report, the Government have not published any details of the submissions received. Any analysis of the submissions is therefore based on information provided by the individual funds and pools.

19. It is understood that in addition to the submission from Brunel, submissions were made by Access (central and south east funds), Central, Borders to Coast (with funds the length of the Country), the Welsh Funds, the London Common Investment Vehicle, the Northern Powerhouse, and the Local Pension Partnership (LPFA and Lancashire). These last two pools have also indicated a willingness to work together as a single pool.

20. It is understood that not all funds have made a firm commitment to a single pool, and indeed it is understood that at least one Fund has indicated a wish to invest across more than one pool.

21. In terms of size, the proposals from Brunel, the Welsh funds and the Local Pension Partnership fall short of the £25bn criteria. In terms of governance models, many of the submissions suggest more work is required. The Northern Powerhouse (the three big funds of Greater Manchester, Merseyside and West Yorkshire) has indicated an intention not to follow the Authorised Contractual Scheme but to develop a shared service model, though will look at alternatives as appropriate to each asset class. The Central, Access and

Borders to Coast pools are looking to commission a joint legal report on potential governance models. The London Boroughs submission is based around the London Collective Investment Vehicle which they have already established, whereas the Local Pension Partnership has also established an Authorised Contractual Scheme.

RECOMMENDATION

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

(a) note the current position;

(b) agree a nominee and a named substitute to represent the Committee on the Shadow Joint Committee Oversight Board; and

(c) consider the requirement for monthly informal briefings to follow on from meetings of the Oversight Board and the arrangements for the agreement of the final submission.

Lorna Baxter
Chief Finance Officer

Contact Officer: Sean Collins, Service Manager, Pensions, Insurance & Investments; Tel: (01865) 897224

February 2016

Shadow Joint Committee Oversight Board – Terms of Reference

1. Purpose

The purpose of the Shadow Oversight Board ("Shadow Board") is to support fund officers to develop the final proposal for Project Brunel. The Shadow Board will also provide effective engagement with the local fund committees as the project progresses. It will seek to encourage best practice, promote equity and fairness across all the local funds, and increase transparency and accountability to the local committees.

Evolution to Oversight Board

If successful with initial proposal in July, the Shadow Board will oversee the appointment of Board members and continue to progress the delivery of the JCS and its functions until formal Board appointment is completed (recognising that this has to be done by the local committees). The Shadow Board's remit therefore will evolve during this period as set out below.

2. Remit

The remit of the Shadow Board is:

Stage 1 – until July 2016 proposal is submitted

- To provide advice to the work being undertaken by the fund officers to draft the final proposal for Project Brunel
- To consider issues and draft proposals as they are developed to ensure engagement with local fund committees
- To agree project management arrangements and the appointment of advisors.
- To agree costs to deliver final proposal for Project Brunel
- To agree lead authority responsibilities for delivery of the project and support arrangements
- To agree collation of work streams into final report to committees and final proposal
- To endorse positions and conclusions from work streams, including
    - Policy for sharing of transition and other costs
    - Exit policy from the pool
    - Process for agreeing structure of sub funds
    - Policy for monitoring managers and reporting to local funds
    - Assurance, compliance and risk management framework including audit and financial implications
    - Potential impact of MIFID II on the pool and local funds
- Agree the draft TOR for the Joint Committee Oversight Board and Operations Group and sub group roles and responsibilities

Stage 2 – post approval of proposal until Joint Committee Oversight Board is established, in addition to Stage 1

- Agree process for appointing to Joint Committee Oversight Board
- Make appointments to Joint Committee Oversight Board
- Enter contracts required to commence transition to new structure.

Stage 3 – Joint Committee Oversight Board established

- Adopt contracts and policies in place
- Agree ToR for Joint Committee Oversight Board and Operations group.

3. Membership

The membership of the Shadow Board and the process for appointment of those members is as follows:

Seat	Representative	Appointment process
Interim Chair	Independent	As agreed by Shadow Board
Fund members	Local committee representative	Chairs of local committee to nominate a representative for their fund and a named substitute
Independent members	Shadow Board appoints	Specialists in governance, compliance, pensions finance

4. Term of Shadow Board

The term of appointment for all Shadow Board members is for the period to 31 March 2017 or the establishment of the Joint Committee Oversight, whichever is earlier. The term can only be extended beyond the above with agreement from all local committees.

5. Subcommittees and working groups

The Shadow Board may establish these as and when required but will be responsible for developing and agreeing the terms of reference, membership and the when and how work should be reported back to the Shadow Board.

6. Chair and Vice Chair

Interim independent Chair will be appointed.

The Vice Chair shall be nominated by the Shadow Board at its first meeting. The Vice Chair will deputise for the Chair when the Chair is absent. If both are absent, the Shadow Board shall appoint an acting chair from those present at the meeting.

7. Agreement of recommendations

Agreement of recommendations shall be by consensus of the Shadow Board which will be determined by the Chair. Where consensus cannot be reached or where the view of the Chair is challenged the majority view shall prevail with 6 votes *(i.e. majority of 10 funds)* required to support any motion.

8. Frequency of meetings

The Shadow Board shall meet at least monthly. The Chair can call more meetings as required. Due to time constraints, meetings may have to be called at short notice. Correspondence will be by email.

9. Attendance

Members are expected to attend all meetings or ensure their substitute attends. Given the nature of the project and Shadow Board, members will, where possible, be able to attend via a conference call.

10. Quorum

The formal quorum will be 6. Substitutes will count towards the quorum.

11. Declarations of Interest

Each member of the Shadow Board will be expected to declare at each meeting any conflict of interests in the subject area to be considered by the Shadow Board. If there is a conflict of interest the member may be asked to leave the meeting whilst the matter is considered. Conflict of interest means a financial or other interest which is likely to prejudice the member in fulfilling their role as a member of the Shadow Board.

12. Remuneration of Shadow Board members

Members will not be paid remuneration for attending the Shadow Board meetings. Local funds are responsible for paying expenses in line with their fund's policy.

13. Personal Liability of Shadow Board members

As this is a body established by the local administering authorities, the members are undertaking work on behalf of the local funds and are therefore covered by the arrangements in place for their local committee.

14. Secretariat

Fund officers will support the Shadow Board including;

- Provision of high level minutes including actions and agreements from meeting
- Arrange meetings
- Provision of agendas and any papers.

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Division(s):N/A

PENSION FUND COMMITTEE – 11 MARCH 2016

BUSINESS PLAN 2016/17

Report by Chief Financial Officer

Introduction

1. This report sets out the business plan for the Pension Fund for 2016/17. The Plan sets out the key objectives of the Fund, details the key service activities for the year, and includes the proposed budget and risk register for the service. Members are also asked to consider their own training needs in light of the business plan and agree items to add to their training plan.

Key Objectives and Activities

2. The key objectives for the Oxfordshire Pension Fund are set out on the first page of the Business Plan for 2016/17, and remain consistent with those agreed for previous years. These are summarised as:
    - To administer pension benefits in accordance with the LGPS regulations, and the guidance set out by the Pensons Regulator
    - To achieve a 100% funding level
    - To ensure there are sufficient liquid resources to meet the liabilities of the Fund as they fall due, and
    - To maintain as near stable and affordable employer contribution rates as possible.

3. Part A of the plan (contained in the annex) sets out the broad service activity undertaken by the Fund. The service priorities for the forthcoming financial year are then set out in more detail in Part B. These priorities do not include the business as usual activity which will continue alongside the activities included in Part B.

4. The service priorities follow those set out in the future work programme item discussed at the December meeting of the Committee. These are:
    - Develop collaboration proposals in line with the requirements and timetable set by Government
    - Manage the 2016 Valuation process
    - Develop a more sophisticated cash flow model, to include greater understanding of the key actions of the large employers within the Fund
    - Develop a more robust risk management model
    - Strengthen the approach to employer management to improve the quality and timeliness of receipt of all pension data

Budget 2016/17

5. Part C sets out the Fund's budget for 2016/17 and compares it with the budget for 2015/16. Overall there is an increase in the budget which is primarily due to an increase in the management fees budget which is explained in more detail below. A report comparing the Pension Fund budget for 2015/16 against the actual expenditure will be produced for the September 2016 meeting.

