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OXFORDSHIRE
COUNTY COUNCIL

To: Members of the Local Pension Board

Notice of a Meeting of the Local Pension Board

Friday, 20 October 2017 at 10.30 am

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

P G Clark

Peter G. Clark
Chief Executive

October 2017

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

Membership

Chairman – Mark Spilsbury

Scheme Members:

Alistair Bastin	Stephen Davis	Sarah Pritchard

Employer Members:

Councillor Bob Johnston	David Locke FCA	District Councillor Sandy Lovatt

Notes:

- ***Date of next meeting: 19 January 2018***

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

2. Apologies for Absence

3. Declarations of Interest - see guidance note opposite

4. Petitions and Public Address

5. Minutes

To approve the minutes of the meeting held on 21 July 2017 (**LPB5**) and to receive information arising from them.

6. Employer Management

This report **(LPB6)** is the latest in the series of reports to the Pension Fund Committee and this Board on the Fund's approach to employer management. It covers the latest position in respect of our regulatory requirement to issue annual benefit statements to all active and deferred scheme members by 31 August 2017, the plan to issue the outstanding statements, and the key learning points and actions going forward.

The Board is 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.

7. Review of the Annual Business Plan - 2017-2018

At its meeting on 15 September 2017, the Pension Fund Committee received its first report to review progress against the Annual Business Plan.

The Board is invited to review the attached report (LPB7) and offer any views back to the Committee.

8. Risk Register

This is the latest Risk Register **(LPB8)** as presented to the Pension Fund Committee on 15 September 2017, including the changes made following the comments of this Board at its last meeting.

The Board is invited to review the report and offer any further views back to the Committee.

9. Brunel Pension Partnership

There will be an oral report on the latest position in respect of the development of the Brunel Pension Partnership. It will include the timescales for the transition of the Fund's custody arrangements and the latest position on the development of the new investments portfolios.

10. Items to include in report to the next Pension Fund Committee

Following the request from the new Chairman of the Pension Fund Committee, there is now a standing item on the Committee's Agenda for this Board to report back to Committee.

The Board is invited to confirm the issues which they wish to include in their latest report to the Committee.

LOCAL PENSION BOARD

MINUTES of the meeting held on Friday, 21 July 2017 commencing at 10.30 am and finishing at 12.10 pm

Present:

Voting Members:

Alistair Bastin
Stephen Davis
Councillor Bob Johnston
David Locke FCA
Sarah Pritchard

By Invitation: Mark Spilsbury, Head of Pensions, Gloucestershire LGPS Pension Fund

Officers:

Whole of meeting — Sean Collins, Service Manager (Pensions); Sally Fox, Pensions Manager; Julie Dean (Resources)

The Committee considered the matters, reports and recommendations contained or referred to in the agenda for the meeting, together with 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.

24/17 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.

The previous Chair of the Board, Graham Burrow, had now retired from the service and members of the Board were advised that his former colleague, Mark Spilsbury, who was now employed at Gloucestershire County Council as Head of Pensions of the Gloucestershire LGPS Pension Fund, was willing to take up the appointment as independent Chair of this Board. As with the previous arrangement, Mark had no links with the Oxfordshire Fund and it would be a reciprocal arrangement with Gloucestershire County Council, at no extra cost to this Authority.

It was therefore proposed, and seconded, that the Board appoint Mark Spilsbury as independent Chair of the Oxfordshire Local Pension Board.

It was **AGREED**:

(a) to appoint Mark Spilsbury as 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 Spilsbury's appointment.

25/17 WELCOME BY CHAIR
(Agenda No. 2)

The Chair welcomed all to the meeting.

26/17 APOLOGIES FOR ABSENCE
(Agenda No. 3)

There were no apologies for absence.

Sean Collins gave an update on action being taken to fill the vacancy for a new Employer Member to replace District Cllr Roger Cox.

27/17 DECLARATIONS OF INTEREST - SEE GUIDANCE NOTE OPPOSITE
(Agenda No. 4)

There were no declarations of interest.

28/17 PETITIONS AND PUBLIC ADDRESS
(Agenda No. 5)

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

29/17 MINUTES
(Agenda No. 6)

The Minutes of the Meeting held on 7 April 2017 were approved and signed as a correct record.

Matters Arising

Sean Collins reaffirmed that he was working with the actuary on future cash flow, and the implications, going forward 20 to 30 years. A report would be taken to the next meeting of this Board.

With regard to Minute 21/17 – Risk Register – relating to the possible risk to the Committee of a loss of knowledge and experience since the recent County Council election, Sean Collins explained that a comprehensive training session had been given in the morning and immediately before the first meeting. He added that he was also working up a schedule for a full day's training before Christmas this year, to which Board members would also be invited. He added also that there were a number of people sitting on the Committee with a reasonable pool of knowledge.

