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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 April 2018 at 10.30 am

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

P G Clark

Peter G. Clark
Chief Executive

April 2018

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: 13 July 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** (Pages 1 - 8)

To approve the Minutes of the meeting held on 19 January 2018 (**LPB5**) and to receive information arising from them.

6. **Exempt Item**

The Board is RECOMMENDED that the public be excluded for the duration of item 7 in the Agenda since it is likely that if they were present during this item 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 item in the Agenda and since it is considered that, in all the circumstances of each case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

THE REPORT RELATING TO THE NEXT EXEMPT ITEM HAS NOT BEEN MADE PUBLIC AND SHOULD BE REGARDED AS STRICTLY PRIVATE TO MEMBERS OF THE BOARD AND OFFICERS ENTITLED TO RECEIVE IT.

7. **Employer Management** (Pages 9 - 48)

This report (**LPB7**) is the latest in the series of reports to the Pension Fund Committee and this Board on the Fund's approach to employer management.

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

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, in that such disclosure would distort the proper process of free negotiations with another party.

READMISSION OF PRESS AND PUBLIC

8. Review of the Annual Business Plan (Pages 49 - 58)

At its 9 March 2018 meeting, the Pension Fund Committee approved the Annual Business Plan for 2018-19. The Board is invited to review the latest Plan and to offer any views back to the Committee (**LPB8)**.

9. Risk Register (Pages 59 - 66)

This is the latest Risk Register as presented to the Pension Fund Committee on 9 March 2018. It includes the changes made following the comments of this Board at its last meeting. The Board is invited to review the report and to offer any further views back to the Committee (**LPB9**).

10. 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 latest position on the development of the new investment portfolios and the programme to transition existing assets to these new Pension Funds.

11. Items for inclusion in the report to Pension Fund Committee

The Board is invited to confirm the issues it wishes to include in its latest report to the Pension Fund Committee.

LOCAL PENSION BOARD

MINUTES of the meeting held on Friday, 19 January 2018 commencing at 10.30 am and finishing at 12:50 pm

Present:

Voting Members:	Mark Spilsbury – in the Chair Alistair Bastin Stephen Davis Councillor Bob Johnston David Locke FCA District Councillor Sandy Lovatt Sarah Pritchard

Officers:

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

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.

43/17 WELCOME BY CHAIRMAN
(Agenda No. 1)

The Chairman welcomed all to the meeting.

44/17 MINUTES
(Agenda No. 5)

The Minutes of the meeting held on 20 October 2017 were approved and signed as a correct record.

With regard to Minute 40/17 – Risk Register – Sean Collins reported that a new actuary had been appointed from Hymans Robertson, effective from 11 December 2017. In response to a question from a member of the Board asking about the discount rate typically applied to future pension liabilities by the new Actuary, Mr Collins stated that Hymans Robertson, whilst traditionally setting a lower discount rate than the other Actuarial firms, were happy that the current Oxfordshire rate was not out of line with their financial parameters. They also offered some interesting ideas in the form of self - help, online tools, together with technical support, which would allow more cost-effective support to the LGPS.

45/17 EMPLOYER MANAGEMENT

(Agenda No. 6)

The Board considered the latest in a series of reports to the Pension Fund Committee and this Board on the Fund's approach to employer management (LPB6). The report set out the key issues discussed with the Pension Regulator at the meeting held in December and included a copy of the latest improvement plan which looked to meet the regulatory requirement to issue annual benefit statements (ABS) to all active and deferred scheme members by 31 August 2018. The Board was invited to note the latest position on employer management and the current improvement plan and to offer any comments to the Pension Fund Committee on 9 March 2018.