6. The investment team and administrative team staffing budgets have been amended to reflect the new structure agreed by the Committee at its meeting in December 2015.

7. An amount of £45,000 has been included in the budget for advisory and consultancy services under Oversight & Governance, as the estimate for fees relating to the investment pooling work and the fundamental asset review that is due to take place in 2016/17.

8. The management fees budget has increased significantly from the previous year. The reason for the large difference is presentational and relates to the Fund adopting best practice in reporting management fees. The change has no net impact on the Fund. In previous years management fees have only included those that are invoiced to the Fund. Some of the Fund's investments deduct fees at source so that they are reflected within the price of the asset. In-line with best practice the Fund will now include all management fees the fund is directly and legally responsible for in the budget. This has the effect of increasing the management fees budget. The Fund does not budget for investment income but when recording the additional management fees in the accounting records they will be offset by recognising an equal amount of investment income meaning the net effect is nil.

9. Administration support service charges have been increased to reflect additional work introduction of member self-service and further software improvements.

10. The budget for printing and postage (other) has increased to ensure that the fund meets the requirement of the disclosure regulations in advising members of the introduction of member self-service.

11. Advisory and consultancy fees included under Administrative Expenses have been increased to fund additional work in respect of GMP reconciliation.

Risk Register

12. Part D of the Business Plan covers the Risk Register for the Pension Fund. As covered in the service priorities for 2016/17, this is an area which needs to be strengthened during 2016/17, having been highlighted as an area of weakness when completing the Key Performance Indicator framework produced by the Scheme Advisory Board.

13. The main concern with risk management to date has been that there has been no active review of risks, and no clear action plans to drive a reduction in risk levels. The format of the latest risk register has therefore been amended to include a target level of risk, and an action plan column to detail actions to be taken where risk is currently higher than its target level. It is accepted that some level of risk will always be required, and in some circumstances the Committee will be happy to accept a higher level of risk, where the costs of further mitigation are deemed excessive in relation to the remaining risk.

14. The key risks that are currently not at target level are:

- Investment Strategy not aligned with the Pension Liability Profile
- Employer Default
- Inaccurate or out of date Pension Liability data
- Insufficient Skills and Knowledge amongst Officers and committee Members

Training Plan

15. Part E of the business plan is the training plan for Committee Members. This is another area which has been highlighted under recent reviews as an area needed improvement.

16. The Governance Compliance Statement records that we are only partially complaint with best practice, in that whilst the Committee considers each year the allocation to be provided as part of the annual budget to be spent on Committee member training, it does not adopt a specific training programme.

17. At the present time, the only specific item included in the 2016/17 training programme is a training session on the 2016 valuation, to be provided by the Fund Actuary immediately prior to the June committee meeting. The programme also includes training delivered by way of attendance at conferences and seminars. We are currently aware of three requests to attend conferences and these are included in the training plan

18. Individual Committee Members need to consider their own training needs in light of the business plan for the year, and add items to the Training Plan as appropriate. It should be noted that the training records of all Members are disclosed annually as part of the Annual Report and Accounts.

Cash Management

19. The final section of the business plan, Part F, provides the annual cash management strategy for the Fund. The Strategy is based on the Treasury Management Strategy for the Council, but has a significantly reduced number of counter-parties reflecting the lower sums of cash involved, and the wider set of alternative investment classes open to the Pension Fund.

RECOMMENDATION

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

(a) approve the Business Plan and Budget for 2016/17 as set out at Annex 1;
(b) note the risks that are currently not at target level and keep these under review during 2016/17;
(c) add items as appropriate to the 2016/17 training plan and to continue to review during 2016/17;
(d) approve the Pension Fund Cash Management Strategy for 2016/17;
(e) delegate authority to the Chief Finance Officer to make changes necessary to the Pension Fund Cash Management Strategy during the year, in line with changes to the County Council's Treasury Management Strategy;
(f) delegate authority to the Chief Finance Officer to open separate pension fund bank, deposit and investment accounts as appropriate; and
(g) delegate authority to the Chief Finance Officer to borrow money for the pension fund in accordance with the regulations.

Lorna Baxter
Chief Finance Officer

Contact Officer:
Sean Collins, Service Manager (Pensions), Tel: (01865) 897224

February 2016

Annex 1

Oxfordshire Pension Fund: Business Plan 2016/17

Service Manager - Pensions & Treasury Management: Sean Collins

Service Definition:

- To administer the Local Government Pension Scheme on behalf of Oxfordshire County Council

Our Customers:

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

Key Objectives:

- Administer pension benefits in accordance with the LGPS regulations
- Achieve a 100% funding level;
- Ensure there are sufficient liquid resources available to meet the Fund's liabilities and commitments; and
- Maintain as nearly a constant employer contribution rate as is possible.

Part A: Service Activities

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

Part B – Service Priorities

Task	Actions	Measures of Success
Develop a proposal for future pension investment collaboration in accordance with the criteria and timetable set out by the Government.	Work with like-minded funds in Project Brunel to agree detailed governance arrangements, investment sub-funds etc. Work across the LGPS with all pools to create national arrangements where deemed most appropriate.	Report signed off by full council in July 2016 and accepted by Government as the basis of future work. Delivery of those aspects of the implementation plan in accordance with the proposal by April 2017.
Manage the 2016 Valuation.	Liaise with the Fund Actuary to agree funding strategy and key assumptions for the Valuation. Provide to the Actuary all employer data to the required quality and timetable. Liaise with scheme employers to manage their expectations on the Valuation results and timetable.	Valuation results published in accordance with agreed timetable, and accepted and understood by scheme employers.
Develop a more sophisticated Cash Flow Model to identify future investment requirements of the fund over the medium term..	Work with the large scheme employers to understand their key strategic direction in so far as it relates to their LGPS workforce. Work with the Fund Actuary to develop a technical model which allows liability, contribution and investment income forecasts to be modelled for the potential scenarios discussed with the scheme employers. Develop an understanding of the alternative investment classes that	Cash flows managed to ensure all pension liabilities are met as they fall due, with minimal impact on employer contribution rates.

	can deliver investment returns in line with the projected liability profile.	
Develop a more robust risk management model.	Redesign the current risk register to ensure it covers all risks, and includes a target level for each risk, and an action plan for bringing all risks to target. Develop an approach which allows all risks to be actively monitored, and the risk register to become a live document.	Improvement in the current scores against the Scheme Advisory Board's key performance indicator on risk management. No unforeseen events which damage the performance of the fund against its key objectives.
Develop more sophisticated management arrangements to ensure all Pension Fund data is kept in accordance with the requirements of the Pension Fund Regulator	Undertake full training to fully understand the requirements of the Pension Regulator. Develop meaningful management reports on data quality, and sampling checks to test the data is in accordance with the Regulators Standards. Work with scheme employers to ensure all requirements are understood and data submitted accurately and timely.	No issues raised by the Pension Regulator. Reduced levels of queries and complaints from Scheme Members.