30/17 ANNUAL REPORT OF THE WORK OF THE BOARD - 2016 - 17
(Agenda No. 7)

Members of the Board commented on a draft report of the work of the Board for 2016-17, prior to its submission to the Pension Fund Committee at its next meeting.

The Board received assurances that although the report was meant to take a retrospective look at the work of the Board during the last year, the Committee was already thinking about its work plan for the year ahead which was to:

- continue to engage with developments regarding the Brunel Pension Partnership; and
- continue to keep employer issues and data accuracy as a focus.

The Board looked forward to engaging with the Committee during the next year and welcomed a suggestion from the Chairman of the Committee that a separate, regular item be reserved for the Board on the Committee's future Agendas to enable more engagement to take place.

31/17 EMPLOYER MANAGEMENT
(Agenda No. 8)

The Board welcomed Sally Fox, Pensions Manager, who gave an update on where she envisaged the Team would be by the end of August in relation to the despatch of Annual Benefit Statements. She reported that currently returns had been received from 159 employers and 25 were still outstanding. Of these 145 had been cleared and had balanced, and 126 had subsequently been loaded on the system. 68 employers had ready to run statements. The pensions Regulator had been updated that week.

She reported that work had been undertaken to identify errors much earlier in the process than last year. The principle issues outlined were as follows:

- Employers were giving unclear information where it concerned people with multiple jobs. This required undertaking a 'matching up' process which was difficult and labour intensive. However, progress was being made;
- Outsourcing was also a problem when parts of a company were situated in different areas, in that data could sometimes not be matched, the problem being that multiple jobs had not been correctly identified and data was thus crossing over jobs;
- The payroll for the Academies was taking a long time to resolve;
- There was more concern around those larger employers who had not yet made a return.

Sean Collins reported that the Regulator was moving towards, and would be imposing this year, an approach which was more fines based. This could mean that the Fund could be liable if the Pensions Team had not shown that it had followed up properly with employers.

The Board asked what proportion of statements would be sent by 31 August and how could the Board assist. Sally Fox responded that all depended upon employers answering the Team's queries and on them giving the correct information. She added that she was confident that the Team would beat the 50% figure issued last year by 31 August, it would prove a challenge to be much higher than 75%. The Team had been working with UNISON on this issue and employers had been reminded that training was available to assist them. Mark Spilsbury added that Gloucestershire was in a similar position and had scaled up their resources to concentrate on the Annual Benefit Statements over the last 2 years, with the result that most were going out within the deadline. However, this had been at a cost to other Performance Indicators. His Committee had accepted that the Pensions Team were making progress.

A member of the Board made reference to the use made by other Pension Funds to the 'I Connect' system, which appeared to reduce the workload in respect of the validation process. Sally Fox responded that whilst she accepted that the validation process was automated, this did not change the fundamental problem which was that data had to be correct and vetted, and if it was incorrect it would be returned. The key focus had to be therefore in ensuring that the submission from employers, whether manual or electronic, was completed in a timely and accurate way.

A member of the Board questioned whether it was possible for data to be simplified to give only one payment reference for employees with more than one job. Sally Fox clarified that under the Regulations, each job had to be treated as a separate employment for pension purposes, with the scheme member entitled to opt out of the pension scheme in respect of one or more jobs, and potentially to receive payment of pension at different times if employment in the separate jobs did not end simultaneously. For that reason, data for each job did need to be clearly identified so that the separate records could be maintained.

A member reported that the Pension Regulator was trying to set up a data template which would be vaguely consistent across all funds. Sally Fox pointed out that each authority in England and Wales had its own discretionary policies which inevitably produced different data requirements. Sean Collins added also that problems with data and its standardisation was a national problem and that a sub-committee of the Scheme Advisory Board had begun to hold discussions around this.

The Board re-affirmed its previous decision to call in particular employers in order to learn and understand the problems encountered from their perspective, together with their successes; and what could be changed by the Committee, or by recommendation to the Government.

In response to a query about whether there were sufficient resources within the Pensions Team to undertake this, Sean Collins explained that there was a need to ensure that staff were recruited and trained, and then retained, to enable the Team to solve and manage issues going forward. The recent new office base in the Oxford Business Park had improved staff retention and had given the Team a stable base.

The Committee had also agreed to procure additional resources under the LGPS Procurement Frameworks to address some of the issues associated with the current backlog of work/queries.

The Board **AGREED** that the letter to employees explaining why their annual benefit statement was late, as agreed at the previous meeting, be copied to the Trade Unions; and to include within the letter some advice that, if appropriate, to go to their Trade Union representative if they were concerned. Sean Collins undertook to alert employers prior to the letter being despatched.

