Public Document Pack

OXFORDSHIRE COUNTY COUNCIL

To: Members of the Local Pension Board

Notice of a Meeting of the Local Pension Board

Friday, 7 April 2017 at 10.30 am

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

P G Clark

Peter G. Clark
Chief Executive

March 2017

Committee Officer: ***Julie Dean***
Tel: 07393 001089; Email: julie.dean@oxfordshire.gov.uk

Membership

Chairman – Graham Burrow

Scheme Members:

Alistair Bastin	Stephen Davis	Sarah Pritchard

Employer Members:

District Councillor Roger Cox	Councillor Bob Johnston	David Locke FCA

Notes:

- ***Date of next meeting: 21 July 2017***

Declarations of Interest

The duty to declare…..
Under the Localism Act 2011 it is a criminal offence to

(a) fail to register a disclosable pecuniary interest within 28 days of election or co-option (or re-election or re-appointment), or
(b) provide false or misleading information on registration, or
(c) participate in discussion or voting in a meeting on a matter in which the member or co-opted member has a disclosable pecuniary interest.

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

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

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

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

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

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

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

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

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

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

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

AGENDA

1. Welcome by Chairman

Welcome to new Scheme Member, Sarah Pritchard, and introductions.

2. Apologies for Absence

3. Declarations of Interest - see guidance note opposite

4. Petitions and Public Address

5. Minutes (Pages 1 - 8)

To approve the minutes of the meeting held on 13 January 2017 (**LPB5**) and to receive information arising from them.

6. Business Plan 2017/18 (Pages 9 - 24)

This item invites the Board to review the Business Plan 2017/18, as agreed by the Pension Fund Committee at its meeting on 10 March 2017, and to provide feedback to the Committee. In particular, the Board is asked to review the service priorities agreed for the year.

The report which was submitted to the Committee is attached at **LPB6** and covers the business plan for the forthcoming financial year and includes the key objectives for the forthcoming year, the proposed Budget and the Cash Management Strategy.

7. Investment Strategy Statement (Pages 25 - 36)

The Pension Fund Committee agreed its initial Investment Strategy Statement at its meeting on 10 March 2017 (attached at **LPB7)**. The Statement is subject to consultation with key stakeholders, and the Board is invited to offer views to be presented to the next meeting of the Committee on behalf of the scheme employers and scheme members they represent.

The Board is reminded that the Investment Strategy was approved by the Committee, together with the changes proposed by the Independent Financial Adviser as part of the Fundamental Review of Asset Allocation, subject to the addition of the following to the first sentence of the Committee's Environmental, Social and Corporate Governance Policy to read as follows (amendment in bold italics):

'The Committee recognises that environmental, social and corporate governance (ESG) issues, ***including that of climate change***, can have materially significant investment implications.'

8. **Employer Management** (Pages 37 - 40)

This is the latest in a series of reports to the Pension Fund Committee and to this Board on the Fund's approach to employer management. In particular, it covers the action plan as requested by the Pension Regulator following the Fund's second self-referral for non-compliance with the regulatory requirement to issue benefit statements to all active and deferred scheme members.

Please note the action plan is in the process of being prepared and will follow after the Agenda despatch. The report is attached at **LPB8.**

9. **Risk Register** (Pages 41 - 48)

Attached at **LPB9** is the latest Risk Register as presented to the Pension Fund Committee on 10 March 2017. The Board is invited to review the report and to offer any comments to the Committee.

10. Brunel Pension Partnership

An oral report will be given on the latest position in respect of the Full Business Case, the next stages in the projects and any other key issues arising.

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

This is the standard item to be included at the end of the Agenda to consider what issues or items the Board wishes to report back to scheme members.

LOCAL PENSION BOARD

MINUTES of the meeting held on Friday, 13 January 2017 commencing at 10.30 am and finishing at 12.30 pm

Present:

Voting Members:	Graham Burrow – in the Chair Stephen Davis Councillor Bob Johnston David Locke FCA
By Invitation:	Rob MacDougall, Assistant Chief Fire Officer, Chair of Firefighters Pension Board
Officers:	
Whole of meeting	Sean Collins and 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.

1/17 WELCOME BY CHAIRMAN
(Agenda No. 1)

The Chairman welcomed everyone to the meeting.

2/17 APOLOGIES FOR ABSENCE
(Agenda No. 2)

Apologies for absence were received from Alistair Bastin and Cllr Roger Cox.

3/17 DECLARATIONS OF INTEREST - SEE GUIDANCE NOTE OPPOSITE
(Agenda No. 3)

There were no declarations of interest.

4/17 PETITIONS AND PUBLIC ADDRESS
(Agenda No. 4)

There were no requests to submit a petition or to make an address.

5/17 MINUTES

(Agenda No. 5)

The public part of the Minutes of the meeting held on 21 October were approved and signed as a correct record.

6/17 EXEMPT ITEMS

(Agenda No. 6)

RESOLVED: that the public be excluded for the duration of item 7 in the Agenda since it is likely that if they were present during those items there would be disclosure of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972 (as amended) and specified in relation to the respective items in the Agenda and since it is considered that, in all the circumstances of each case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

PUBLIC SUMMARY OF PROCEEDINGS FOLLOWING THE WITHDRAWAL OF THE PRESS AND PUBLIC

7/17 EXEMPT MINUTES - 21 OCTOBER 2016

(Agenda No. 7)

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

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, in that disclosure could distort the proper process of each of the 10 Committees negotiating the final proposal. It is intended that once all Committees have agreed the final proposal for submission to Government, the final proposal will become a public document. Disclosure would also prejudice the commercial position of the individual pension funds, and future negotiations with Fund Managers.

The exempt part of the Local Pension Board Minutes of the meeting held on 21 October 2016 were approved and signed as a correct record.

In relation to exempt Minute 36/16, the Board **AGREED** to accept the decision of the Pension Fund Committee that the next review of the Council's AVC Scheme be carried out independently and that a comparison of AVC Schemes of Brunel Scheme partners be carried out.

ITEMS FOLLOWING THE RE-ADMISSION OF THE PRESS AND PUBLIC

8/17 EMPLOYER MANAGEMENT
(Agenda No. 8)

The Board considered a report (LPB8) which covered the specific issues raised by this Board during its discussion at the last meeting in respect of concerns regarding employer data, and the issuance of pension information to scheme members, including annual benefit statements.

At its last meeting, the Board raised concerns about the lack of information on how many scheme members were missing more than just their last annual benefit statement, and suggested options to improve communication with such members going forward. Other proposals were raised to improve the overall performance in this area. As requested, an update on the position was before the Board (LPB8), including details of the subsequent discussion and decisions of the Pension Fund Committee when it discussed this issue at its December meeting. The Officer report to the Committee was also included as an Annex to this report (LPB8).

Mr Collins reported that since the initial report to the Regulator, 1,298 more statements had been issued, the majority of which were to Oxford City Council staff. This left 8,197 outstanding, or 42% of the active membership. Within this outstanding figure were 3 significant groups of employee, the Academies (3,187), Oxford Brookes (2,310) and the balance on Oxfordshire County Council (989).