The Board established the following:

- That it was for the Pension Fund Committee to decide if there had been a material breach of the pension regulations or not and if it was the former, to report the Authority to the Pension Regulator. It was also within the powers of Local Pension Boards to do the same;

- In response to concerns about the safety and security of the iconnect system, the Board learned that the Chairman of Pension Fund Committee shared its concerns and was keen to explore it further. Moreover, he was keen to use the Board's expertise in order that more detailed questions could be asked, thereby establishing the relevant risks. If required, the Committee could then instigate a proper mitigation plan. **The Board therefore AGREED that a report raising the Board's concerns regarding cyber security be circulated to the members of Pension Fund Committee prior to the next meeting of the Committee on 9 March 2018, with a view to the possibility of this issue being added as a risk on the Committee's Risk Register;**

- If a decision was made to embark on iconnect as a solution, a 12 – 18 month lead time would be required before iconnect became mandatory, to ensure sufficient planning and implementation time for the employers and OCC. Sean Collins accepted that greater two-way conversations were needed with the employers than in the past to facilitate change and reduce issues with data submissions. Sally Fox reported that currently there had been little response from the majority of employers to communications from the Pension Team. The Employers Side acknowledged this point but highlighted the pressures facing all employers, and the capacity challenges facing all, but in particular facing some of the smaller employers. Sally Fox stated that some employers had already decided that they would not wish to utilise the iconnect system and this had been accepted for the time being on the proviso that they submit the correct data information;

- It was established that the law required a target of 100% for Annual Benefit Statements to be sent by 31 August. The Board suggested that the Committee, in determining the materiality of any breach, should consider the issuance of 95% or over as a benchmark. This would be accompanied with a caveat of a communications plan for those individuals who did not receive their statement, as well as a letter to those employers where material numbers of staff did not receive their statement to inform them of the situation, and action being taken to resolve it.

46/17 REVIEW OF THE ANNUAL BUSINESS PLAN

(Agenda No. 7)

In accordance with the previous request of the Board, this item allowed the Board to review the quarterly progress report which had been considered by the Pension Fund Committee on 1 December 2017.

A member of the Board put forward his personal wish that concerns relating to ESG issues be reflected in the Business Plan on the basis that the general awareness of ESG matters was much sharper than last year. Mr Collins responded that work with Brunel to produce a standard way of scoring impacts in ESG policy was already in this year’s plan. He added that this work was now being taken forward and Brunel was doing extensive work with State Street, the new Fund Administrator, in order to develop new, robust reports which would offer greater transparency. Following further discussion on the merits of an ethical policy, Sean Collins advised that the Pension Fund Committee had discussed the issue on numerous occasions and had received a significant amount of advice, including from the Chief Responsible Investment Officer at Brunel, who was highly regarded in this field based on her previous work at the Environment Agency. The Committee’s current policy was reflected in Investment Strategy Statement.

47/17 RISK REGISTER

(Agenda No. 8)

The Board considered the latest Risk Register as presented to the Pension Fund Committee on 1 December 2017 (LPB8). It included the changes made following the comments of the Board at the last meeting.

The Board considered whether the Board’s concerns regarding cyber security were correctly reflected in the Register, given the concerns raised at Agenda Item 7. Sean Collins agreed that there might be a need to revisit the risk score in the future when the General Data Protection Regulations (GDPR) were implemented. Sally Fox added that the information was audited.

The Board **AGREED**:

(a) that the Committee be requested to look again at the current scoring of the cyber security risk;
(b) to include a timeline in the March report in relation to the work on the Cash Flow Model; and

(c) to urge the Committee to set up a training day for all members of the Board and the Committee.

48/17 BRUNEL PENSION PARTNERSHIP

(Agenda No. 9)

Sean Collins gave an oral report on the latest position on the development of the Brunel Pension Partnership (BPP), including an update on the development of the new investment portfolios. He reported as follows:

- The Oversight Board (OB) had endorsed the Services Agreement Strategy subject to any minor changes. There was now a Services Agreement and Schedule to provide services to the Fund (providing Brunel had received the relevant approvals from the Financial Conduct Authority);

- The Business Plan for 2018/19 had now been signed off by all ten funds. Minor changes had been made by the OB, the principle one being the addition of a Code of Conduct for all Board members;

- A portfolio pack had been produced in order that Pension Fund Committee could make their indicative allocations. This had been unchanged since the first draft drawn up by the Client Group. Tender arrangements were currently in the process of production - therefore by 1 April 2018 the passive manager should be known.