32/17 RISK REGISTER

(Agenda No. 9)

At its meeting on 11 March 2016, the Pension Fund Committee had agreed that the risk register should form a standard item for each quarterly meeting. A copy of the report would also go to each meeting of the Board for review and its comments would then be included within the report made to the next meeting of the Committee.

The Board then considered the report, together with the Risk Register (LPB9), which went before the Pension Fund Committee at its meeting on 23 June 2017. At this meeting it had been decided to amend the 'direction of travel' column in the risk register to provide a narrative statement in order to set out a clearer picture in terms of the mitigation plan. Also at this meeting the Deputy Chairman of the Pension Fund Committee suggested that a 'deep dive' be conducted into a small number of the risks. Since then, Sean Collins had discussed this with his officers and it was suggested that a quarterly report on the Business Plan be submitted to each meeting of the Committee, which will, in turn, address issues contained within the whole of the risk register. This would then meet the request made by the Chairman of the Committee for realistic action plans to match the resources available.

Members of the Board queried the current risk scores given to risks 4, 8 and 10. In respect of the score for risk 4, the Board expressed their concern about the likelihood score given to the risk of Fund Managers under-performing their targets and therefore the pension fund deficit not being reduced as planned. Their concern resulted from the current performance reports which indicated a number of managers were behind targets over both the short and longer terms, and therefore felt that the likelihood score should be increased to either 3 (likely) or 4 (very likely) from the current score of 2 (possible).

In respect of the risk 8 score the Board again felt that the likelihood score of inaccurate or out of date pension liability data as a result of late or incomplete employer returns was understated. This view was based on the number of late or incomplete returns that had been reported at the previous item, and the fact that a further regulatory breach needed to be reported to the Regulator, which may lead to fines.

The third risk score queried by the Board was that of Risk 10 for the risk of insufficient resources to deliver the Fund's regulatory responsibilities. This score reflected the current pressures on the Team resulting from the issues of data quality and the backlog of queries. He paid tribute to the good work of the Team in their endeavours.

The Board **AGREED** that all the above queries be included within the Board's report to the Committee.

33/17 BRUNEL PENSION PARTNERSHIP

(Agenda No. 10)

The Board were informed of the latest position in respect of the development of the Brunel Pension Partnership. Sean Collins circulated a copy of the press release informing the media of the establishment of the new company, which took place on 18 July 2017. The Shadow Oversight Board had also ratified the appointments of all four executive positions and 4 non-executive positions. The company Board had then met on 18 July to sign documents for the contracts. He added that there was a considerable workload to be completed by the Client Group prior to the transfer of assets to Brunel on 1 April 2018.

The Board asked whether the question of whether there should be an exemption from the payment of stamp duty had been resolved with the Treasury. Sean Collins responded that this was one of the first tasks for the new Chief Investment Officer to address.

The Board thanked Sean Collins for his report.

34/17 ITEMS TO REPORT

(Agenda No. 11)

The question of insurance arrangements for meetings of the Board was raised by a Board member. Sean Collins stated that the consensus at Brunel meetings was that as Board were not decision-making meetings, the issue of liability was not likely to arise. Therefore insurance cover was not warranted. The Board expressed some concern that they could still be held liable if it failed to point out any regulatory breach by the Committee, but again it was felt that in such instances, any claim for damages would first be made against the Pension Fund Committee for the actual breach.

The Board decided the following issues should form the basis of the first Board report to go forward to the next meeting of the Pension Fund Committee:

- A general update on administration issues
- Support for progress of the Business Plan
- To query and request the re-examination of risk scores 4,8 and 10
- Employer Management - assistance to be given by the Board and the Trade Unions to the Pensions Team in relation to the engagement with employers.

35/17 DATES OF FUTURE MEETINGS

(Agenda No. 12)

Members of the Board were asked to note the following future dates for both the Pension Fund Committee and the Board:

<u>Local Pension Board (all on a Friday at 10.30am)</u>

20 October 2017
19 January 2018
20 April 2018
13 July 2018
26 October 2018
18 January 2019

<u>Pension Fund Committee (all Friday meetings, variable start time depending on training given prior to meetings)</u>

15 September 2017
1 December 2017
9 March 2018
8 June 2018
14 September 2018
7 December 2018
8 March 2019

.... in the Chair

Date of signing ....

(a) FIELD
(b) FIELD_TITLE

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OXFORDSHIRE LOCAL PENSION BOARD – 20 OCTOBER 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. As previously discussed, one of the key performance indicators by which we can monitor the quality of scheme data is the number of Annual Benefit Statements issued by the statutory deadline of 31 August 2017. This report updates the position as at 31 August, 2017 and discusses some of the lessons learned from this year's exercise and some of the changes proposed to further improve the position going forward.

Position as at 31 August 2017

3. As at 31 August 2017, we had 19,261 active records on the pensions system. This number reflected all the starter and leaver forms received from scheme employers and processed by the pension services team. Any outstanding starter or leaver forms would amend the total number of active members who should have received an Annual Benefit Statement.