During discussion the Board noted that:

- most authorities had struggled after the scheme changes in 2014 to issue their statements but there was a need to ascertain the reasons why Oxfordshire's statistics appeared worse than other authorities;
- noted that this year's breach had been reported to the Regulator and a further response was awaited;
- Brookes had employed more staff to rectify the problems with their data, and, following recent discussions, a clear way forward had been determined;
- The issues with Academies had been compounded by a recent change in their payroll provider. Errors on final pay data had recently been reported impacting 2,700 staff, with a further 470 statements delayed due to queries on CARE data;
- just under 1,000 queries were waiting for a response from Oxfordshire County Council; and
- of the 9,459 people who had not yet received a statement on 14 November for the 2015/16 year, 2,572 had not received a statement for the previous year, representing 13.3% of active members. 655 members (3%) were missing more than 2 statements whilst 193 had not received one since annual benefit statements had been introduced in 2005. This group presented the biggest challenge in trying to resolve, given the passage of time since the initial query.

Mr Collins then explained what measures had been taken to address the above concerns:

(a) the Committee had agreed to increase staffing in OCC Pensions by 5.81fte staff. This would enable a team to be established specifically to work with employers, to ensure earlier intervention where accurate data was not received regularly on a timely basis;
(b) officers were reviewing the way data was asked for from employers, seeking a more standard, automated approach which would assist in a better flow;
(c) more training and support was to be given to employers in a bid to improve the process as a whole.
(d) The escalation process would be reviewed to ensure earlier escalation to senior staff in employers; and
(e) summary data would be brought to the Board so that it could hold the Committee to account if there were concerns.

Mr Collins asked the Board how it would like to see the data, including the number of records deemed to be accurate and key reasons/employers behind incomplete or inaccurate records. A Board member asked whether other annual data checks could be utilised to find out, for example why a record had been suspended for more than a year. Mr Collins responded that contracts were already in place with the electoral registration offices and other providers were used also, for example, to find missing people. Officers were also working more closely with the County's Registration Service.

Mr Collins confirmed that the Pensions Service was now looking to claim costs for the reworking of statistics in accordance with the Committee's Administration Strategy. The Chairman of the Pension Fund Committee had also undertaken to be involved in the escalation process. He added that these were part of a combination of factors to be considered with a view to ensuring that the employers take problems seriously.

Mr Collins confirmed that a realistic target, if the key employers were to be concentrated on, would be 70% - 80% of the 2016/17 statements sent by the statutory deadline of the end of August 2017.

The Board made the following suggestions for the Committee to consider:

- To establish a set of Performance Indicators (PIs) for employers, in order to strengthen the importance of correct submissions of data. If the PIs were not met, then the Board could invite particular employers to meetings;
- A report be submitted to the Board clarifying where Oxfordshire Pension Fund was in relation to other Pension Funds, perhaps to start with other authorities within the Brunel Partnership;
- The Board requested to see what was being reported to the Pension Regulator;
- To suggest to the Pension Fund Committee that it liaises with other Pension Fund Committees, asking what was the level of tolerance, the level of risk they were prepared to accept and how many checks were made.

Mr Collins stated that as the Brunel Pension Partnership was developed, the Pension Fund Committee's Agenda would be freed up so that more attention could be given to the above issues. He reminded the Board that if liability was not understood, then there was a danger that the asset allocation would be incorrect.

The Board was asked what it would like to see in the administration report in the future. The response was as follows:

- To include comparative data when available, as detailed above. This would be easily available from the Brunel Group to begin with. Mr Collins agreed that the Brunel Group could be used as it would give a good cross-section of practices, some authorities having already automated some of their data collection processes;
- What data was accepted, what wasn't and risks and tolerances in order to ensure that the escalation process was working properly.

The Board felt it important to notify members of the LGPS of the reasons why their statement was late. Mr Collins agreed to implement this stating that it would encourage correct returns.

9/17 RISK REGISTER

(Agenda No. 9)

The Board were asked to review the latest risk register report as presented to the Pension Fund Committee on 2 December 2016 and to offer any comments to the Committee.

Mr Collins, in his introduction, reported that the Committee had received assurance that Pensions staff would be relocated again in April. He added that the recent office move had not been ideal, but to date no staff had been lost as a consequence.

The Board discussed the risks associated with the loss of informed members of the Committee following the election. It was felt that there was a need to give careful thought to the Members' Induction Programme following the election. Plans were in place for a whole day's training for new members of the Committee. The Chairman of the Board stated that Gloucestershire was also working up similar training for after the election and that he provided training for the Gloucestershire Pension Fund once a year. He offered to open up some of the latter sessions to a wider audience. He also flagged up a new risk which was that of data security in light of recent hacking incidents nationally, and asking if there was a need for further review. Mr Collins agreed to take the issue to the next Pension Fund Committee. He also undertook to bring back the findings from a report from Oxfordshire's Internal Audit on computer security.

10/17 BRUNEL PENSION PARTNERSHIP
(Agenda No. 10)

Mr Collins gave an oral update on the latest position in respect of the Full Business Case for the Brunel Pension Partnership Ltd, as agreed at the 2 December 2016 meeting of the Pension Fund Committee, and the next stages of the project. He reported the following:

- The full business case was proceeding through all the 10 Pension Fund Committees and Councils. It had been signed off by all 10 Committees and by 6 of the 10 Councils;
- A meeting had taken place with Marcus Jones MP which had been attended by two members of the Brunel Oversight Board and officers. The Minister had given his approval to the direction the Brunel Group was travelling. Currently five pools had received letters of approval and three were outstanding;
- He circulated the advertisement from the Brunel Pension Partnership for an independent Chair and independent non-executive directors, with a view to the Chair being in post from March/April 2017. There was also the need for a Chief Executive to be appointed early. Specialist recruitment consultants had been appointed to support the process;
- Work was ongoing within a newly formed Legal Sub-Group to draw up the formal legal documentation required for the new company; and
- The Board continued to meet monthly, with fortnightly officer meetings and weekly telephone calls.

The Board congratulated Mr Collins and the other officers for all the work undertaken to date on this project and for their professionalism. The Board also thanked Mr Collins for the quality of his presentations to the Board and to Committee.

Mr Collins further reported that the joint engagement days (with Buckinghamshire and Gloucestershire) had been very well received and these would continue. The next big issue would be addressed in March/April when the new Chair/Chief Executive would hopefully be in place, and the legal documentation drafted.

Mr Collins was asked if he had any concerns with regard to Brunel. He responded that he did not. At the outset Brunel had set like-minded principles which continued to guide all work streams. All worked to the common cause and when issues arose they were discussed and answers were found. A further benefit was that there was a significant amount of collaboration amongst participants in the group. He emphasised that when Brunel had been fully established, a function of this Board would be to challenge Brunel to ensure that it was operating appropriately for Oxfordshire’s funds. Collaboration work would continue to be strong and there would be more time to provide a focus on employer issues.