Sean Collins confirmed that the Minutes of the OB meeting would be made available to Board and Committees once the Chairman had agreed them. He added that the Minutes of previous OB's were already available.

With regard to a query concerning decision-making, Sean Collins reported that the nominated shareholder representative for this Pension Fund was the Council's Director of Finance, Lorna Baxter, following consultation with the Chairman of the Committee and himself. The Committee had discussed this arrangement at length and had wanted to keep it under review. All decisions were to be reported to Committee, but retrospectively. Currently the Chairman of Pension Fund Committee was happy to be advised in this way.

Sean Collins reported that a decision had been made by HMRC that there would be no relief on stamp duty on other taxes payable during the transition of assets. Brunel had therefore been working with Alpha, PwC and Russell Investments on proposals to mitigate the potential tax liability. The Client Group had agreed, an outline proposal and a further detailed report would be considered by the Client Group at the end of February.

In response to a query about the costs incurred by the setting up of Brunel and when it was expected that there would be net savings from pooling, Sean Collins stated that, at this stage there were few variations in the figures included in the approved Business Case. To date all had been developed in line with the Business Case, with a small variation in respect of cash flow regarding the custodian, but expectations were that the final savings would be greater than initially assumed. The Chairman confirmed that the need for the Company to monitor fees in detail as it went forward had been raised by the Oversight Board and the Board had been reassured that arrangements would be put in place to track savings once the asset transitions started.

In response to a query about why the Fund membership had not been consulted on the Investment Strategy Statement (ISS), Sean Collins stated that this was an issue for the Scheme Member representatives to think about how this could be done. Members of the Board then considered the various ways in which the Member consultation process could be improved including:

- via the use of member self-service when in operation;
- a rider to be placed on the bottom of the Annual Benefit Statement;
- via newsletters to scheme members and employers via the website; and
- via the Annual Report.

Sean Collins pointed out that ESG issues were highly complex, thus making it very difficult to have a meaningful conversation with the full membership of the scheme. It was his view that the conversations with Employer/Scheme representatives at this Board about what action was to be taken, if any, about various issues should be sufficient.

The Chairman pointed out that as the three-yearly ISS had only just been agreed by the Committee, it would, in his view, be worthwhile waiting until consideration of the next version of the Statement in the context of the last two years to determine any changes to the consultation arrangements. On the basis of this advice, the Board **AGREED that more consideration would be required in advance of the publication of the next Investment Strategy Statement on consultation mechanisms, and therefore it would be prudent to begin to start thinking now. In the meantime, Sean Collins stated that if Board members wished to draft some consultation questions, he would be more than happy to conduct any conversations here at meetings of the Board.**

49/17 GENERAL DATA PROTECTION REGULATIONS (GDPR)

(Agenda No. 10)

At the last meeting, the Board had requested that it be kept up to date on the project to manage the implications of the new General Data Protection Regulations (GDPR) which comes into effect from 25 May 2018. The progress report which was submitted to the 1 December 2017 meeting of the Committee was before the Board (LPB10). The Board was asked if they wished to offer any comments to Committee.

Sally Fox reported that her Team was working through all paper records and working with national groups to prepare Oxfordshire County Council’s privacy notice.

The Board AGREED to note the report.

50/17 EXEMPT ITEM
(Agenda No. 11)

The Board AGREED that the public be excluded for the duration of item 12 in the Agenda since it was likely that if they were present during this item 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 item in the Agenda and since it was considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

51/17 EMPLOYER COVENANTS
(Agenda No. 12)

At its last meeting the Board had requested a report on employer covenants. A report had been submitted to the 1 December 2017 meeting of the Committee, a copy of which was now before the Board (LPB12).

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

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it was considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighed the public interest in disclosing the information, in that information was supplied in commercial confidence.