Part C. Budget:

	2016/17 Budget £'000		2015/16 Budget £'000
Administrative Expenses			
Administrative Employee Costs	1,043		915
Support Services including ICT	393		343
Printing and Stationery	51		40
Advisory and Consultancy Fees	45		30
Other	44		39
	1,576		**1,367**
Investment Management Expenses			
Management Fees	6,540		4,290
Custody Fees	70		100
Other	0		50
	6,610		**4,440**
Oversight and Governance			
Investment Employee Costs	224		260
Support Services Including ICT	40		50
Actuarial Fees	75		75
External Audit Fees	24		25
Internal Audit Fees	14		14
Advisory and Consultancy Fees	113		275
Committee and Board Costs	48		48
	538		**747**
Total Pension Fund Budget	**8,724**		**6,554**

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Part D: Risk Register

Identification of Risks:

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

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

Key to Scoring

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

Likelihood

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

Ref	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in Place to Mitigate Risk	Current Risk Rating			Further Actions Required	Date for completion of Action	Target Risk Rating				
							Impact	Likelihood	Score			Impact	Likelihood	Score	Date of Review	Direction of Travel
1	Investment Strategy not aligned with Pension Liability Profile	Financial	Pension Liabilities and asset attributes not understood and matched.	Long Term - Pension deficit not closed.	Service Manager	Triennial Asset allocation Review after Valuation.	4	2	8	Develop cash flow Model with Actuary. Gain greater understanding of employer changes. Review asset allocation.	March 2017	4	1	4	Sep 2016	→
2	Investment Strategy not aligned with Pension Liability Profile	Financial	Pension Liabilities and asset attributes not understood and matched.	Short Term – Insufficient Funds to Pay Pensions.	Service Manager	Monthly cash flow monitoring and retention of cash reserves.	4	2	8	Develop cash flow Model with Actuary. Gain greater understanding of employer changes. Review asset allocation.	March 2017	4	1	4	Sep 2016	→
3	Investment Strategy not aligned with Pension Liability Profile	Financial	Poor understanding of Scheme Member choices.	Long Term - Pension deficit not closed. Short Term – Insufficient Funds to Pay Pensions.	Service Manager	Monthly cash flow monitoring and retention of cash reserves.	3	2	6	Develop Improved Management Reports to benchmark, and monitor opt outs, 50:50 requests etc.	March 2017	3	1	3	Sep 2016	→
4	Under performance of asset managers or asset classes	Financial	Loss of key staff and change of investment approach.	Long Term - Pension deficit not closed.	Financial Manager	Quarterly review Meeting, and Diversification of asset allocations.	3	2	6			3	2	6		→
5	Variation to key financial assumptions in Valuation	Financial	Market Forces	Long Term - Pension deficit not closed.	Service Manager	Moderation of assumptions at point of valuation. Asset allocation to mirror risk. Sensitivity analysis included in Valuation report.	3	2	6			3	2	6		→
6	Loss of Funds through fraud or	Financial	Poor Control Processes within Fund	Long Term - Pension	Financial Manage	Review of Annual Internal	3	1	3			3	1	3		→

	misappropriation.		Managers and/or Custodian	deficit not closed		Controls Report from each Fund Manager. Clear separation of duties.										
7	Employer Default	Financial	Market Forces, increased contribution rates, budget reductions.	Deficit Falls to be Met By Other Employers	Pension Services Manager	All new employers set up with ceding employing under-writing deficit, or bond put in place.	3	2	6	Review the old admitted bodies where there is no guarantor or bond in place.	March 2017	2	2	4	Sept 16	→
8	Inaccurate or out of date pension liability data	Financial & Administrative	Late or Incomplete Returns from Employers	Errors in Pension Liability Profile impacting on Risks 1 and 2 above.	Pension Services Manager	Monitoring of Monthly returns	4	3	12	Develop improved management reporting to highlight data issues at an earlier point in time. Develop escalation issues to ensure data issues are resolved at earliest point, including new charges, and improved training/guidance.	March 2017	3	1	3	Sept 16	→
9	Inaccurate or out of date pension liability data	Administrative	Late or Incomplete Returns from Employers	Late Payment of Pension Benefits.	Pension Services Manager	Monitoring of Monthly returns. Direct contact with employers on individual basis.	3	2	6	Develop improved management reporting to highlight data issues at an earlier point in time. Develop escalation issues to ensure data issues are resolved at earliest point, including new charges, and improved training/guidance.	March 2017	3	1	3	Sept 16	→
10	Insufficient resources to	Administrative	Budget Reductions	Breach of Regulation	Service Manager	Annual Budget	4	1	4			4	1	4		→

	deliver responsibilities-					Review as part of Business Plan.										
11	Insufficient Skills and Knowledge on Committee	Governance	Poor Training Programme	Breach of Regulation	Service Manager	Training Review	4	2	8	Develop Needs Based Training Programme	June 2016	4	1	4	Sept 16	→
12	Insufficient Skills and Knowledge amongst Officers	Administrative	Poor Training Programme and/or high staff turnover	Breach of Regulation and Errors in Payments	Service Manager	Training Plan. Control checklists.	3	2	6	Training programme in place for new staff.	March 2017	3	1	3	Sept 16	→
13	Key System Failure	Administrative	Technical failure	Inability to process pension payments	Pension Services Manager	Disaster Recovery Programme	3	1	3			3	1	3		→
14	Breach of Data Security	Administrative	Poor Controls	Breach of Regulation	Pension Services Manager	Security Controls, passwords etc.	3	1	3			3	1	3		→
15	Failure to Meet Government Requirements on Pooling	Governance	Inability to agree proposals with other administering authorities.	Direct Interventio n by Secretary of State	Service Manager	Full engagement in Project Brunel	5	1	5			5	1	5		→
16	Failure of Pooled Vehicle to meet local objectives	Financial	Sub-Funds agreed not consistent with our liability profile.	Long Term - Pension deficit not closed	Service Manager	Full engagement in Project Brunel	4	1	4			4	1	4		→

Part E – Members Training Plan 2016/17

The following table sets out the training programme for the members of the Oxfordshire Pension Fund Committee for the 2016/17 financial year. It includes pre-committee training, internal training sessions organised for the Committee members and attendance at external training seminars, conferences etc.

Subject Area	Delivery Model	Members	Date
Valuation Process	**Pre-Committee Training to be delivered by Barnett Waddingham, Fund Actuary**	**All plus members of the Pension Board**	**10 June 2016**
General	**Attendance at LGA LGPS Trustees Conference**	**Cllr Bill Service Phillip Wilde**	**23-24 June 2016**
General	**Attendance at Baillie Gifford Conference**	**Cllr Jean Fooks**	**5–6 October 2016**

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Part F - Cash Management Strategy

Introduction

1. The Oxfordshire Pension Fund maintains a balance of cash arising from the receipt of employer and employee contributions, and internally managed investments 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. 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. 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. This report sets out the strategy for the financial year 2016/17.

Management Arrangements

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

Rebalancing

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

6. Arrangements will be made for cash balances which are not required for cashflow purposes, to be transferred to the pension fund Investment Managers in accordance with the decisions taken during the rebalancing exercise.

7. In general a minimum cash balance of £10million will be retained following a fund rebalancing exercise, to meet cashflow requirements and private equity investment transactions. The level of cash balances will fluctuate on a daily basis and may be considerably higher than the minimum balance dependent upon the timing of transactions and strategic asset allocation decisions.

Investment Strategy

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

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

Investment of Pension Fund Cash

9. 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.

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

11. Pension Fund deposits will be restricted to a subset the County Council's approved counterparties at the time of deposit and will include the Fund's custodian bank. Approved counterparties as at are shown in annex 2. There will be a limit of £25m for cash held with each counterparty.

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.

13. 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.

14. The Chief Finance Officer (S.151 Officer) has delegated authority to borrow money for the Pension Fund in accordance with the regulations but only in exceptional circumstances. It is proposed that the authority to borrow on behalf of the Pension Fund continues to be delegated to the Chief Finance Officer during 2016/17.

Lorna Baxter
Chief Financial Officer

February 2016

Annex 1

Oxfordshire County Council 2016/17 Approved Specified Investments for Maturities up to one year

Investment Instrument	Minimum Credit Criteria
~~Debt Management Agency Deposit Facility~~	~~N/A~~
Term Deposits – UK Government	N/A
Term Deposits – Banks and Building Societies	Fitch short-term F1, Long-term BBB-, Minimum Sovereign Rating AA+
Certificates of Deposit issued by Banks and Building Societies	A1 or P1
Money Market Funds with a Constant Net Asset Value	AAA
Other Money Market Funds and Collective Investment Schemes[1]	Minimum equivalent credit rating of A+. These funds do not have short-term or support ratings
Reverse Repurchase Agreements – maturity under 1 year from arrangement and counterparty of high credit quality (not collateral)	Counterparty Rating: Fitch short-term F1, Long-term A-
Covered Bonds – maturity under 1 year from arrangement	A-
~~UK Government Gilts~~	~~AAA~~
~~Treasury Bills~~	~~N/A~~

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

Annex 2

Approved Counterparties

Standard Life Sterling Liquidity Fund

BNP Paribas
Lloyds Bank Plc
Oversea-Chinese Banking Corp
Svenska Handelsbanken

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Division(s): N/A

PENSION FUND COMMITTEE – 11 MARCH 2016

PENSION LIABILITIES AND CASH FLOW MONITORING

Report by Chief Financial Officer

Introduction

1. The key objectives set out for the Pension Fund in both the Statement of Investment Principles and the Funding Strategy Statement are to ensure sufficient liquid resources are available to pay all pension fund liabilities as they fall due, whilst maintaining a stable and reasonable cost to all scheme employers.