11/17 ISSUES/ITEMS TO BE REPORTED BACK TO SCHEME MEMBERS
(Agenda No. 11)

All issues had been discussed in previous items.

A member of the Board asked if there were any forums where Boards could discuss similar issues of concern.

Mr Collins reported that Gregory Ley would be sending out information on particular training sessions.

.... in the Chair

Date of signing ....

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Division(s) N/A

PENSION FUND COMMITTEE – 10 MARCH 2017

BUSINESS PLAN 2017/18

Report by Chief Financial Officer

Introduction

1. This report sets out the business plan for the Pension Fund for 2017/18. The Plan sets out the key objectives of the Fund, details the key service activities for the year, and includes the proposed budget and cash management strategy for the service.

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 2017/18, 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 are:
    - Contribute to the successful establishment of the Brunel Pension Partnership such that the first transfer of assets can take place in April 2018
    - Develop a more sophisticated cash flow model, and an appropriate future investment strategy to ensure all pension liabilities can be met as they fall due
    - Develop more sophisticated management arrangements to ensure all Pension Fund data is received and stored in accordance with the requirements of the Pension Fund Regulator
    - Develop a more robust approach to monitoring the performance of Fund Managers, in respect of their delivery against the Funds responsible investment and stewardship policies

- Improving scheme member communications through the full implementation of members self-service,

Budget 2017/18

5. Part C sets out the Fund's budget for 2017/18 and compares it with the budget for 2016/17. Overall there is an increase in the budget from £8,723,000 to £10,383,000. The largest element of this is in respect of management fees which are explained in more detail below. A report comparing the Pension Fund budget for 2016/17 against the actual expenditure will be produced for the September 2017 committee meeting.

6. The administrative team staffing budget have been amended to reflect the new structure agreed by the Committee at its meeting in December 2016. This reflected the requirement to develop a team to specifically focus on working with employers to ensure they understood their responsibilities and worked with employers to ensure the timely and accurate submission of scheme member data.

7. The increase in the budget for management fees compared to the previous year reflects the fact that the value of the Fund's investments have risen since the prior year. There have not been any changes to the rate of fees the Fund pays. The majority of the management fees are payable based on the asset value so any increase in asset values results in an increase in management fees. When looking at the fees as a percentage of assets the rate will have reduced as a number of the fee schedules operate on a tiered basis so as asset values increase there are more charged at the lower rates in high fee tiers.

8. Three new lines have been added into the budget to reflect the costs in 2017/18 of developing the Brunel Pension Partnership. The development costs cover the costs of the various advisers supporting officers on implementing the business case. The line for working capital and regulatory capital reflect the requirements for the new company to show a given level of capital on its balance sheet to ensure it is capable of undertaking its duties. Both the working capital and development cost lines are one off in nature.

9. The line for the Brunel contract costs reflects the share of the operating costs of the company in the period before assets begin to transition on April 2018. These include the costs of the Directors and senior staff, the Administrator and property costs all which need to be in place during 2017/18 to enable the company to prepare for the transition of assets from April 2018. Contract costs will continue in future years, but as indicated in the full business case, these will be recovered in future years by savings to be delivered by way of reductions in the fees paid to fund managers.

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

11. 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.

12. The budget for Actuarial Services has reduced following the one off increase in 2016/17 which reflected the costs of undertaking the 2016 Valuation.

Risk Register

13. Unlike in previous years, the Pension Fund Risk Register is no longer included within the Business Plan. At the request of the Committee, the Risk Register is now published as a separate document and is reviewed at each quarterly meeting of the Committee.

Training Plan

14. Given the impending County Council elections in May 2017, it has not felt appropriate to develop a training plan at this stage. An Induction Programme will be developed once a new Committee has been established, and a full training programme can then be developed following a needs analysis of the new Committee.

Cash Management

15. The final section of the business plan, Part D, 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

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

(a) approve the Business Plan and Budget for 2017/18 as set out at Annex 1;
(b) approve the Pension Fund Cash Management Strategy for 2017/18;
(c) 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;
(d) delegate authority to the Chief Finance Officer to open separate pension fund bank, deposit and investment accounts as appropriate; and
(e) 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: 07554 103465

February 2017

Annex 1

Oxfordshire Pension Fund: Business Plan 2017/18

Service Manager - Pensions: 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
Contribute to the establishment of the Brunel Pension Partnership and the plan to transition assets from 1 April 2018.	Be a party to:: • The development of all legal documents • FCA application • Recruitment of key directors/staff • Recruitment of key 3rd parties including Fund Administrator • The Development of all key company policies Review Committee's constitution and Scheme of Delegation to ensure fit for purpose under new operating model	Brunel Pension Partnership Limited established and ready to transition assets from 1 April 2018
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 can deliver investment returns in line with the projected liability profile.	Cash flows managed to ensure all pension liabilities are met as they fall due, with minimal impact on employer contribution rates.
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. Review the current data collection arrangements, including benchmarking practices across other Funds, and looking at options to automate more of the process	No issues raised by the Pension Regulator. Annual Benefit Statements, Deferred Benefit Statements etc issued in accordance with Statutory Timescales Reduced levels of queries and complaints from Scheme

	through i-connect. 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, and all omissions are promptly escalated.	Members.
Develop a more robust approach to monitoring Fund Manager performance in respect of delivery against the Fund's governance policies.	Agree the Fund's approach to integrating social, environmental and corporate governance issues into all investment decisions as part of the new Investment Strategy Statement (ISS). Agree a Stewardship Policy as part of the ISS. Determine measures which help determine compliance with the above policies, and set benchmarks against which to judge Fund Manager performance. Review Fund Manager performance against benchmarks and follow up all exceptions as part of the Committee's regular monitoring of Fund Managers	Investment Strategy Statement published. Benchmark data published. Clear audit trail of fund management review process published.
Improve Scheme Member Communications	Launch Member Self Service to all scheme members who are happy to sign up. Monitor take up of MSS, as well as activity in terms of numbers accessing newsletters etc, and revise service as appropriate.	Reduction in the number of simple tasks being undertaken by the team, in response to paper requests.