Sean Collins reported that, following discussion, the Pension Fund Committee had decided that no clear actions were required. The Committee had asked that a further report be brought to the 9 March 2018 meeting to include further information on issues relating to asset security in the event of an employer becoming bankrupt, and any ensuing proposals for change to the current Funding Strategy Statement as a basis for future consultation. He added that it was about making the information clear about risks and how the Fund managed any risks going forward.

After a short discussion the Board AGREED that it did not wish to offer any comments back to the Committee at this point, but to keep the subject under review.

READMISSION OF PRESS AND PUBLIC

52/17 ITEMS TO INCLUDE IN THE REPORT TO THE PENSION FUND COMMITTEE
(Agenda No. 13)

The Board decided that the following items be included in its report to the next Pension Fund Committee meeting on 9 March 2018:

- Security/capacity concerns relating to iconnect;
- Annual Benefit Statements – materiality question – for referral to the regulator in the context that the internal target must be 100%;
- A robust statement in the Business Plan regarding cyber security, including iconnect. Challenge back to Committee regarding the scoring of current cyber security risks;
- Recommendation to review shareholder decision-making at the end of 2018/19; and
- Request to Committee to review consultation arrangements in relation to the next Investment Strategy Statements.

.... in the Chair

Date of signing ....

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Division(s): N/A

PENSION FUND COMMITTEE – 9 MARCH 2018

BUSINESS PLAN 2018/19

Report by the Director of Finance

Introduction

1. This report sets out the business plan for the Pension Fund for 2018/19. 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.

2. The report also reviews the progress against the key service priorities included in the 2017/18 Plan as context for setting the key priorities going into the next financial year.

3. The key objectives for the Oxfordshire Pension Fund are set out on the first page of the Business Plan for 2018/19, 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.

Key Service Priorities

4. Part A of the plan (contained in the annex) sets out the broad service activity undertaken by the Fund. As with the key objectives, these are unchanged from previous years. 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.

5. The service priorities included in the 2017/18 Plan and the latest position on each is as follows:
   - Contribute to the successful establishment of the Brunel Pension Partnership such that the first transfer of assets can take place in April 2018 – Significant progress has been made on the development of the Partnership and subject to the receipt of approval from the Financial Conduct Authority, everything should be in pace to meet the Government’s timescales.

- 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 – work was initially started with Barnett Waddingham as the Fund Actuary at the beginning of the financial year, but this was put on hold when the initial model was unable to produce all the detail required. With the change in Fund Actuary, this priority needs to be carried forward to 2018/19.
- 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 – a lot of work has been undertaken during the year to improve the data quality being received from employers, with earlier notification of issues back to employers to allow timely resolution of issues. Work has also been outsourced to ITM to address long standing issues with previous leaver records. The work was not sufficient though to avoid the requirement to report statutory breaches to the Pension Regulator in respect of the issuance of Annual Benefit Statements and Deferred Benefit Statements to leavers.
- 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 – work has progressed on this issue with our Fund Managers and was included as a key feature in the assessment of the tenderers for the new Administrator/Custodian for Brunel. This work is on-going and will need to be taken forward in the 2018/19 Plan.
- Improving scheme member communications through the full implementation of members self-service – the service was successfully rolled out to pensioner members of the Fund, though take up was not very high. Roll out to deferred and active members was delayed whilst issues with the pensioner roll out were ironed out.

6. For 2018/19 there is a requirement to take all five of the key priorities from the current year forward. The detail of the key actions and measures of success are set out in Part B of the Business Plan. A summary of each of the 5 key priorities is as follows.

7. In respect of Brunel, the key priority for 2018/19 is to manage the successful transition of the initial asset classes which should include all equity assets, and potentially the investment of new money into the private markets.

8. The second priority focusses on the need to manage the risks associated with cash flow and employer covenants, and involves working with Hymans Robertson to develop the cash flow model to show the timing of payment of pension liabilities going forward. Delivery of this priority will also involve working with employers within the scheme to understand their strategic direction of travel, and their risk appetite, and developing the funding strategy statement and investment strategy statement to meet their requirements and the requirements of the Fund.