2. This objective has in the past largely been met through a focus on the tri-ennial valuation and the fundamental asset allocation which have looked at meeting the long term aspects of the overall objective. There has been little focus on the short-term aspects of this objective, as the Fund as a whole has maintained a strongly cash positive position such that the contributions collected from employers and employees have comfortably exceeded the pensions in payment. The net excess of contributions has been added to the invested assets.

3. In common with many LGPS Funds across the Country, the cashflow position of the Oxfordshire Fund has become increasingly less positive over the past few years. A net inflow from contributions of £26m in 2010/11 was halved by last year, and the latest forecasts for the current financial year suggest a net inflow of just £8m.

4. Over the next year, the Oxfordshire Fund will need to consider the future cash flow projections alongside the work on the 2016 Valuation and the subsequent fundamental asset allocation review, and the development of the new sub-funds within the new pooled investment arrangements.

Current Cash Flow Projections

5. For the 2015/16 financial year, the projected cash flows from dealing with scheme members are as follows based on the first 9 months of the year:

	£000
Employer Contributions	67,374
Employee Contributions	20,290
Employer Contributions to Early Retirements	1,794
Transfers from Other Funds	4,214
Total Contributions	**93,672**
Pension Benefits	81,087
Transfers to Other Funds	4,394
Refunds	128
Total Payments	**85,609**
Net Cash Flow	**8,063**

6. Barnett Waddingham, the Fund Actuary has produced a funding model which provides forecast cash flow projections based on the results of the 2013 Valuation. The model predicted a cash flow position for 2015/16 of £8.77m and is therefore broadly in line with the latest forecasts.

7. The Barnett Waddingham model predicts cash flow for future years, allowing the user to amend the main assumptions. Keeping to the same assumptions used under the 2013 Valuation the model predicts a further reduction of £1m in net cash flow by the end of 2016/17. This reflects an increasing number of pension benefits in payment, as more reach retirement age whilst the death rate of existing pensioners reduces, and a stable or reducing workforce.

8. Reality though is likely to see a number of variations to the 2013 Valuation assumptions, particularly in light of the further reductions in public sector expenditure. Each 1% reduction in the assumed workforce would see a £1.1m reduction in the contributions receivable in 2016/17, and if these also resulted in further redundancies and early retirements, we would also see further increases in the pensions in payment.

9. Outsourcings where the new employer is admitted under a closed admission agreement where LGPS is only available to transferring staff and not subsequent replacements will also cause further reductions in contributions receivable over the medium to longer term. The scale of such proposals is currently unclear.

10. On the basis of the current information, the Oxfordshire Fund is likely to remain cash positive in 2016/17. The Barnett Waddingham model indicates the Fund will see a further fall of £3.6m in net cash flow in 2017/18, though this will be subject to the final results of the 2016 valuation and key decisions taken by the large employers within the Fund. There is therefore a real risk that cashflow will become negative in 2017/18 or soon after.

Implications of Negative Cash Flow

11. Once the Fund becomes cash negative, the Fund will need to change its current investment strategy. This does not necessarily mean an amendment to the current asset allocations, but it will require a certain level of investment income to be returned centrally to be used to meet pension liabilities rather than being re-invested by the Fund Managers. Currently the Fund is achieving annual investment income of around £25m, most of which is being re-invested by the Fund Managers (main exception is income from private equity).

12. A key element of the next stage of the work on developing our approach to investment pooling will therefore be to identify investment opportunities that will return income to the Fund, on a predictable and reliable basis. At the same time, all Funds will continue to need to identify investment opportunities that will enable the current scheme deficits to be closed over the longer term. Simply switching from the current growth assets to more defensive income generating assets carries the risk of a significant shortfall in deficit recovery and therefore significant increases in employer contributions.

13. This in turn will impact on the Valuation results and lead to a potential increase in employer contribution rates. This of course whilst initially improving cash flow again for the Pension Fund, increases the financial pressure on scheme employers, leading to further reductions in scheme membership.

14. The modelling of potential cash flow therefore cannot be seen as a straight forward task. This though does not mean that work should not continue with Barnett Waddingham to develop the current model, allowing greater flexibility to the scenarios to be tested.

15. Alongside this, work needs to be undertaken with each of the main employers to develop a better understanding of their future service levels and delivery models, to develop a better prediction of future contribution levels.

RECOMMENDATION

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

(a) note the current position;
(b) ask the Officers to continue to work with Barnett Waddingham and with all main scheme employers to develop a better understanding of the likely pattern of employer contributions in the forthcoming years and the potential cash flow models;, and
(c) ask the Independent Financial Adviser and Officers to bring a future paper on the alternative investment models that will deliver the new cash flow requirements of the Fund whilst as far as possible maintaining stable and affordable employer contribution levels.

Lorna Baxter
Chief Finance Officer

Contact Officer:
Sean Collins, Service Manager, Pensions, Insurance & Money Management, Tel: (01865) 897224

February 2016

Division(s): N/A

PENSION FUND COMMITTEE – 11 MARCH 2016

EMPLOYER MANAGEMENT

Report by the Chief Finance Officer

Introduction

1. This report sets out the latest position in respect of the employers within the Oxfordshire Fund. It includes a review of the Administration Strategy penalties to be imposed on employers for non-compliance with their responsibilities under the regulations. The report also includes new requests for admission to the Fund, an update on previously approved applications and the write off of any amounts due to the Fund.

Performance Data / Data Quality

2. The previous report to this Committee highlighted the issues for the fund and scheme employers in moving to a monthly data reporting system. While this is slowly improving, there is still a major task in Pension Services to clear the backlog and to make the whole process much more efficient.

3. The control spreadsheet with so many scheme employers and returns has become unwieldy and is currently being reviewed. Therefore rather than providing the committee with an annexe detailing all employer results this report highlights the main issues: -

<u>Oxfordshire County Council</u> – since transfer to the IBC, pension data is being provided in file format whilst the MARS returns are being developed. There have been various issues with the data provided. Revised data was received in mid-February. There are still some issues which IBC need to resolve and the Pension Services Data Team are liaising with IBC.

<u>Oxford City</u> – following the issue of the 2015 annual benefit statements the City advised Pension Service that incorrect data had been returned. As a result the City payroll team reviewed all returns and provided corrected figures and has asked for Pension Services to upload and re-issue annual benefit statements.

<u>Activate Learning</u> – there are a large number of outstanding queries alongside data issues. Pension Services has been working with the employer to resolve these and data is now being received.

<u>Academy Schools</u> – following the OCC move to the IBC payroll some 24 academy schools transferred their payrolls to other external providers with the majority moving to Kier. There has been a considerable amount of work to get data provided in the required format. This has now been received, but there is a backlog in processing this.

Transferee admission bodies – It has been found that some of the companies taking staff from scheduled employers (OCC in main) have not filtered information and details of employer responsibilities in relation to the administering of the LGPS through to payroll departments. Therefore there have been several cases where contributions have been incorrectly deducted. One example of this is The Camden Society where pension contributions were not deducted on the allowances paid resulting in a significant under deduction of contributions. The Camden Society has now paid over employee contributions but Pension Services are chasing payment of under deducted employer contributions.

Carillion also have long standing data queries to be resolved and Pension Services are working with the UK based payroll team to address these.