Part C. Budget:

	2017/18 Budget £'000		2016/17 Budget £'000
Administrative Expenses			
Administrative Employee Costs	1,240		1,043
Support Services including ICT	447		392
Printing and Stationery	51		51
Advisory and Consultancy Fees	30		45
Other	29		44
	1,797		**1,575**
Investment Management Expenses			
Management Fees	7,436		6,540
Custody Fees	75		70
Brunel Development Costs	75		20
Brunel Working/Regulatory Capital	200		0
Brunel Contract Costs	330		0
	8,116		**6,630**
Oversight and Governance			
Investment Employee Costs	240		224
Support Services Including ICT	40		40
Actuarial Fees	40		75
External Audit Fees	24		24
Internal Audit Fees	14		14
Advisory and Consultancy Fees	64		93
Committee and Board Costs	48		48
	470		**518**
Total Pension Fund Budget	**10,383**		**8,723**

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Part D - Pension Fund Cash Management Strategy 2017/18

Introduction

1. The Oxfordshire Pension Fund maintains a balance of cash arising from the receipt of employer and employee contributions, and income from internally managed investments. This incoming cash currently exceeds the amount of payments made on behalf of the Fund. The situation is forecast to continue for the whole of 2017/18. Income from portfolios managed by fund managers currently remains within the fund manager's portfolio and is available for re-investment. Were the Pension Fund's cashflow to turn negative based on the current arrangements, income from fund manager portfolios could instead be paid back to the Fund as required to make up any cash shortfall. 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 2016 state that administering authorities must hold in a separate bank account all monies held on behalf of the Pension Fund. The regulations also state that the Administering Authority must formulate an investment strategy to govern how the authority invests any Pension Fund money that is not needed immediately to make payments from the fund. This document sets out the strategy for cash for the financial year 2017/18.

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
(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 appendix 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 31st January 2017 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 2016 give administering authorities a limited power to borrow on behalf of the pension fund for up to 90 days. The power cannot be used to invest, but only for cashflow management in specified circumstances which should in practice be exceptional, i.e. to ensure that benefits are paid on time, and in transition management situations when the allocation of a pension fund's assets is being amended. Money can only be borrowed for these purposes if, at the time of borrowing, the administering authority reasonably believes that the sum borrowed, and any interest charged as a result, can be repaid out of the pension fund within 90 days of the date when the money is borrowed.

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 2017/18.

Lorna Baxter
Chief Financial Officer

Appendix 1

Oxfordshire County Council 2017/18 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	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)	Long-term Counterparty Rating A-
Covered Bonds – maturity under 1 year from arrangement	Minimum issue rating of A-
~~UK Government Gilts~~	~~AA~~
~~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.

Appendix 2

Approved Counterparties

Standard Life Sterling Liquidity Fund

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

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Investment Strategy Statement

Introduction

The Pension Fund Committee has drawn up this Investment Strategy Statement (ISS) to comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and the accompanying Guidance on Preparing and Maintaining an Investment Strategy Statement. The Authority has consulted its Actuary and Independent Financial Adviser in preparing this statement.

The ISS is subject to periodic review at least every three years and more frequently if there are any developments that impact significantly on the suitability of the ISS currently in place. Investment performance is monitored by the Committee on a quarterly basis and may be used to check whether actual results are in-line with those expected under the ISS.

The Committee will invest any Fund money not immediately required to make payments from the Fund in accordance with the ISS. The ISS should be read in conjunction with the Fund's Funding Strategy Statement.

Governance Overview

Oxfordshire County Council is the designated statutory body responsible for administering the Oxfordshire Pension Fund. The Pension Fund Committee acts on the delegated authority of the Administering Authority and is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out regular reviews and monitoring of investments.

The Director of Finance has delegated powers for investing the Oxfordshire Pension Fund in accordance with the policies determined by the Pension Fund Committee. The Committee is comprised of nine County Councillors plus two District Council representatives. A beneficiaries' representative attends Committee meetings as a non-voting member.

The Committee meets quarterly and is advised by the Director of Finance and the Fund's Independent Financial Adviser. The Committee members are not trustees, although they have similar responsibilities.

Investment Objectives

The Fund's primary objective is to ensure that over the life of the Fund it has sufficient funds to meet all pension liabilities as they fall due. In seeking to achieve this aim, the investment objectives of the Fund are:

1. to achieve and maintain a 100% funding level;
2. to ensure there are sufficient liquid resources available to meet the Fund's current liabilities and investment commitments;

3. for the overall Fund to outperform the benchmark, set out in the next section, by 1.3% per annum over a rolling three-year period.

Asset Allocation

The decision on asset allocation determines the allocation of the Fund's assets between different asset classes. The Committee believes that this is the single most important factor in the determination of the Fund's investment outcomes. In setting the asset allocation the Fund has considered advice from its Independent Financial Adviser and has used long-term cashflow modelling provided by the Fund's Actuary.

Every three years, following the actuarial valuation, there is a fundamental review of how the assets are managed. This review considers the most appropriate asset allocation for the Fund in order to achieve its investment objectives and considers advice from the Fund's Independent Financial Adviser. A balance is sought between risk, return and liquidity. The most recent review was undertaken in March 2017.

Diversification is the Fund's primary tool for managing investment risk. Diversification can improve returns and reduce portfolio volatility by ensuring that investment risk is not concentrated in a particular asset class or investment style and by reducing exposure to losses through poor performance of an individual asset class. In considering asset class correlations it is acknowledged that these vary over time and as such, are not indicators of how assets will behave relative to each other in the future. Taking this into account, the Committee believes that spreading investments over a wide range of asset classes is the most appropriate way to benefit from diversification having considered the factors that may cause values for various asset classes to move in the future.

The Committee has developed the following guidelines to assist in ensuring appropriate diversification is maintained:

1. Exposure to a single security will be limited to 10% of the total portfolio.
2. No single investment shall exceed 35% of the Fund's total portfolio.
3. Not more than 10% of the Fund may be held as a deposit in any single bank, institution or person.

In considering the asset classes used to build the Fund's overall portfolio, consideration has been given to the suitability of those investments given the Fund's investment objectives and advice has been taken from the Fund's Independent Financial Adviser. The fund broadly defines assets as either return-seeking or liability-matching assets and seeks to develop an appropriate balance between these categories. Each asset class should be understood by the Committee, be consistent with the Fund's risk/return objectives, and provide the most effective solution for delivering a target outcome.

The Fund currently constructs its investment portfolio using eleven distinct asset classes. A target allocation and range is set for each asset class as shown in the table below.

Asset Class	Target Allocation (%)	Range (%)
UK Equities Overseas Equities	26 28	24 - 28 26 - 30
Total Equities	**54**	**50 - 58**
UK Gilts Corporate Bonds Index-Linked Bonds Overseas Bonds	To be specified	
Total Bonds	**21**	**19 - 23**
Property Private Equity Multi-Asset Infrastructure Cash	8 9 5 3 0	6 - 10 6 - 11 4 - 6 2 - 4 0 - 5
Total Other Assets	**25**	**18 - 31**

Investment Implementation

To implement its asset allocation the Fund has a range of options available to access the different asset classes. This ranges from undertaking investments in-house to using external Fund Managers or selecting externally managed pooled funds. Options to manage investments in-house need to be considered against the capacity and skills available to the Fund. At present the majority of assets are managed externally by Fund Managers.

In selecting Fund Managers the Pension Fund considers whether they are suitably qualified to make investment decisions on behalf of the Fund and takes advice as considered appropriate. The fund is primarily interested in the net return delivered by an investment. While the return side of the equation is less controllable the cost side is more certain. The Fund is conscious of the compounding effect that fees have on total investment performance and considers the most cost effective way to invest in an asset class while maintaining the same level of exposure to the desired outcome.