9. The third priority focusses on data quality and the need to ensure the current issues with data quality are addressed and processes and reporting

arrangements are put in place to improve the data collection arrangements going forward. A key element of the work in this area includes the preparation for the General Data Protection Regulations and dealing with the cyber security risks.

10. The fourth priority addresses the growing importance of Environmental, Social and Governance (ESG) issues within investment decision making. The actions include building on the current work with the responsible investment team at Brunel to develop a suite of reports which demonstrate the effectiveness of the ESG policies and the impact of company engagement by our Fund Managers. The actions also include a review of the benefits of joining the Local Authority Pension Fund Forum.

11. The final priority proposed in the 2018/19 Business Plan is the roll out of Member Self Service to deferred and active members. This should allow scheme members access to their records to undertake amendments to their core data and view key information on their pension benefits, so releasing pension administrator time to focus on the other priorities.

Budget 2018/19

12. Part C of the Business Plan sets out the Fund's budget for 2018/19 and compares it with the budget for 2017/18. Overall there is an increase in the budget from £10,383,000 to £12,011,000. The main elements of this variation are explained in more detail below. A report comparing the Pension Fund budget for 2017/18 against the actual expenditure will be produced for the September 2018 committee meeting.

13. The administrative team staffing budget has increased by £283,000 as it is anticipated that full staffing will be reached in the near future.

14. The support services budget for administration has increased due to the move to the new Kingsgate office where the Pension Fund is directly responsible for the premises costs including business rates, utilities and property services.

15. There has been a small increase in the budget for printing and stationary as additional printing is likely to be required for correspondence with scheme members in relation to the move to member self-service.

16. The advisory and consultancy fees budget for administration has increased by £85k to reflect additional project work including work related to the new General Data Protection Regulation and Guaranteed Minimum Pension reconciliation.

17. The increase in the budget for management fees of £979,000 compared to the previous year is predominantly due to the increase in the value of the assets under management which the majority of fees are based on. There has also been a small impact from forecast fees on new private equity funds that have been committed to since the 2017/18 budget.

18. The budget for custody fees has increased based on estimates of the cost of the new contract with State Street who have been appointed as the administrator for the Brunel Pension Partnership. The additional cost reflects the increased level of services that State Street are providing compared to the Pension Fund's previous arrangements, including the provision of performance data for the Fund.

19. The budget for Brunel contract costs is based on the most recently provided estimate.

Training Plan

20. A Training Plan for Committee Members has not been included within the Business Plan. Following discussions with Hymans Robertson, is intended to ask all Committee and Pension Board Members to complete an on-line assessment tool. Hymans Robertson will analyse the results and work with Officers to develop a training plan to address the identified shortfalls in the overall skills and knowledge of the Committee and Board, including pre-Committee sessions and a full day's training.

Cash Management

21. 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

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

(a) approve the Business Plan and Budget for 2018/19 as set out at Annex 1;
(b) approve the Pension Fund Cash Management Strategy for 2018/19;
(c) delegate authority to the Director of Finance 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 Director of Finance to open separate pension fund bank, deposit and investment accounts as appropriate; and
(e) delegate authority to the Director of Finance to borrow money for the pension fund in accordance with the regulations.

Lorna Baxter
Director of Finance

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

February 2018

Annex 1

Oxfordshire Pension Fund: Business Plan 2018/19

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, and the Pension Regulator Implementation of actions arising from regulation changes