4. There is also a backlog of returns from new transferee admission bodies – this is primarily due to internal workloads and pressures within Pension Services.

5. To put this in to context, under The Pension Regulator Code of Practice the fund is required to hold accurate data and the above paragraphs show the considerable backlog the Pension Services team need to manage and clear, where possible, ahead of the 2016 valuation.

6. With the introduction of the 2014 LGPS the message out to scheme employers was that Pension Services would be unable to check the data received to the previous level of detail and this issue has become a balancing act which has yet to be resolved to allow Pension Services to be more efficient in processing returns.

Payment of Contributions

7. There are no specific issues with the payment of contributions. The Pension Investment Team is proactive in ensuring late contributions are followed up.

Annual Benefit Statements

8. Members will be aware that Pension Services has been discussing the late issue of the 2015 annual benefit statements with The Pension Regulator. An update of the number of statements issued was provided to the Regulator as at 29 February 2016

9. The latest position regarding the issue of ABS for active scheme members in the Oxfordshire Pension Fund will be reported at the meeting.

Administration Strategy

10. Given the issues identified above at the last meeting of this Committee, members asked for the Administration Strategy to be reviewed to increase charges for non-compliance of scheme employers in providing data.

11. One issue around this is ensuring that the team has a robust system for recording when information is received and quickly assessing the quality of that data. Team

managers are being asked to review their operational areas to make sure that any charges are consistently and fairly applied.

12. It has been difficult to find information about other fund's charging structures. Therefore, in the absence of any data, Officers have made suggestions below (which have also been incorporated into the revised Administration Strategy at Annex 1) and are seeking the Committee's view about the proposed increase to charges. Please note that a further two categories of charges have been added to the schedule:-

- Payments to the wrong bank account changed from a flat £50 to £75
- Failure to provide monthly contribution return (MARS return) – introduce a sliding scale to reflect that increased workload is directly related to number of scheme members:
  - 1 to 50 Scheme Members - £100 plus £50 per chase
  - 51 to 500 Scheme Members - £500 plus £250 per chase
  - Over 500 Scheme Members - £1,000 plus £500 per chase.
- Failing to provide End of Year returns – introduce sliding scale as again impact is directly related to number of scheme members
  - 1 to 50 Scheme Members - £100 per day late
  - 51 to 500 Scheme Members - £500 per day late
  - Over 500 Scheme Members - £1,000 per day late
- Failure to provide any other information within 10 working days remains at charge of £50 per working day.

The newly introduced charges are:-

- Where interest is payable as a direct result of employer delays in supplying information – that interest will be recharged to the employer
- Where work has to be re-done due to incorrect information supplied by the employer the charge will be £50 per case.

13. These new charges would be subject to a consultation exercise with employers. Final decision would therefore need to be made at the June meeting in light of consultation responses.

14. In light of the scale of the new charges, a facility for Officers to agree a reduction/waiver of fees would need to be introduced, with levels based on the Scheme of Financial Delegation levels for the write off of debt. Reductions/Waivers would be considered in light of the actual costs of the additional work required within Pension Services.

Assessment of Employer Covenant

14. Last year the fund actuaries presented an employer risk analysis report to this committee which assessed the financial strength of individual employers and the impact on the fund should the employer cease to exist within the fund.

15. As a result of this report, monitoring of incoming contribution payments and data has since been reported on a quarterly basis. Whilst these measures are a useful indicator of how a scheme employer is discharging their LGPS responsibilities these

are a fairly basic level of assessment which is useful operationally and to feed in to the information presented to this committee. Members are therefore asked to consider whether this is sufficient information or whether they wish this to be better developed. A guide from Barnett Waddingham is contained at Annex 2.

16. At a recently attended seminar there was an interesting session on the assessment of scheme employer covenants, a topic which has become much more high profile in recent months.

17. Attached to this report at Annex 3 are flyers from the London Pension Fund Authority and Aon Hewitt both of whom have developed systems to monitor employer covenants on an annual basis. There is also information from the fund actuaries about the services they can offer.

Write Offs

18. In June 2015, the Committee reviewed the scheme of financial delegation and agreed the following:

Write off of outstanding debts to the Local Government Pension Scheme above £10,000 need the approval of the Pension Fund Committee. The authorisation of debt write offs up to and including £10,000 is delegated to the Service Manager – Pensions, Insurance and Money Management. For debts between £7,500 and £10,000 authorisation is in conjunction with the Chief Finance Officer. For Debts below £500, authorisation of debt write off is delegated to the Pension Services Manager All debts below £10,000 need to be reported to Committee following write off. This report provides the details of those debts written off in the last quarter.

19. In the current period, the Pension Services Manager has approved the write off of £241.79 chargeable to the pension fund in respect of eleven cases where the member has died.

20. In the period June 2015 to March 2016 a total of £407.15 has been written off, in respect of 28 cases where the member has died.

Update on Previous Applications for Admission

21. Admission agreements have been sealed in respect of:

- The School Lunch Company and Stonesfield Primary School
- The School Lunch Company and St Nicholas' Church of England Primary School
- The School Lunch Company and Standlake Church of England Primary School
- Edwards and Ward and St Mary's Church of England (VC) Primary School
- Greenwich Leisure Limited and South Oxfordshire District Council and Vale of White Horse District Council. Please note this needs to be amended.
- The admission agreement between Age UK and Oxfordshire County Council is outstanding.

- The long outstanding admission agreement between Carillion and Oxfordshire County Council for the second transfer of staff has not yet been resolved despite reminders and meetings with Carillion.

New Applications

22. Kennington Parish Council has passed a resolution to allow the Parish Clerk to join the LGPS from April 2016.

23. William Fletcher School are outsourcing one person to Carillion on 1 April 2016. It is intended that this will be a pass through arrangement although final confirmation has not yet been received.

24. Optalis, which is a wholly owned subsidiary of Wokingham Borough Council has advised that they have taken on the Oxfordshire County Council contract for Nicholson House, which was previously outsourced to Leonard Cheshire Disability.

25. This transfer which took place on 15 February was a second generation transfer for nine staff originally employed by Oxfordshire County Council. From information subsequently received it appears that this was awarded under an Approved Provider List where the master agreement does contain an obligation to apply with Fair Deal. However, there is no pass through provision in this contract and so an actuarial assessment for contribution and bond rate needs to be undertaken.

26. Out of the above discussions it would appear that the contract awarded to Allied Healthcare is also due to be re-let under the Approved Provider List although, as yet, Pension Services has not received any information. This would affect four staff previously employed by Oxfordshire County Council.

Closure Valuations

27. The legal agreement in the current case has been finalised and in process of being signed and sealed.

RECOMMENDATIONS

28. The Committee is RECOMMENDED to:

(a) note the performance of scheme employers in making required returns;

(b) note the number of annual benefit statements issued and to advise officers of any further actions they want taken to resolve non-return of data;

(c) agree to consult on proposed changes to charges within the Pension Administration Strategy;

(d) confirm what approach they wish to be taken in assessment of employer covenants;

(e) agree write off of £241.79;

(f) note previous applications for admission to the fund & those applications approved by Service Manager (PIMMS);

(g) agree admission of the Carillion and Optalis in respect of contracts listed, and Note potential admission of another provider; and

(h) note progress made in respect of closure valuation.

Lorna Baxter
Chief Finance Officer

Background papers:
Contact Officer: Sally Fox, Pension Services Manager, Tel: (01865) 797111

February 2016

Oxfordshire Pension Fund
Administration Strategy Statement

Introduction

Oxfordshire County Council as the scheme manager for the Oxfordshire Pension Fund (the “Administering Authority”) has prepared this administration strategy in line with Regulation 59 and Regulation 70 of the Local Government Pension Scheme Regulations 2013 (the “Regulations”).

This strategy *will* apply to all Employers whether they have signed up, or not. However, we would much rather work with Employers to provide a service that is both efficient and effective and in which scheme members can have confidence.