When selecting investments for some asset classes there is a choice available between active and passive management. The Fund believes that active management can provide benefits above passive management in some situations. Active management gives the potential for outperformance relative to the passive benchmark through the selection of holdings expected to outperform the general market and through the use of cash to protect against downside risk. In considering the most appropriate type of mandate the Fund will consider the potential for outperformance, fees and risk. For some investment classes there are not passive investment solutions currently available but the Fund will monitor the market to identify any new products that are developed in the passive arena.

The individual managers' performance, current activity and transactions are monitored quarterly by the Pension Fund Committee.

The assets are currently managed as set out in the following table.

Asset Class	**Investment Manager**	**Benchmark**	**Annual Target**
UK Equities	Baillie Gifford Legal & General Investment Management	FTSE All-Share FTSE 100	+1.25% Passive
Overseas Equities	Legal & General Investment Management	FTSE AW-World (ex-UK) Index	Passive
Global Equities	Wellington UBS	MSCI All Countries World Index MSCI All Countries World Index	+ 2.0% + 3.0%
Bonds & Index Linked - UK Gilts - Index Linked - Corporate bonds - Overseas bonds	Legal & General	 FTSE A All Gilts Stocks FTSE A Over 5 year IBoxx Sterling Non-Gilts JPMorgan Global Govt (ex UK) traded bond	+ 0.6%
Property	UBS Global Asset Management	IPD UK All Balanced Funds Index	+1.0%
Private Equity - Quoted Inv. Trusts - Limited Partnerships	 Director of Finance Adams Street Partners Group	FTSE Smaller Companies (Including Investment Trusts)	+ 1.0%
Diversified Growth Fund	Insight	3 month Libor	+ 3.0 – 5.0%
Cash	Internal	3 month Libor	-

Target performance is based on rolling 3-year periods

Rebalancing

The primary goal of the rebalancing strategy is to minimize risk relative to a target asset allocation, rather than to maximize returns. Asset allocation is the major determinant of the portfolio's risk-and-return characteristics. Over time, asset classes produce different returns, so the portfolio's asset allocation changes. Therefore, to recapture the portfolio's original risk-and-return characteristics, the portfolio needs to be rebalanced.

The Fund has set ranges for the different assets included in the asset allocation, these are not hard limits but there would need to be a clear rationale for maintaining an allocation outside the ranges for any significant length of time. The fund takes a pragmatic approach to rebalancing and is cognisant that rebalancing latitude is important and can significantly affect the performance of the portfolio. Blind adherence to narrow ranges increases transaction costs without a documented increase in performance. While a rebalancing range that is too wide may cause undesired changes in the asset allocation fundamentally altering its risk/return characteristics.

Rebalancing meetings take place on a quarterly basis where the most recent asset allocation is reviewed against the target allocations and the ranges in place. A number of factors are taken into account in the decision on whether to rebalance which includes, but is not limited to; current and forecast market dynamics, and known future investment activity at the Fund level.

Where a decision is made to undertake rebalancing the Fund aims to use cash to rebalance as far as possible, as this will minimise transaction costs and keep the cash holding closer to target avoiding the need for future transactions with associated costs. The rebalancing action will not necessarily take place immediately after a decision has been made as consideration is given to market opportunities and transaction costs.

Restrictions on Investments

The Regulations have removed the previous restrictions that applied under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. These restrictions set limits for types of investment vehicles but not for asset classes. The Committee's approach to setting its investment strategy and assessing the suitability of different types of investment takes into account the various risks involved and rebalancing is undertaken as described above to ensure asset allocations are kept at appropriate levels. When making investment decisions the suitability of the proposed investment structure is considered to ensure that it is the most efficient in meeting the Fund's objectives. Therefore, it is not felt necessary to set any additional restrictions on investments.

In accordance with the regulations the Fund is not permitted to invest more than 5% of the total value of all investments of fund money in entities which are connected with the Administering Authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(d).

Risk

The overall risk for the Fund is that its assets will be insufficient to meet its liabilities. The Funding Strategy Statement, which is drawn up following the triennial actuarial valuation of the Fund, sets out how any deficit in assets compared with liabilities is to be addressed.

Underlying the overall risk, the Fund is exposed to demographic risks, regulatory risks, governance risks and financial risks (including investment risk). The measures taken by the Fund to control these risks are included in the Funding Strategy Statement and are reviewed periodically by the Committee via the Fund's risk register. Further details on the risk management process and risks faced by the Pension Fund are also included in the Annual Report and Accounts document produced by the Fund. The primary investment risk is that the Fund fails to deliver the returns anticipated in the actuarial valuation over the long term. The Committee anticipates expected market returns on a prudent basis to reduce the risk of underperforming expectations.

It is important to note that the Fund is exposed to external, market driven, fluctuations in asset prices which affect the liabilities (liabilities are estimated with reference to government bond yields) as well as the valuation of the Fund's assets. Holding a proportion of the assets in government bonds helps to mitigate the effect of falling bond yields on the liabilities to a certain extent. Further measures taken to control/mitigate investment risks are set out in more detail below:

Concentration
The Committee manages the risk of exposure to a single asset class by holding different categories of investments (e.g. equities, bonds, property, alternatives and cash) and by holding a diversified portfolio spread by geography, currency, investment style and market sectors. Each asset class is managed within an agreed permitted range to ensure that the Fund does not deviate too far away from the Benchmark, which has been designed to meet the required level of return with an appropriate level of exposure to risk, taking into consideration the level of correlation between the asset classes.

Volatility
The Benchmark contains a high proportion of equities with a commensurate high degree of volatility. The strong covenant of the major employing bodies and the current forecast cashflow position enables the Committee to take a long term perspective and to access the forecast inflation plus returns from equities.

Performance
Investment managers are expected to outperform the individual asset class benchmarks detailed in the overall Strategic Asset Allocation Benchmark. The Committee takes a long term approach to the evaluation of investment performance but will take steps to address persistent underperformance. Investment managers are required to implement appropriate risk management measures and to operate in such a way that the possibility of undershooting the performance target is kept within acceptable limits. The Fund Managers report on portfolio risk each quarter and are required to provide internal control reports to the Fund for review on an annual basis.

A proportion of assets are invested passively to reduce the risks from manager underperformance.

Illiquidity
Close attention is paid to the Fund's projected cash flows; the Fund is currently cash flow positive, in that annually there is an excess of cash paid into the Fund from contributions and investment income after pension benefits are paid out. The Fund expects to be cash flow positive for the short to medium term. Despite the significant proportion of illiquid investments in the Fund, a large proportion of the assets are held in liquid assets and can be realised quickly, in normal circumstances, in order for the Fund to pay its immediate liabilities.

Currency
The Fund's liabilities are denominated in sterling which means that investing in overseas assets exposes the Fund to a degree of currency risk. The Committee regards the currency exposure associated with investing in overseas equities as part of the return on the overseas equities; the currency exposure on overseas bonds is hedged back to sterling.