4. We had issued 14,821 statements to active members by the statutory deadline of 31 August 2017. This represents 77% of the active membership. This is a significant improvement on the figures of 0% by 31 August 2015, and 50% for 31 August 2016. It does though still fall short of the Pension Regulator's expectations, and we therefore have reported a further breach against our regulatory responsibilities.

5. There were three main groups of staff who did not receive their Annual Benefit Statement by the end of August as follows:

    - Scheme members where the pension services team has identified a query on the scheme members record, and are in the process of resolving this query. Some of these queries are long standing, and may relate to discrepancies in pay levels between years, missing data etc. In total, the records of 1,513 active members had a flag set indicating an outstanding query. Just under half of these queries related to employees of the County Council, with other significant numbers at Oxford Brookes University, Oxford City Council, Activate Learning and a number of Academy Schools.
    - Scheme members where we had not received data of sufficient quality from the scheme employer in time for it to be loaded into

the system before the deadline to issue statements. In a number of these cases, work is still on-going with the scheme employer to resolve the outstanding data issues to allow information to be loaded into the system. In total, there were 2,023 active scheme members employed by scheme employers where no active members received a statement by the end of August. The majority of scheme employers within this group are Academy Schools, with the largest numbers at the River Learning Trust and The Oxford Diocesan Trust (over 800 scheme members between the two employers). Other than academy schools, scheme employers in this group included Carillion, Orders of St John and the Reablement Service.

- The majority of the third group of impacted staff were 818 records at Oxford Brookes University where staff are employed on variable hour contracts, and considerable work has been on-going to ensure the accuracy of individual records. The other main section in this group were 78 staff at Vale Academy Trust where the delay in producing statement related to the work required to re-align records following the transfer of a further academy school into the Trust.

6. Since the 31 August 2017, a further 465 statements have been issued up to the point of writing this report, with the majority of these relating to the Oxford Brookes University employees covered by the third group above. A further 55 statements have also been issued to employees at the County Council where the queries on their individual records have been cleared. It is hoped to issue the rest of the outstanding statements (21%) before the end of this calendar year.

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Key issues and Action Plan for 2017/18

7. Officers within the Pension Services Team have completed one workshop to identify the key issues from the administering authority's perspective which lead to the delays in issuing statements this year. We are also in the process of setting up face to face meetings with some of the key employers to understand what worked well, and where they would like to see further improvements. These meetings will include those employers with the highest numbers of outstanding statements, as well as Abingdon and Witney College who have been identified as one with the greatest improvements in results over the last couple of years. Further reports on the outcome of these sessions will be brought back to this Board, and individual employers invited to meet the Board where appropriate.

8. The issues identified within the initial workshop included:

- A lack of engagement from some employers, both in terms at attendance at meetings and in responding to requests for information
- A lack of understanding with some employers about the information they are required to return, and the impact on this information where they make changes to their payroll arrangements mid year.

- The impact of queries raised in previous years, which remain outstanding, which then impact again on the current year’s records
- The backlog of work within the team which meant that insufficient checks had been undertaken on the monthly returns from employers such that all the work was concentrated in the period when we were also receiving the end of year returns
- The time period for resolving end of year queries is very limited, particularly in respect of the educational establishments within the Fund, where the nature of their work means a number of key staff are on leave during the final few weeks before the 31 August deadline.
- There are a number of key challenges facing new employers, and ensuring records for scheme members impacted by outsourcings or transfers within the academy schools settings are properly aligned.

9. It is acknowledged that these issues place pressure on staff in both the Pension Services team and the individual scheme employers and their payroll providers. A number of potential actions were therefore also proposed to discuss with the employers as part of the face to face meetings. These include:

- The introduction of compulsory briefings prior to the start of the end of year process for those scheme employers who have not previously engaged with the Fund, or who have experienced significant difficulties in previous years in making timely and accurate returns
- Greater use of the charging provisions as set out in the Administration Strategy to encourage employers to ensure they have sufficient resources and processes in place to provide timely and accurate data
- A review of the current resources allocated to checking the monthly returns to ensure earlier escalation of missing returns or poor quality data, such that these issues are largely resolved before the start of the end of year process
- A provisional run of key data loads to again identify issues at an earlier point in the cycle, providing more time for queries to be resolved, and reducing the number of errors in subsequent data submissions
- Look at moving the deadline for the end of year returns from 30 April to 19 April in line with the deadline for the monthly return for March.
- Face to face sessions with employers to talk though known issues (particular issues identified include allocation of payroll references, employees with multiple employments and/or variable hour contracts, assumed pensionable pay in respect of certain staff absences)
- Build in all key issues into the new employer welcome pack so they are clear from the start on their key responsibilities. Pack to include process where staff are transferring from an existing scheme employer as a result of outsourcing or changes relating to academy school structures
- As part of process to issue outstanding annual benefit statements for 2017, review all records where query indicator is set.