Purpose

This policy sets out the role and responsibilities of the Scheme Manager (previously known as the Administering Authority) and the role and responsibilities of *all* Scheme Employers to ensure effective administration of the Local Government Pension Scheme.

Aim

To administer the scheme in line with both the Regulations and The Pension Regulator’s codes of practice by ensuring thatt Scheme Employers understand and comply with the requirement to submit information to Pension Services for the administration of LGPS 2014 and what records Scheme Employers are required to maintain, in line with the definitions of the 2008 scheme regulations.

Documents Making Up the Strategy

Service Level Agreement, setting out the roles and responsibilities of the Scheme Manager and the Scheme Employer; detailing the KPIs which will be used in reporting performance.

Oxfordshire Pension Fund’s Communication Strategy

Scale of Charges – setting out what charges will be made in certain circumstances

The Agreement – setting out trigger points, the extent and manner in which Scheme Employer contribution rates will be varied under this strategy.

Review of Strategy

This strategy will be reviewed annually or earlier if there are material changes.

Service Level Agreement

The following tasks are the responsibility of the Administering Authority in administering the scheme. The timescale shown is from receipt of *all* information: -

Task	Timescale Working days	Target	Notes
New Entrants	20	95%	
Transfers in	10	90%	
Estimates (member)	10	90%	Limited to one request per annum
General Enquiry (member)	10	90%	
Transfers out	10	95%	
Retirement	10	95%	
Deferred Benefits	40	90%	
Refund of Benefits – Payment	10	95%	
Death	10	95%	
Divorce - PSO	10	95%	
Estimates (employer)	10	90%	
General Enquiry (employer)	10	90%	
APCs	10	90%	
Re-employments	40	90%	
Changes e.g. address; name	10	90%	
Pension Adjustments – PI; MOD; GMP	Payroll Deadline	90%	
Annual Allowance	10	90%	

Scheme Employer responsibilities:-

Data retention and submission	• Keep final pay details in line with 2008 definition of final pay • Keep pay information to comply with any Regulation 10 decisions • Submit monthly data return (MARS) to pension.services@oxfordshire.gov.uk by 19th of the month following payroll
Data queries	Oxfordshire Pension Fund is not responsible for verifying the accuracy of the data provided. • Any queries arising will be referred back to the scheme employer. • Scheme employers will be responsible for recovering any overpayments arising from provision of incorrect information.
Pay over monies due	• Monthly contributions to be paid correctly and on time. Payment to clear Oxfordshire Pension Fund bank account by 19th of the month following payroll. Should the 19th fall on a weekend or bank holiday the deadline date changes to the immediately preceding working day. • Deficit contributions • Rechargeable benefits • Retirement strain costs All payments to be made to the Oxfordshire Pension Fund A/C. All paperwork supporting payments to be submitted when payment is processed to : pension.contributions@oxfordshire.gov.uk
End of Year Returns	You ***must*** submit your end of year return **by** 30th April at the latest, after the end of each financial year. This return must include a figure for pensionable

Oxfordshire Pension Fund
www.oxfordshire.gov.uk/pensions

	remuneration that reflects the full time equivalent pay (plus any other pensionable salary additions) for the period 01 April to 31 March of each tax year, in line with the 2008 definition of pay.
End of Year Errors	From April 2015 Oxfordshire Pension Fund will be limited in the checks it is able to carry out on the data submitted. • Any queries arising will be referred back to the Scheme Employer • Scheme Employers will be responsible for recovering any overpayments arising from provision of incorrect information.
Discretionary Policies	Discretionary Policies must be • Made within three months of a material change • Published • Reviewed
Pension Contacts	Notify Pension Services of any new contact within one month of the change – form on website - https://www.oxfordshire.gov.uk/cms/content/pension-scheme-forms-employers
Outsourcing of Services	Most Scheme Employers have a responsibility through either Fair Deal or Best Value Directions Orders to ensure that staffs pension rights are protected on transfer of scheme eligible staff to another employer, even if not currently in the pension scheme. Please contact Pension Services if you are considering outsourcing.

Communication and Liaison

Scheme Employers are required to provide contact details of any nominated staff dealing with pension issues. The Scheme Employer is required to notify the Scheme Manager of any changes as soon as they occur.

In line with the Oxfordshire Pension Fund Communication Policy, the Scheme Manager will:

- Send a monthly newsletter – Talking Pensions – to all nominated contacts.
- Hold quarterly Scheme Employer meetings to discuss current pension issues.
- Hold quarterly administration training sessions for new Scheme Employers.
- Provide ad-hoc training / information sessions as requested.
- Maintain the pension website at www.oxfordshire.gov.uk/pensions for Scheme Employers, including links to national websites.

Payments & Charges

Payment of all contributions, with the exception of AVCs, deducted each month should be paid to the Oxfordshire Pension Fund bank account. Payment and the return detailing the contributions deducted must be received and cleared through the account by the Pension Investment Team by 19th month following deduction.

AVC contributions should be paid directly to the scheme's AVC provider – The Prudential Assurance Company.

Scheme Employers will be sent a separate invoice for any early strain costs arising from redundancy, early or flexible retirement, or the waiving of any actuarial percentage reductions along with a proposed payment schedule. Early strain costs arising from ill-health retirements will not be charged directly, but assessed as part of the triennial valuation exercise.

Interest on late payments will be charged at 1% above base rate and compounded with three-monthly rests in line with Regulation 71.

The schedule of charges is:

Making payment to Oxfordshire County Council bank account rather than Oxfordshire Pension Fund bank account	£75 per case
Late receipt of contributions	Interest at 1% above bank rate as per regulation 71*
Failure to provide contribution return by 19th month following deduction	1-50 scheme members - £100 plus £50 for each subsequent chase

	51-500 scheme members - £500 plus £250 for each subsequent chase Over 500 scheme members - £1,000 plus £500 for each subsequent chase.
Failure to provide MARS return by 19th month	1-50 scheme members - £100 plus £50 for each subsequent chase 51-500 scheme members - £500 plus £250 for each subsequent chase Over 500 scheme members - £1,000 plus £500 for each subsequent chase.
Failure to provide End of Year return by 30 April	1-50 scheme members - £100 per day 51-500 scheme members - £500 per day Over 500 scheme members - £1,000 per day
Failure to provide information requested within 10 working days.	£50 per case
Re-do of work due to incorrect information supplied by scheme employer	£50 per case
Where a retirement payment is paid late due to scheme employer providing information	The interest payable will be recharged to the scheme employer

*The Local Government Pension Scheme Regulations 2013

Dated (Please write date)

(1) THE OXFORDSHIRE PENSION FUND

And

(2) (EMPLOYER – Please write name of organisation)

The Agreement
In relation to the Oxfordshire Pension Fund
County Hall
New Road
Oxford

OX1 1TH

Pensions Administration Strategy (PAS)

This Agreement is made the day of 2014

Between:

(1) **THE OXFORDSHIRE PENSION FUND** of County Hall, New Road, Oxford OX1 1TH (the **"Scheme Manger"**); and

(2) **xx** of xx (the "Employer")

Whereas

(A) The Scheme manager is an administering authority for the purposes of the Local Government Pension Scheme Regulations 2013 (the "Regulations"). It administers and maintains the Oxfordshire Pension Fund (the "Fund") in accordance with the Regulations.

(B) The Scheme Employer is a body listed in Schedule 2 of the Regulations and, in the case of a body listed in Part 3 of Schedule 2 of the Regulations, has entered into one or more admission agreements with the Scheme Manager.

(C) In accordance with Regulation 59 of the Regulations, the Scheme Manager has prepared the Pension Administration Strategy Statement setting out amongst other things the Service Level Agreement.

(D) In preparing the Pension Administration Strategy Statement, the Scheme Manager consulted the employing authorities in the Fund (including the Employer) [and such other persons it considered appropriate]. The Scheme Manager published the Pension Administration Strategy Statement and sent a copy of it to each of the employing authorities in the Fund (including the Scheme Employer) and to the Secretary of State for Communities and Local Government.