Custody
The risk of losing economic rights to the Fund's assets is managed by the use of a global custodian for custody of the assets. Custodian services are provided by BNP Paribas Securities Services. In accordance with normal practice, the Scheme's share certificates are registered in the name of the custodian's own nominee company with designation for the Scheme. Officers receive and review internal control reports produced by the custodian. The custodian regularly reconciles their records with the investment manager records, providing a regular report to officers which they in turn review.

Stock Lending
The Council allows the Custodian to lend stock and share the proceeds with the Council. This is done to generate income for the Fund and to minimise the cost of custody. To minimise risk of loss the counterparty is required to provide suitable collateral to the Custodian. The levels of collateral and the list of eligible counterparties have been agreed by the Fund. The Committee will ensure that robust controls are in place to protect the security of the Fund's assets before entering into any stock lending arrangements.

Pooling

The Oxfordshire Pension Fund is working with nine other administering authorities to pool investment assets through the Brunel Pension Partnership Ltd. (BPP Ltd). This is currently work in progress with the intention of meeting the Government's requirement for the pool to become operational and for the first assets to transition to the pool from April 2018.

Once the Brunel Pension Partnership Ltd. is established the Oxfordshire Pension Fund, through the Pension Committee, will retain the responsibility for setting the detailed Strategic Asset Allocation for the Fund and allocating investment assets to the portfolios provided by BPP Ltd.

The Brunel Pension Partnership Ltd will be a new company which will be wholly owned by the Administering Authorities. The company will seek authorisation from the Financial Conduct Authority (FCA) to act as the operator of an unregulated Collective Investment Scheme. It will be responsible for implementing the detailed Strategic Asset Allocations of the participating funds by investing Funds' assets within defined outcome focused investment portfolios. In particular it will research and select the Manager Operated Funds needed to meet the requirements of the detailed Strategic Asset Allocations. These Manager Operated Funds will be operated by professional external investment managers. The Oxfordshire Pension Fund will be a client of BPP Ltd and as a client will have the right to expect certain standards and quality of service. A detailed service agreement is being drafted which will set out the duties and responsibilities of BPP Ltd, and the rights of the Oxfordshire Pension Fund as a client. It includes a duty of care of BPP to act in its clients' interests.

An Oversight Board will be established. This will be comprised of representatives from each of the Administering Authorities. It will be set up by them according to an agreed constitution and terms of reference. Acting for the Administering Authorities, it will have ultimate responsibility for ensuring that BPP Ltd delivers the services required to achieve investment pooling. It will therefore have a monitoring and oversight function. Subject to its terms of reference it will be able to consider relevant matters on behalf of the Administering Authorities, but will not have delegated powers to take decisions requiring shareholder approval. These will be remitted back to each Administering Authority individually.

The Oversight Board will be supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Administering Authorities but will also draw on Administering Authorities finance and legal officers from time to time. It will have a primary role in reviewing the implementation of pooling by BPP Ltd, and provide a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It will be responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function.

The proposed arrangements for asset pooling for the Brunel pool have been formulated to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance. Regular reports have been made to Government on progress towards the pooling of investment assets, and the Minister for Local Government has confirmed that the pool should proceed as set out in the proposals made.

Oxfordshire County Council has approved the full business case for the Brunel Pension Partnership. It is anticipated that investment assets will be transitioned across from the Oxfordshire Pension Fund's existing investment managers to the portfolios managed by BPP Ltd between April 2018 and March 2020 in accordance with a timetable that will be agreed with BPP Ltd. Until such time as transitions take place, the Oxfordshire Pension Fund will continue to maintain the relationship with its current investment managers and oversee their investment performance, working in partnership with BPP Ltd. where appropriate.

Following the completion of the transition plan outlined above, it is envisaged that all of the Oxfordshire Pension Fund's assets will be invested through BPP Ltd. However, the Fund has certain commitments to long term illiquid investment funds which will take longer to transition across to the new portfolios to be set up by BPP Ltd. These assets will be managed in partnership with BPP Ltd. until such time as they are liquidated, and capital is returned.

ESG Policy

The Committee recognises that environmental, social and corporate governance (ESG) issues, including climate change, can have materially significant investment implications. The Fund therefore seeks to be a responsible investor and to consider ESG risks as part of the investment process across all investments. The objective of responsible investment is to decrease investor risk and improve risk-adjusted returns. Responsible investment principles are at the foundation of the Fund's approach to stewardship and underpin the Fund's fulfilment of its fiduciary duty to scheme beneficiaries.

The Committee's principal concern is to invest in the best financial interests of the Fund's employing bodies and beneficiaries. Its Investment Managers are given performance objectives accordingly. The Council requires its Investment Managers to monitor and assess the environmental, social and governance considerations, which may impact on financial performance when selecting and retaining investments, and to engage with companies on these issues where appropriate. The Council believes that the operation of such a policy will ensure the sustainability of a company's earnings and hence its merits as an investment.

The Investment Managers report at quarterly intervals on the selection, retention and realisation of investments on the Council's behalf and on any engagement activities undertaken. These Reports/Review Meetings provide an opportunity for the Council to influence the Investment Manager's choice of investments and to review/challenge their stewardship activities but the Council is careful to preserve the Investment Manager's autonomy in pursuit of their given performance.

Just because concerns have been registered about a company's performance on ESG issues, doesn't mean our fund managers will be instructed not to invest in that company. It is then through active ownership we aim to drive change. Where engagement is not seen to be resulting in sufficient progress, and so the risk associated with a holding is increasing or not reducing sufficiently, the Fund will consider divesting.

As a passive investor, the Fund accepts that it will hold companies of varying ESG quality due to the requirement to hold all securities in the target index. The committee believes that passive investing offers a number of benefits that need to be weighed against this and requires passive managers to demonstrate effective engagement, as is the case for active managers. It is important to note that ownership of a security in a company does not signify that the Oxfordshire Pension Fund approves of all of the company's practices or its products

The Committee is open to investing in Social Investments; investments where social impact is delivered alongside financial return. The Committee further believes that the goal of social impact is inherently compatible with generating sustainable financial returns by meeting societal needs. The Fund has made investments in this area and will continue to review whether further opportunities are available that offer an appropriate risk/return profile. Stakeholders' views are taken into account through the representation of different parties on the Pension Fund Committee, which includes a beneficiaries' representative, and the Local Pension Board, which consists of equal numbers of employer and member representatives.

The Fund will not use pension policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

One of the principal benefits, outlined in the Brunel Pension Partnership business case, achieved through the enhanced scale and resources as a result of pooling is the improved implementation of responsible investment and stewardship. Once established and fully operational the Brunel Company will deliver best practice standards in responsible investment and stewardship as outlined in the BPP Investment Principles.