10. Alongside this work, Pension Services are continuing to investigate the option of introducing the iConnect system which would automate the monthly submission of data from employers. Sessions have already been held with the system supplier and follow up sessions are to be arranged with other Funds who have already implemented iConnect to pick up areas of best practice and common problems in the implementation of the system.

11. A key issue that we need to explore is the additional work required for scheme employers in establishing the initial routine to extract data from their payroll systems to populate the iConnect file, and how the Fund can support this process. It is important to note that iConnect will not resolve many of the issues scheme employers face where their systems and processes are not set up to deliver the requirements of the Pension Fund.

12. What iConnect will deliver though is a system which will cut out the majority of errors caused by the current manual processes, as well as provide immediate feedback to scheme employers where files are submitted with missing or incorrectly formatted data, allowing earlier resolution of issue. It will also provide an automated tool to chase scheme employers where monthly returns are not submitted against deadlines.

13. The Board is 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.

Lorna Baxter
Director of Finance

Sean Collins, Service Manager (Pensions), Tel: 07554 103

October 2017

OXFORDSHIRE
COUNTY COUNCIL
CHIEF EXECUTIVE'S OFFICE
www.oxfordshire.gov.uk

Division(s): N/A

PENSION FUND COMMITTEE – 15 SEPTEMBER 2017

REVIEW OF THE ANNUAL BUSINESS PLAN 2017/18

Report by Director of Finance

Introduction

1. This report sets out a review of the progress against the key service priorities included in the annual business plan for the Pension Fund for 2017/18. As many of these priorities directly link to the mitigation plans for the key risks within the Fund's Risk Register, the report provides more detail on the status of these risks.

Development of the Brunel Pension Partnership

2. The first of the five service priorities agreed as part of the annual business plan was to contribute to the successful establishment of the Brunel Pension Partnership such that the first transfer of assets can take place in April 2018.

3. The key actions envisage were to be a party to the development of the legal documents, the FCA application, the recruitment of key directors/staff, the recruitment of key third parties including the Administrator/Custodian and the development of all key company policies. Separately the Committee need to review their constitution and scheme of delegation.

4. Following approval of the key legal documents at the June meeting of this Committee, all 10 founding Administering Authorities sealed the documents to enable the Brunel Pension Partnership Limited to be established on 18 July 2017. The Shadow Oversight Board which met on the morning of 18 July 2017 also ratified the appointments of the Executive Team, so that the company had a full Board of 8 at the time of its formation. The company is now in the process of recruiting to the remaining positions, with Officers from Oxfordshire amongst representatives of the Client Group who have joined interview panels.

5. At the time of writing the report, the procurement of the Administrator/Custodian is at the stage of finalising contracts with the preferred supplier. BPP Ltd is leading on the work on the Administrator contract, with the client funds supported by Osborne Clarke leading the work to conclude the standard custodian contract each of the 10 administering authorities will need to enter. Oxfordshire are also represented on the Custody Sub-Group established to oversee the transition to the new custodian, with Oxfordshire due to transition before the end of this financial year.

6. In respect of the change to the Committee's own governance arrangements, these were noted in the review of policies report to the June meeting, and will be confirmed at the March 2018 meeting in advance of the formal establishment of the new arrangements with BPP Ltd.

7. We are currently planning another engagement day where Committee and Board members from Oxfordshire, Buckinghamshire and Gloucestershire will be invited to meet together to receive presentations from Fund Officers as well as key staff from BPP Ltd on the latest developments within the Brunel Pension Partnership and the new operating model. A provisional date of 17 November in Oxford has currently been set for this session.

8. At the present time, this service objective should be achieved in line with the initial business plan.

Cash Flow Modelling

9. The second service priority was to 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. There were three key aspects to this element of the work plan:

   - working with the Fund Actuary to develop a modelling tool to allow future liability patterns to be better understood, and the impact of structural changes proposed by large employers identified
   - working with the major scheme employers to understand any changes in likely scheme membership as a consequence of their strategic plans
   - developing a clear understanding of the investment returns of the various asset classes to provide a better match to the liability profile

10. The Fund Actuary provided an updated cashflow model in mid-August 2017 following the completion of the 2016 valuation exercise. Officers are reviewing the contents of the model and assumptions used and will present a report at the December Committee meeting setting out the outputs from the model and any implications.

11. In respect of the work with major scheme employers, this is currently focussed on the work of the District Councils, with significant out-sourcings currently being planned by Oxford City Council and West Oxfordshire District Council. We are not yet in a position to complete the modelling work on the impact of these changes.