(E) The Scheme Manager will keep the Pension Administration Strategy Statement (including the Service Level Agreement) under review and will make such revisions as are appropriate following any material change in its policies in relation to any of the matters contained in the Pension Administration Strategy Statement.

(F) The Scheme Manager and the Scheme Employer have agreed to enter into this Agreement to document their agreement to comply with and be bound by the terms of the Service Level Agreement.

Now it is agreed as follows:

1. Interpretation

Terms not otherwise defined herein shall bear the meaning ascribed to them in the Regulations.

2. The Service Level Agreement

2.1 With effect from the date of this Agreement, the Scheme Manager and the Scheme Employer agree to use their reasonable endeavours to comply with and be bound by the terms of the Service Level Agreement.

2.2 In consideration of this Agreement the Scheme Manager will charge the Scheme Employer a contribution towards the cost of the administration of the Fund which reflects the fact that compliance with the Service Level Agreement will result in greater efficiencies and lower administration costs for the Fund.

2.3 If in the opinion of the Scheme Manager the Scheme Employer has not complied with the terms of the Service Level Agreement the Scheme Manager may charge the Scheme Employer a higher contribution towards the cost of the administration of the Fund.

2.4 When considering whether to charge the Scheme Employer a higher contribution towards the cost of the administration of the Fund in accordance with Clause 2.3 the Scheme Employer shall take into account any failure on its own part to comply with the terms of the Service Level Agreement.

2.5 Clause 2.3 shall not affect the Scheme Manager's ability under Regulation 70 of the Regulations to give written notice to the Scheme Employer where it has incurred additional costs which should be recovered from the Scheme Employer because of the Scheme Employer's level of performance in carrying out its functions under the Regulations or the Service Level Agreement.

2.6 The Scheme Employer acknowledges that the Service Level Agreement may be revised from time to time by the Scheme Manager in accordance with Regulation 59 of the Regulations and that the Scheme Employer will comply with and be bound by the terms of the revised Service Level Agreement.

3. Other Charges

3.1 The Scheme Employer acknowledges that the contribution it is required to pay towards the cost of the administration of the Fund is to cover the cost of meeting the Core Scheme Functions.

3.2 Where the Scheme Employer requests that the Scheme Manager provides services beyond these functions the Scheme Manager reserves the right to charge the Scheme Employer for the provision of such services. Non-core services include by way of example and without limitation the provision of FRS17 reports, bulk redundancy calculations, bulk information requests, member presentations, site visits and the payment of compensatory added year's benefits. Such services will be provided on terms agreed at the time between the Scheme Manager and the Scheme Employer.

4. Notices
4.1 Any notices under this Agreement shall be in writing and shall be served by sending the same by first class post, facsimile or by hand or leaving the same at the headquarter address of the Scheme Employer or the headquarter address of the Scheme Manager.

5. Waiver
Failure or neglect by the Scheme Manager to enforce at any time any of the provisions of this Agreement shall not be construed nor shall be deemed to be a waiver of the Scheme Manager's rights nor in any way affect the validity of the whole or any part of this Agreement nor prejudice the Scheme Manager's rights to take subsequent action.

6. More than one Counterpart
This Agreement may be executed in more than one counterpart, which together constitutes one agreement. When each signatory to this Agreement has executed at least one part of it, it will be as effective as if all the signatories to it had executed all of the counterparts. Each counterpart Agreement will be treated as an original.

7. Laws
7.1 This Agreement will be governed by and interpreted in accordance with the laws of England and subject to the exclusive jurisdiction of the English courts.
7.2 Any rights that a third party may have under the Contracts (Rights of Third Parties) Act 1999 are excluded.

AS WITNESS the hands of the parties hereto have been set the day and year first before written.

…………………………………………………………..
SIGNED FOR AND ON BEHALF OF
THE OXFORDSHIRE PENSION FUND

For and on behalf of the [Name of Employer]:

SIGNED by [*name*]

Signature

Position

(and duly authorised signatory)

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Barnett Waddingham LLP

The appropriate approach for each LGPS Fund will vary depending on factors such as the balance of the types of employers in the Fund, the size of the potential risk, how much capacity the Fund has to do some of this work internally and the purpose of the particular exercise. For example, a Fund that has a lot of small charities, stretched resources and is trying to implement a framework for an actuarial valuation will need a different approach and different type of external support than a Fund that is examining a proposal put forward by a very large single employer that is going through a restructuring and wants to significantly extend their recovery period and change their funding approach.

We would suggest that covenant-related advice can broadly be broken down into the following four areas:

- Understanding your employers
- Assessing your employers
- Reducing risk
- Integrating the funding strategy with the covenant assessment

The first two areas are really about improving the information held and enabling you to identify the employers that need to be engaged with. The third and fourth areas are about what you do with that information.

<u>Understanding your employers</u>
This is an area that Barnett Waddinham has helped various Funds with. This essentially involves adapting best practice in various areas so that, for example, you have a robust employer database and you might also carry out a mini-audit of your admission agreements to make sure that they are doing what they are supposed to (e.g. there are sometimes issues with old community admission agreements). The first step in this would be to arrange a time for Barnett Waddingham to come to your office to have a discussion about what areas you'd like to be covered.

<u>Assessing your employers</u>
We do not directly assess employers' covenants i.e. we do not offer a service whereby we say that one employer is stronger than another.

We can, however, interpret the results and combine these with funding information to quantify the overall risk to the Fund i.e. the covenant assessment tells you how likely an employer is to default and we can estimate or calculate the cessation deficit so that you know what the effect would be on the Fund if they did default. I'll come back to this but first, I thought it would be useful to set out some of the different types of covenant assessment.

- You can simply use the employer type or sector e.g. councils are less likely to default than housing associations. This gives a simple breakdown so that you might then take a different approach for the various types of employers.
- You can use credit scores. These are usually solely based on public information and their main advantages are that they are relatively cheap and they exist for most employers in the UK. The problems with them are that they are fairly simplistic, no judgement is applied and they are not designed specifically for pensions purposes.
- You can use a framework designed for your Fund or for pension schemes generally. This approach might involve an annual questionnaire so that you can ensure, for example, that you are told when employers take out a charge on their assets (although such checks may already be part of your process). The difficulties with this approach are ensuring that you have enough resources to monitor the employers in this way and this gets trickier the

further you take this approach. For example, if you start using the financial information in the accounts to develop a scoring system, this takes a lot of expertise for it to be appropriate and consistent between employers. You could also open yourselves up to challenge if an employer does not agree with their score.

- A detailed covenant assessment can be carried out by a specialist firm. This is fairly expensive so it is likely to be appropriate for specific cases rather than for regular monitoring of all employers.

We regularly carry out exercises for Funds where we obtain their credit score from Dun & Bradstreet and combine it with their cessation deficit to produce a report which identifies where the risk lies and we have been asked to do a number of these as part of the 2016 valuations. The cost is in the region of £5k plus VAT (it depends on the number of employers) and it's in a format that can be presented to your committee.

We can help with advising on the framework and reviewing the design of any questionnaires. We cannot advise on a scoring system but we can put you in touch with covenant specialists who would be able to help. For example, one Fund has appointed a covenant specialist and they are planning on holding a number of workshops with employers to help their understanding before they design the framework in more detail. The LPFA have designed a framework for their employers and they are keen to share their experiences and knowledge with other LGPS Funds.

<u>Reducing risk</u>
The previous two areas help with this objective as they may identify issues that you were not previously aware of and that can lead to discussions with the employers and we would be happy to be part of these discussions if it was helpful. Similarly, it might help to identify policies or admission agreement wording that could be improved.

If an employer is identified as posing a risk, steps that could be considered are exploring whether it's possible to obtain or increase security, whether it's possible to get a guarantee from a stronger connected employer (e.g. a council or Government department), reviewing any bond amount and putting in more monitoring procedures such as regularly checking their number of active members or requesting quarterly updates/meetings.

Increased employer engagement helps employers to understand the consequences of their actions and to help Funds minimise unrecoverable debts.

<u>Integrating the funding strategy with the covenant assessment</u>
The Oxfordshire Pension Fund already does this to some extent. The recovery period at the 2013 valuation for councils was 25 years whereas the Small Admitted Bodies pool (generally charities and trusts) was only 10 years.