Every portfolio under the Brunel Pension Partnership explicitly includes responsible investment and an assessment of how social, environment and corporate governance considerations may present financial risks to the delivery of the portfolio objectives. These considerations will therefore be taken into account in the selection, non-selection, retention and realisation of assets. The approach undertaken will vary in order to be the most effective in mitigating risks and enhancing investor value in relation to each portfolio and its objectives.

Policy on Exercise of Rights

As an investor with a very long-term investment horizon and expected life, the success of the Oxfordshire Pension Fund is linked to long term global economic growth and prosperity. Actions and activities that detract from the likelihood and potential of global growth are not in the long-term interests of the Fund. Since the Fund is a long-term investor, short-term gains at the expense of long-term gains are not in the best interest of the Fund. Sustainable returns over long periods are in the economic interest of the Fund.

The Fund recognises that encouraging the highest standards of corporate governance and promoting corporate responsibility by investee companies protects the financial interests of pension fund members over the long term. Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure and corporate governance, including culture and remuneration.

The Fund's commitment to actively exercising the ownership rights attached to its investments reflects the Fund's conviction that responsible asset owners should maintain oversight of the way in which the enterprises they invest in are managed and how their activities impact upon customers, clients, employees, stakeholders, and wider society.

The routes for exercising ownership influence vary across asset types and a range of activities are undertaken on the Fund's behalf by Fund Managers including engagement with senior management of companies, voting of shares, direct representation on company boards, presence on investor & advisory committees and participation in partnerships and collaborations with other investors. Where the Pension Fund invests in pooled vehicles it will seek to gain representation on investor committees if considered appropriate.

In practice the Fund’s Investment Managers are delegated authority to exercise voting rights in respect of the Council’s holdings. Voting decisions are fully delegated to fund managers, while recognising that the Fund maintains ultimate responsibility for ensuring that voting is undertaken in the best interests of the Fund.

The Fund will exercise its voting rights in all markets and its investment managers are required to vote at all company meetings where practicable. Market conventions in some countries may mean voting shares is not in the best interests of the Fund, for example where share-blocking is in operation.

The Fund has appointed an external company to monitor the Fund’s proxy voting at the whole fund level. The Fund receives reports detailing where votes cast by Fund Managers differ to the template vote recommended by the provider. The monitoring service also includes the production of an annual report for the Fund summarising and analysing the voting activity for the Fund including at Fund Manager level. These reports are used to inform the Fund and to enable discussion with Fund Managers where appropriate.

Our approach to Stewardship, including the exercising of rights attached to investments is outlined above and is consistent with the requirements of the UK Stewardship Code. During 2017 we will develop this further by becoming signatories to the code and clearly demonstrating our position in relation to all seven principles. As part of the Brunel Pension Partnership (BPP) we are actively exploring opportunities to enhance our stewardship activities.

March 2017

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OXFORDSHIRE LOCAL PENSION BOARD – 7 APRIL 2017

EMPLOYER MANAGEMENT

Report by the Director of Finance

Introduction

1. This report is the latest in a series of reports to this Board and the Pension Fund Committee on the issues associated with the management of scheme data from the Fund employers.

2. The current problems in respect of the timely and accurate receipt of scheme member data impacts on service delivery in a number of ways. One of the more high profile impacts is the delays in issuing Annual Benefit Statements. As covered in previous updates, we have again reported ourselves to the Pension Regulator due to the significant numbers of statements not issued in accordance with the regulatory timescale.

3. The Pension Regulator has now been in touch with us, and has asked us to set out a project plan to address the current issues, and to ensure we are in a position to send out the 2016/17 annual Benefit Statements by the end of August 2017. This Project Plan is included as an annex to this report.

Current Position

4. At the time of writing this report, the number of 2015/16 Annual Benefit Statements issued stood at 11,243 which represent 58% of the total active membership. .

5. The key employers where large numbers of statements are still to be issued includes:
   - Brookes University 2,129 Outstanding
   - Oxfordshire County Council 1,077
   - Academy Schools 3,951

6. In the case of the County Council, the outstanding number reflects outstanding data queries in respect of 12.5% of the active membership, with all other members having received a statement. For Brookes University and the Academy Schools, the outstanding number reflects all current active members, where the end of year returns were received late and/or with a high level of errors which prevented the files being loaded to the system.

7. Most of the outstanding data for the Academy Schools and for Brookes University has been received and staff in the Pension Services Team are undertaking final checks and looking to load the data and issue statements. The latest position on these will be reported to the Board at the meeting.

8. Unfortunately, the work with Brookes University and the Academy Schools has been delayed due to the long term absence on sick leave of a key member of the new employer team. This team was set up following approval of additional resources by the Pension Fund Committee in December 2016, but has not been fully operational since it was established due to the absence.

9. In addition to the delays in issuing the annual benefit statements, there is also a significant backlog of work in other areas, most notably the processing of leaver files and those re-employed members. At the time of writing this report, the outstanding number of files for these two areas was 4,344 and 1,374 respectively. These delays do not impact on pension payments, but do represent a breach of statutory timescales.

Action Plans for Improvement

10. As a consequence of the report for the second year running to the Pension Regulator for significant delays in the issuing of the annual benefit statements, we have been in correspondence with the Regulator about next steps.

11. The Regulator is currently looking at both education and enforcement in response to reported breaches of regulatory requirements. The Regulator though does have the right to impose fines for non-compliance.

12. In the case of the Oxfordshire Pension Fund, the Regulator has been keen to understand what has led to the problems with the timely issue of statements, and more importantly what actions are being taken to avoid similar problems in respect of the 2016/17 annual benefit statements. Specifically, the Regulator required us to submit an Action Plan by 31 March 2017. This is included as an annex to this report.

13. Key elements of the action plan include:

- The establishment of the employer team to provide a clear focus for the work on data returns and working with individual scheme employers.
- Short term improvements in the monthly data return to take account of concerns raised by scheme employers.
- Clear rules about what checks should be applied by the employers to their data to ensure it is accurate before submission.
- A clear vetting process to be applied by the employer team to returns submitted to check the completeness of the return, the fact it has been submitted in the correct format, and the reasonableness of the data included.
- A clear process for returning submissions which fail the vetting process, which includes clear information on what has caused the fail, and the action required by the employer to correct the submission.
- A clear escalation process by which failure to send a correct submission is quickly escalated to senior officers within the employer for action.

- Application of the current administration strategy and in particular the use of fines to employers for continued non-compliance with the Fund's requirements.
- A review of the training programme for both new and established employers to support them in delivering their responsibilities.
- A longer term review of the returns required by scheme employers, including examining the scope for moving towards a more standard set of returns whereby employers/payroll providers in more than one Fund can develop a single set of returns, and the scope for automating the returns process through i-connect.

14. In line with the Regulators requirements, the Action Plan contains clear target dates for the agreed actions, as well as key performance indicators to enable progress against these actions to be monitored. Future meetings of this Board will receive copies of these indicators to enable the Board to monitor our progress in delivering the agreed actions.