12. The work on developing the new portfolios to be offered by the Brunel Pension Partnership is a key aspect of delivering the third element of this priority. This work which begins in detail later this month now BPP Ltd have appointed the first of the key staff to their investment team, will review the initial portfolio proposals and ensure all have clearly identified investment objectives, which between them cover the needs of our investment strategy and liability profile.

13. In the short term, Officers monitor the cash flow position on a monthly basis, and this shows we are still in a healthy position with c£750,000 more resources collected each month in respect of member's benefits than paid out. This, plus the cash reserves held, provides short term protection against the risk that the Fund will have to sell assets at short notice to meet pension liabilities. The work with the Fund Actuary though needs to progress to enable this work to be more proactive in understanding future cash flow models, and develop a longer term investment strategy which enables the implementation of any required changes in a controlled and planned way.

Managing Pension Fund Data

14. The third service priority within the 2017/18 business plan was to 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.

15. The business plan identified four key elements to this work:

    (a) Further training to fully understand the requirements of the Pension Regulator
    (b) A review of current data collection processes looking to automate these wherever possible, and standardise them in line with best practices across other Funds.
    (c) Development of more meaningful management reports on data quality
    (d) Work with scheme employers to ensure responsibilities are fully understood, and to address any key concerns within the current arrangements.

16. We are currently looking to agree a training session with the Pension Regulator as part of a full days' training session for Committee and Board members.

17. We have had initial meetings with Aquila Heywood (the system supplier to the majority of LGPS Funds) regarding the automation of data collection and a greater standardisation of current processes. We will now look to kick off a formal project to look at the implementation of iConnect as the time pressures associated with the requirement to issue the Annual Benefit Statements by the end of August have reduced.

18. At present incoming data is reviewed manually with returns being sent back or queried by exchange of emails. This is cumbersome to manage as well as making the collating of data for management reporting more difficult than necessary. As part of the implementation of iConnect the fund will be working with the software suppliers to ensure that there is robust reporting around the monthly data collection processes.

19. Following the passing of the end of August deadline for the issuing of the Annual Benefit Statements we are now looking to run a number of review meetings to look at what went well and what needs further improvement. The Pension Board has expressed a wish to be involved in this process and to invite scheme employers to future Board meetings to discuss both best practice and areas for improvement.

Monitoring Fund Manager Performance against Committee Policies

20. The fourth service priority was to 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. This priority was added to the business plan in light of a number of concerns expressed by scheme members about the lack of transparency of the current arrangements, and in particular the need to measure the success of fund Manager engagements with the companies they have invested in on our behalf.

21. The first part of delivering this priority was the publication of our first Investment Strategy Statement which sets out the Committee's approach to managing the environmental, social and governance (ESG) risks associated with the Fund's investments. The Statement made it clear that this Committee expects its Fund Managers to integrate the consideration of all ESG risks including climate change into their investment decisions.

22. We are now working with our current Fund Managers and with our partners in the Brunel Pension Partnership, including the Environment Agency who are an accepted leader in the ESG field, to develop reporting tools that can evidence that Managers are successfully implementing our policies. The issue was included as a key element in the due diligence meetings with the potential Administrators/Custodians, and work has already started with the preferred supplier to develop their reporting tools. Oxfordshire have a member on the Stewardship sub-group that was been set-up for Brunel where ESG issues are being discussed and potential actions discussed.

23. During 2016/17 Officers have met with a number of the Fund's investment managers and have discussed their ESG engagement and voting activity. This has included ways in which managers can better articulate the activities they are undertaking and how the success of these activities are measured and reported. Officers have also been exploring with third parties ways to monitor and report on ESG related activity at the Fund level.

Scheme Member Communications

24. The final priority identified in the 2017/18 Business Plan was improving scheme member communications through the full implementation of members self-service. This would enable scheme members to log into their own pension account to amend personal data, and view key information in respect of their own pension.

25. The roll out of member self-service to pensioner members was successful undertaken during April 2017. A total of 3643 pensioners were happy to move to the new on-line service representing just under 23% of pensioner membership. Since this date beneficiaries have made just over 800 data amendments. Following a review of this first stage of the project, we are now planning the next stages to bring both active and deferred members onto the new arrangements.

RECOMMENDATION

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

(a) note the progress against the key service priorities identified in the 2017/18 Business Plan, and
(b) agree the date of the next Brunel Engagement Session as 17 November 2017 at County Hall, Oxford.

Lorna Baxter
Director of Finance

Contact Officer:
Sean Collins; Tel: 07554 103465

August 2017

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Division(s): N/A

PENSION FUND COMMITTEE – 15 SEPTEMBER 2017

RISK REGISTER

Report by the Director of Finance

Introduction

1. At their 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. The comments from the Pension Board are included in their report to this meeting and the Committee are invited to consider the current risk ratings in respect of the risks queried by the Board.