Part B – Service Priorities

Task	Actions	Measures of Success
Contribute to the planning and delivery of the asset transition programme for the Brunel Pension Partnership.	Work with the Company and Client Group to develop the tax transparent vehicle to manage the equity transitions. Work with the Company, Client Group and Transition Manager on the transition plan. Work with the company and Client Group to monitor the development of the Partnership against the initial Business Case.	Successful transition of all public equity assets to the new Brunel portfolios by 31 March 2019. Establishment of Private Market portfolios to allow investment of new money during 2018/19. Initial transitions managed in line or better than financial assumptions included in business case.
Review the Funding Strategy and Investment Strategy Statements to meet the requirements of future cash flows, and employer covenants and risk appetites.	Work with the large scheme employers to understand their key strategic direction in so far as it relates to their LGPS workforce, and their risk appetite. 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. Review employer covenants and the different risk appetites expressed by employers and determine any changes required to the Funding Strategy Statement.	Cash flows managed to ensure all pension liabilities are met as they fall due, with minimal impact on employer contribution rates. Investment Strategy and Funding Strategy Statements reviewed and aligned to meet risk and cash flow levels and to feed into the 2019 Valuation process.
Develop more sophisticated management arrangements to ensure all Pension Fund data is kept in accordance with the requirements of the Pension Fund Regulator	Complete the outstanding work on the backlog of leavers. Review the current data collection arrangements, including benchmarking practices across other Funds, and looking at options to automate more of the process through i-connect.	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 Members.

	Develop and implement action plans to address the issues highlighted in the data quality reports. Work with scheme employers to ensure all requirements are understood and data submitted accurately and timely, and all omissions are promptly escalated.	
Develop a more robust approach to monitoring Fund Manager performance in respect of delivery against the Fund's governance policies.	Determine measures which help determine compliance with the agreed ESG policies, and set benchmarks against which to judge Fund Manager performance. Develop a suite of reports to measure performance against benchmarks. Review Fund Manager performance against benchmarks and follow up all exceptions as part of the Committee's regular monitoring of investments	Benchmark data published, and regular reports made publicly available at quarterly Committee meetings. Clear audit trail of fund management review process published.
Improve Scheme Member Communications	Launch Member Self Service to all deferred and active 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:

	2018/19 Budget £'000		2017/18 Budget £'000
Administrative Expenses			
Administrative Employee Costs	1,523		1,240
Support Services including ICT	608		447
Printing and Stationery	61		51
Advisory and Consultancy Fees	115		30
Other	40		29
	2,347		**1,797**
Investment Management Expenses			
Management Fees	8,415		7,436
Custody Fees	159		75
Brunel Development Costs	0		75
Brunel Working/Regulatory Capital	0		200
Brunel Contract Costs	650		330
	9,224		**8,116**
Oversight and Governance			
Investment Employee Costs	247		240
Support Services Including ICT	11		40
Actuarial Fees	40		40
External Audit Fees	24		24
Internal Audit Fees	14		14
Advisory and Consultancy Fees	65		64
Committee and Board Costs	39		48
	440		**470**
Total Pension Fund Budget	**12,011**		**10,383**

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Division(s): N/A

PENSION FUND COMMITTEE – 9 MARCH 2018

RISK REGISTER

Report by the Director of Finance

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. 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.

3) A number of the mitigation plans are directly linked to the key service priorities identified in the Annual Business Plan. As part of the review of the 2017/18 Plan and the development of the 2018/19 Plan, a number of the risks and the timescales for the implementation of their mitigation plans have been reviewed as discussed below. This report should therefore be considered in conjunction with the business plan report elsewhere on this agenda.

Comments from the Pension Board

4) The Pension Board were generally happy with the risk register as presented to their meeting on 19 January 2018. The one risk where they invited the Committee to review the scoring was risk 15 on the attached risk register in respect of breaches of data security. The Board felt that the increased emphasis on cyber security and the new fines associated with the General Data Protection Regulations merited an increase in the impact score from the score of 3 included at that time. As noted below, it is proposed to increase the impact score to 4.

Latest Position on Risks

5) The first three risks on the risk register relate to the risk of a mismatch between the pension liabilities and the scheme assets and investment

strategy. If these risks materialise, the Fund will not close the current funding deficit, leaving insufficient funds to pay pensions in the longer term. To mitigate this risk, the 2017/18 Annual Business Plan included an item to develop a cash flow model for the Fund which incorporated the assumptions of the Fund Actuary about the size and timing of pension payments, a greater understanding of the strategic decisions being made by scheme employers and improving the understanding of decisions made by scheme members in respect of switching to the 50:50 scheme, opting out completely, and amounts of pension commuted to lump sums.