15. The Action Plan contained as an annex focusses specifically on the issues of the late publication of annual benefit statements, as that is the area being monitored by the Pension Regulator. We have also developed actions to address the backlog in other areas.

16. A key issue has again been to identify suitable resources to undertake the work to clear the backlog. With the agreement of the Pension Fund Committee in December 2016, we have joined one of the national LGPS procurement frameworks to enable us to procure additional resources from external companies to undertake the work.

17. The backlog of queries goes back over a number of years, although the majority are since the implementation of the new CARE scheme from 1 April 2014. For the oldest cases, it is unlikely that we will be able to fully reconcile the information held on the pension record with that held by the employer, given the passage of time. The Action Plan therefore focuses on the process to confirm information from existing pension records where there is a missing return from the employer, or where there is a discrepancy between the information held on the pension record and the return from the employer.

18. For the more recent records, the action plan reviews tolerance levels in respect of discrepancies in the information from the employer and the individual's pension record, particularly where there is alternative further information to support the employer's return e.g. where a material increase in final pay above the previous figure held on the record is supported by a corresponding increase in pension contributions received, or there is a file note referencing a promotion.

19. In all cases, the individual scheme member has the right to challenge the data used in any calculation and to provide any evidence to support an alternative calculation.

20. The Board are invited to note the latest position on employer management and the proposed actions to address the issues, and to offer any comments to the Pension Fund Committee.

Sean Collins
Service Manager (Pensions) March 2017

Division(s): N/A

PENSION FUND COMMITTEE – 10 MARCH 2017

RISK REGISTER

Report by Chief Financial Officer

Introduction

1. At its meeting on 11 March 2016, the Committee agreed that the risk register should form a standard item for each quarterly meeting. A copy of the report also goes to each meeting of the Pension Board for their review. This report sets out any progress on the mitigation actions agreed for those risks not yet at target, and identifies any new risks which have arisen since the register was last reviewed.

Progress since Last Committee

2. The risk register presented to the March 2016 committee meeting was the first produced in the new format, which introduced the concept of a target level of risk and the need to identify mitigation action plans to address those risks that were currently not at their target score. Many of the action plans were focused on long term improvements, and were dependent on the information to be produced following the 2016 Valuation Exercise.

3. As covered elsewhere on this agenda, the Actuary has now largely completed his work on the 2016 Valuation, and work is now underway to address those long term risks which were currently not at their target score. This work, which forms a major part of the 2017/18 Business Plan includes

   - the requirement to complete a new cash flow model with the Actuary;
   - discussions with the major employers to understand their future strategic direction and the impact on LGPS membership;
   - a review of employer covenants
   - a more robust process to ensure the timely and accurate receipt of scheme member data from employers.

4. In the short term, the provisional results of the 2016 Valuation alongside the on-going cash flow monitoring have indicated that the likelihood of any key risks has not increased over the past year. The investment returns over the last valuation period exceeded those assumed in the valuation, thereby leading to a reduction in the funding shortfall. Cash flow continues to be positive, with a monthly average of just under £1m more by way of contributions than is paid out in benefits, reducing the risk of emergency sales of assets.

5. As covered in the December report, the delays in sending out the Annual Benefit Statements by the statutory deadlines has highlighted the resourcing issues associated with the backlog of work. Work is progressing to appoint staff to the new structure agreed by the December Committee, as well as bring in external resources to address the current backlog of work. However, until the backlog has been cleared to a manageable level, there remains the risk of delays in meeting our statutory responsibilities and the intervention of the Pension Regulator.

6. No new risks have been added to the register this quarter.

RECOMMENDATION

7. **The Committee is RECOMMENDED to note the current risk register.**

Lorna Baxter
Chief Finance Officer

Contact Officer: Sean Collins, Service Manager, Pensions; Tel: 07554 103465

February 2017

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.	June 2017	4	1	4	June 2017	→
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.	June 2017	4	1	4	June 2017	→
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.	June 2017	3	1	3	June 2017	→
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	Actual results varies 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	Financial	Poor Control	Long Term -	Finan	Review of	3	1	3			3	1	3		→

	through fraud or misappropriation.		Processes within Fund Managers and/or Custodian	Pension deficit not closed	cial Manage	Annual Internal Controls Report from each Fund Manager. Clear separation of duties.										
7	Employer Default - LGPS	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 all employers where there is no statutory covenant. Meeting held with actuaries	June 2017	2	2	4	June 2017	→
8	Inaccurate or out of date pension liability data – LGPS and FSPS	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. Actions in progress	March 2017	3	1	3	Mar 2017	→
9	Inaccurate or out of date pension liability data – LGPS and FSPS	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	March 2017	3	1	3	Mar 2017	→

										escalation issues to ensure data issues are resolved at earliest point, including new charges, and improved training/guidance. In progress						
10	Insufficient resources to deliver responsibilities-– LGPS and FSPS	Administrative	Budget Reductions	Breach of Regulation	Service Manager	Annual Budget Review as part of Business Plan.	4	3	12	Need to address backlog of work which is impacting on ability of staff to meet statutory deadlines. External resources to be employed.		4	1	4		↓
11	Insufficient Skills and Knowledge on Committee – LGPS and FSPS	Governance	Poor Training Programme	Breach of Regulation	Service Manager	Training Review	4	2	8	Develop Needs Based Training Programme.	June 2017	4	1	4	June 2017	→
12	Insufficient Skills and Knowledge amongst – LGPS and FSPS Officers	Administrative	Poor Training Programme and/or high staff turnover	Breach of Regulation and Errors in Payments	Service Manager	Training Plan. Control checklists.	3	1	3			3	1	3		↑
13	Key System Failure – LGPS and FSPS	Administrative	Technical failure	Inability to process pension payments	Pension Services Manager	Disaster Recovery Programme	4	1	4			4	1	4		↑
14	Breach of Data Security – LGPS and FSPS	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	Direct Intervention by Secretary of State	Service Manager	Full engagement in Project Brunel	5	1	5			5	1	5		→

			administering authorities.													
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	Servi ce Mana ger	Full engagement in Project Brunel	4	1	4			4	1	4		→
17	Significant change in liability profile or cash flow as a consequence of Structural Changes	Financial	Significant Transfers Out from the Oxfordshire Fund, leading to loss of current contributions income.	In sufficient cash to pay pensions requiring a change to investment strategy and an increase in employer contributions	Servi ce Mana ger	Engagement with One Oxfordshire project to ensure impacts fully understood	4	2	8	Work with Fund Actuary to Understand Potential Implications to feed into project and investigate potential changes to investment strategy that can be implemented within required timescales		4	1	4	Mar 2017	→
18	Insufficient Skills and Knowledge on Committee – LGPS and FSPS	Governance	Change in Committee membership post May 2017 elections.	Breach of Regulation	Servi ce Mana ger	New Member Induction Programme	4	2	8	Assessment of need post election and induction programme reviewed to ensure meets requirements.		4	1	4	June 2017	New