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. This report sets out any progress on the mitigation actions agreed for those risks not yet at target, and identifies any changes to the risks which have arisen since the register was last reviewed. Since the June meeting, the column previous headed direction of travel has been amended to provide a narrative statement which hopefully sets out a clearer position in terms of the mitigation plan.

3. A number of the mitigation plans are directly linked to the key service priorities identified in the Annual Business Plan, and this report should therefore be considered in conjunction with the report which reviews progress against the business plan elsewhere on this agenda.

Comments from the Pension Board

4. As noted in the report from the Pension Board, the members of the Pension Board queried the current risk scores given to risks 4, 8 and 10. In respect of risk 4, the Board were concerned about the likelihood score given to the risk of Fund Managers under-performing their targets and therefore the pension fund deficit not being reduced as planned. Their concern resulted from the current performance reports which indicate a number of managers are behind targets over both the short and longer terms, and therefore felt that the likelihood score should be increased to either 3 (likely) or 4 (very likely) from the current score of 2 (possible).

5. In considering any change in likelihood score, the Committee also need to consider the impact score, which is currently shown as 3 moderate, which indicates a financial risk of £1m to £10m, or a risk of an adverse story in the

local media. The combination of both scores gives an overall risk score of 6, which is seen as the target score for this risk.

6. The latest performance report at the time the Board considered the risk register did indeed show that as a whole the Fund Managers had under-performed against their benchmarks in the most recent quarter, and over the last 10 years. Over 5 years, the managers had collectively met the benchmark and they had exceeded benchmark over the last three years, but by less than the target out-performance. However over the most recent year, the Fund Managers had collectively out-performed their target. This indicates a key issue in determining a risk score in terms of the timescale any performance should be viewed.

7. Timescale is also important in determining the impact score as any financial loss only materialises at the point any investment is realised. A large element of the current under-performance figures in the overall portfolio can be attributed to the value style global equity managers who have suffered through a period where value has consistently been out-performed by growth managers. However, if value comes back into favour as expected before the investments need to be sold, any paper under-performance can be recovered such that there is no overall loss against target.

8. Based on the view that whilst the Fund remains cash positive any current under-performance can be recovered and the fact that there has been no adverse media interest to date, it is difficult to support a case that the likelihood score needs to increase from 2, unless the impact score is reduced accordingly.

9. If the Committee do agree to amend the likelihood score, they also need to consider the target risk score and the appropriate mitigating actions. It would not seem appropriate to target a high likelihood that the Fund Managers will consistently under-perform. That leaves two potential mitigations, being either to switch from active to passive management, or to change fund managers.

10. Both these mitigating actions involve a new element of risk. Switching to passive management will reduce the potential investment return for the Fund so increasing the risk that a higher proportion of the pension liabilities will need to be funded by employer contributions. Changing Fund Managers (accepting that these will change as part of the transition to Brunel) will incur additional transition costs without any guarantee of improved performance going forward (the Brunel business case did not include assumptions on improved performance, but did assume lower fee levels achieved through economies of scale would allow payback of transition costs).

11. The second risk queried by the Board was risk 8 where the Board again felt that the likelihood score of inaccurate or out of date pension liability data as a result of late or incomplete employer returns was understated. This view was again based on current knowledge on the number of late or incomplete returns.

12. As covered elsewhere on the agenda, it has been possible to issue a higher level of Annual Benefit Statements by the deadline this year than in the past two years. This in part is a result of improved returns from scheme employers as well as improved resources and processes within the pension services team for working with scheme employers to correct data. At the time of writing this report though there was still concern about the data from two of the larger employers and whether we would be in a position to load the data and issue the statements by the end of August. The risk therefore remains that we will need to report a further regulatory breach to the Regulator which may lead to fines or adverse media coverage. As such it is proposed to increase the likelihood score to 3 whilst maintaining the impact score at 4.

13. The third risk score questioned by the Board was that for the risk of insufficient resources to deliver the Fund’s regulatory responsibilities. This risk was scored at 4 – major impact, and 3 - likely. This score reflected that current pressures on the team resulting from the issues of data quality and a backlog of queries. The impact score reflected the risk of action to be taken by the Pension Regulator in the event of another reported statutory breach.

14. As covered elsewhere on the agenda, the figures for issued annual benefit statements show an improvement, and contracts are currently being finalised to bring in external resources to address the backlog of work. It is therefore arguable that the likelihood score should be adjusted to 2 now to reflect the improved ABS position, with a further reduction to 1 as the work to clear the backlog progresses.

Risks Covered by the Annual Business Plan

15. Of the 17 risks identified within the risk register, 8 are showing at target in the Register (subject to the Committee’s consideration of risk 4 above). Of the remaining 9 risks, the mitigation plan for 6 is covered by the work in delivering the 2017/18 business plan.