It would be possible to extend this so that you categorise employers. For example, you might have Category A which is all bodies with tax raising powers, Category B which is other employers which are deemed to be low risk and Category C which is the employers identified as medium or high risk. The higher categories would have longer deficit recovery periods and Category C employers could get "promoted" to Category B if they put in place security or show that their risk has fallen. Similarly, Category B employers might get moved down to Category C but these are the tricky cases as these employers are possibly the ones that would struggle the most with an increase in contributions at the next valuation so it's important to design a system that is not too inflexible.

Other approaches that have been taken in the LGPS include

- Different investment strategies for different employers. Those that are identified as riskier employers might only be allowed to invest in lower risk investments. The approach usually used for this approach is to unitise the assets between employers and this leads to considerable extra administration work. We'd be happy to discuss this in more detail but it would be a fundamental change to the way that the Fund operates.

- Different discount rates for different employers but still keeping the same investment strategy for all employers. Using more prudent assumptions for riskier employers means that they need to have more assets for a given set of liabilities and these extra assets are the protection the Fund has against unexpected default. The practical effect in the short to medium term is an increase in contributions i.e. it's reasonably similar to having a shorter deficit recovery period.

In summary, the advantages of carrying out this work include that increasing the Fund's knowledge of its employers can help it to plan and prepare and to minimise unrecoverable deficits. It provides management information to prioritise employers with which to engage. Increased engagement with employers can help both the employer and the Fund to understand the consequences of their actions, for example the potential for deficits to crystallise, to identify opportunities to increase employer security, to increase efficiency and to reduce costs.

We can provide support at all stages of the process including scoping out the project, reviewing current information, quantifying the risk, helping with actions to reduce the risk and increasing the integration with the funding strategy.

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Integrated risk management

Assessing employer risks in the LGPS

AON
Empower Results®

Why is assessing employer covenant important?

For administering authorities

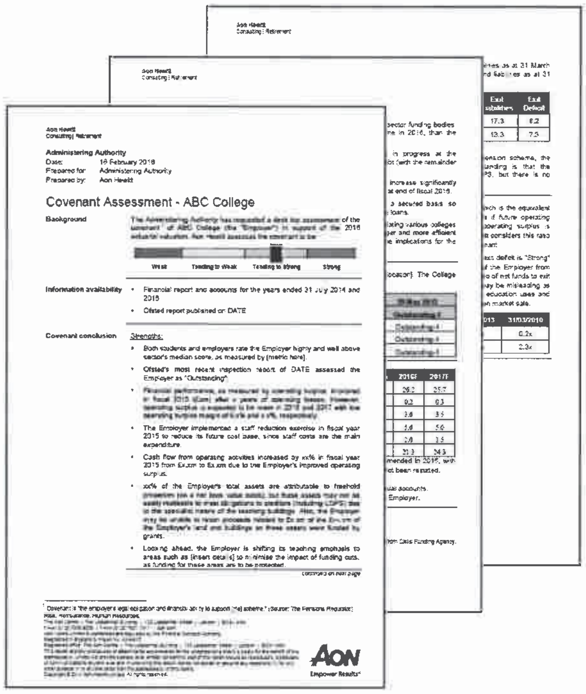
- with the 10,000 employers in the LGPS becoming ever more disparate, a one size fits all approach to funding and investment is no longer appropriate
- some sectors traditionally considered to be "public sector" are no longer classified as such and have no government guarantee
- academy conversions and new ways of delivering services mean local authorities represent a reducing share of the LGPS
- employers are increasingly asking for justification of contributions and details of their exposure to former employers' liabilities
- new national and local governance arrangements are likely to lead to greater scrutiny of funding plans and a focus on covenant assessment

For employers

- letting authorities need to take a view on bond requirements for admission bodies providing services on their behalf
- guarantors will be interested in the risk of default by guaranteed bodies
- pooled employers ought to be interested in the strength of covenant of other employers in the pool

Aon Hewitt has developed an employer covenant assessment service specifically for the LGPS. This combines our specialist covenant expertise developed over many years of advising trustees and corporates with our knowledge and experience of advising LGPS funds.

Our standard report dovetails with our funding advice and can also be used when considering employer-specific funding strategies. Our high level assessment is a cost-effective and efficient solution for assessing the absolute level and movement in financial strength of a dozen or more employers. A more detailed assessment is available where the circumstances, size of employer or its liabilities (deficit) warrants it.



When should you seek external help?

Factor	Light touch OK More likely to be internal	In-depth review needed More likely to be external
Corporate structure	Tax-raising	Non tax-raising
Funding	Well funded	Badly funded
Materiality	Small employer	Large employer
Investment risk	Low	High
Cash flow (sustainable growth)	Unconstrained	Constrained
Covenant changes	Stable	Material employer activity
Other creditors	No	Yes
Sector	Stable	Volatile
Employer	Cooperative	Uncooperative

Other issues to consider

- Does the administering authority have the necessary expertise, experience and resources?
- Is the administering authority able to take an objective view? For example - what if a committee member also has an important role with the employer?
- Is the administering authority considering offering / requiring different employer investment strategies?
- To what extent does the administering authority already differentiate between employers in its funding strategy?

Aon Hewitt's LGPS-specific employer covenant assessment can

- complement the administering authority's existing approach
- support a new approach to covenant assessment
- ensure covenant feeds into funding and investment decisions as part of an integrated approach to employer risk management
- assist scheme employers in better understanding their risks

LPFA
your pension our world

Employer Covenant Assessment

Minimising employer risk in your pension fund

Current and future spending cuts have a huge impact on public sector bodies, charities and admission bodies. There have been instances in LGPS funds of multi million pound pension liabilities not being met and falling on other fund employers or Local Authorities and risk of further insolvencies remains high.

LPFA has been recognised within the Pensions Industry for monitoring employer risk. The procedures we follow are in line with the Pensions Regulator covenant guidance and Code of Practice 14 which applies to all Public Sector Pension funds from 1 April 2015.

Monitoring risk in our view is ongoing and not a one off event.

Recommendations to reduce risks will include increased financial monitoring, first charge arrangements and parent company guarantees.

At the 2013 valuation the LPFA fund implemented over £311 million of additional security and guarantees and has received an additional £54 million via additional contribution payments since this date.

Using our sector specific covenant forms and working with key funding agencies and Government Departments we can assist funds in managing your risk.

Risks need to be mitigated early through continual monitoring otherwise liabilities may ultimately be unrecoverable.

The costs of assessing and monitoring are insignificant compared to the potential loss of monies to the pension fund. Active and collaborative engagement with employers may highlight issues at an early stage and reduce overall risk.

What can be done to manage these risks?

Through regular monitoring, as well as educating and collaborative engagement with fund employers you can improve the risk to your fund.

Examples of this include:

- Obtaining government letters of assurance/ parent company guarantees in relation to pension liabilities of fund employers
- Implementing first charge arrangements.
- Establishing which employers pose a significant risk to your fund
- Preparing reports for Local Pension boards and Pension Committees

How we can help you?

The London Pensions Fund Authority are able to offer experienced staff that are carrying out annual employer covenant assessments for over 600 fund employers in the LGPS.

We can offer assistance to local authorities and pension committees on the following areas of work:

- Provide sector specific covenant documentation updated on an annual basis
- Carry out covenant assessments and identify key fund risks
- Preparing comprehensive reports on risk to pension committees and Local Pension boards
- Check that legal documentation still appears valid
- Presentations at fund forums on employer risk responsibilities in the LGPS
- Production of newsletters and guides for pension funds on employer risk issues

Professional Pensions PENSION SCHEME OF THE YEAR AWARDS 2015 FINALIST

LAPF Investments 2015 Awards FINALIST

Contact us

If you would like more information regarding the services we offer or would like to discuss your requirements with us in more detail then please contact:

Tony Williams
Head of Employer Services
Tel: 020 7369 6237
Email: tony.williams@lpfa.org.uk