16. Risks 1, 2 and 17 are all impacted by the cash flow model which we are currently seeking to develop with the Fund Actuary. This work has slipped against the initial deadlines set out in the risk register largely as a requirement to prioritise the work associated with developing the Brunel Pension Partnership. These are all long term risks, and there is some mitigation in place in the short term. The results of the 2016 Valuation alongside the on-going cash flow monitoring have indicated that recent investment returns have 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 £0.75m more by way of contributions than is paid out in benefits, reducing the risk of emergency sales of assets.

17. Risk 7 is related to the overall work on cash flow modelling and improving our understanding of the future position on scheme employers in that it relates to the risk of financial failure by scheme employers. We are currently awaiting receipt of an updated report from the Fund Actuary on the level of deficits attributed to each scheme employer, and the strength of their financial

covenant. We would hope to bring a full report on this item to the December meeting of this Committee.

18. Risks 3, 8 and 9 relate to the work associated with data quality and are all in progress. Whilst improved monitoring arrangements have been introduced to ensure we are getting timely and accurate data from employers, the impact on resources as a consequence of the work on annual benefit statements and the backlog of queries mean there is a lack of resource to complete all the escalation work necessary to follow up with employers. We also need to develop improved management reports to highlight any issues with the data held by the Fund before we can reduce the likelihood of these risks.

Other Risks

19. The other two risks currently not reported at target are risk 10 – staff resources which is covered above, and risk 11 – skills and knowledge of the Pension Fund committee itself. On this latter risk, officers are currently putting together a full day's training programme for members of both the Committee and Board to increase the levels of skills and knowledge held across the two bodies.

RECOMMENDATION

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

(a) note the current risk register;
(b) consider the risk scores for risks 4, 8 and 10 as requested by the Pension Board; and
(c) note the proposed full day's training programme to be held for all members of the Pension Committee and Pension Board.

Lorna Baxter
Director of Finance

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

June 2017

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**	**Comment**
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.	September 2017	4	1	4	September 2017	Mitigation Plan delayed beyond initial target
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.	September 2017	4	1	4	September 2017	Mitigation Plan delayed beyond initial target
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.	September 2017	3	1	3	September 2017	Improved Reports not yet available
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		At Target
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		At Target
6	Loss of Funds	Financial	Poor Control	Long Term -	Finan	Review of	3	1	3			3	1	3		At Target

	through fraud or misappropriatio n.		Processes within Fund Managers and/or Custodian	Pension deficit not closed	cial Mana ge	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	Pensi on Servi ces Mana ger	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	September 2017	2	2	4	Septem ber 2017	Awaiting Delivery of Covenant Report from Actuary
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.	Pensi on Servi ces Mana ger	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	June 2017	Improved monitoring in place, but further improvem ents required in escalation process. Further failure to issue ABS likely to result in further action from the Pension Regulator.
9	Inaccurate or out of date pension liability data – LGPS and FSPS	Administrative	Late or Incomplete Returns from Employers	Late Payment of Pension Benefits.	Pensi on Servi ces Mana ger	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	June 2017	Improved monitoring in place, but further improvem ents required in escalation process.

										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	Servi ce Mana ger	Annual Budget Review as part of Business Plan.	4	2	8	Need to address backlog of work which is impacting on ability of staff to meet statutory deadlines. External resources to be employed.	September 2017	4	1	4	Septem ber 2017	Contract for provision of external resource to be finalised.
11	Insufficient Skills and Knowledge on Committee – LGPS and FSPS	Governance	Poor Training Programme	Breach of Regulation	Servi ce Mana ger	Training Review	4	2	8	Develop Needs Based Training Programme.	June 2017	4	1	4	Septem ber 2017	Training Day to be agreed.
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	Servi ce Mana ger	Training Plan. Control checklists.	3	1	3			3	1	3		At Target
13	Key System Failure – LGPS and FSPS	Administrative	Technical failure	Inability to process pension payments	Pensi on Servi ces Mana ger	Disaster Recovery Programme	4	1	4			4	1	4		At Target
14	Breach of Data Security – LGPS and FSPS	Administrative	Poor Controls	Breach of Regulation	Pensi on Servi ces Mana ger	Security Controls, passwords etc.	3	1	3			3	1	3		At Target
15	Failure to Meet Government Requirements on Pooling	Governance	Inability to agree proposals with other	Direct Intervention by Secretary of State	Servi ce Mana ger	Full engagement in Project Brunel	5	1	5			5	1	5		At Target

			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	Service Manager	Full engagement in Project Brunel	4	1	4			4	1	4		At Target
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	Service Manager	Engagement with One Oxfordshire project and with other key projects 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	September 2017	Employer's engaged. Awaiting cash flow model from Actuary to fully understand implications.