6) Whilst some work has been completed during the year in terms of understanding scheme employer choices, the remaining work remains outstanding, delayed because of the change in Fund Actuary. The proposed business plan for 2018/19 includes a new objective in respect of developing the cash flow model and reviewing the links between the Investment Strategy Statement and the Funding Strategy Statement. This work is set to be completed by the end of March 2019 in time for the 2019 Valuation. The action dates on risks 1, 2 and 3 have been amended accordingly in line with the new Plan.

7) Risk 7 relates to the discussion at the last Committee in respect of employer covenants, where the Committee noted that the area of greatest risk was the Education sector, including Brookes University, the Colleges and the Academies, due to a lack of a government backed guarantor, or in the case of the academies the ability of the Secretary of State to remove the current guarantee at a future date. Officers were asked to explore options with the new Fund Actuary to seek to mitigate the risk.

8) In discussions with Hymans Robertson, it was felt that the most appropriate way to mitigate the risk of employer failure was to review the funding strategy statement and investment strategy to introduce an alternative low risk investment strategy which could be offered to those employers where the Committee had concerns about their covenant, or where the employer themselves wishes to reduce their future risk. This work is included in the proposed 2018/19 Business Plan. The risk register has been amended to accept the current level of risk as the target risk, with no further mitigation action proposed at this time.

9) Risks 8 and 9 related to inaccurate and out of date pension liability data, with the risks split to show the impact on Fund Valuations and on the calculation of individual pension benefits. As covered in the administration report elsewhere on this agenda, work has continued to improve our monitoring arrangements, to improve our escalation procedures (including the proposed new charging structure) and to raise employer awareness. At the present time though the risk scores have not been amended until the work to resolve the current backlog of work and the actions to address the issues identified in the data quality report has been completed.

10) A new risk has been added to the register as risk 10, also related to the current issues with data quality. This is the risk that the Pension Regulator will

issue an Improvement Notice or a fine for a reported breach of regulations. At the current time, we have reported breaches to the Regulator in respect on failures to issue all annual benefit statements by the statutory deadline of 31 August, as well as failures to provide all leavers with statements of their deferred benefits within the required timescales. Whilst the Regulator has not yet taken any formal action, there is a real concern that any further breach, or a failure to meet the action plans provided to the Regulator will result in formal action and adverse media interest at a national level. This risk has therefore been scored with a likelihood of 3 (distinct likelihood) and an impact of 4 (major). The risk will be mitigated through the action plans in place and covered under risks 8 and 9, along with the work to improve the process by which employers provide monthly data, including the potential implementation of iConnect.

11) Risk 11, related to the lack of sufficient resources to deliver the Committee's statutory responsibilities, remains at the overall score of 12 reflecting the current difficulties of recruiting and retaining staff within the Pension Services team. The Team is currently being supported by external resources who are undertaking the review of the backlog of work on the records of members who have left the scheme, and assistance is being provided by the Council's HR team to support more permanent recruitment.

12) As noted above, Officers have reviewed the score given to risk 15 relating to breaches of data security and increased the impact score to 4 from 3 last period. This reflects both the increased scrutiny of cyber security and therefore the greater negative media attention associated with any potential breach, as well as the new higher levels of fines associated with the General Data Protection Regulations which are effective from 25 May 2018. At the present time, Officers have not proposed an increase in the likelihood score with the current security and penetration testing indicated any significant breach is unlikely.

13) No other changes or additions have been made to the risk register this period.

RECOMMENDATION

14) **The Committee is RECOMMENDED to note the current risk register, and determine any changes it wishes to make.**

Lorna Baxter
Director of Finance

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

February 2018

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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.	March 2019	4	1	4	September 2018	Now working with new Actuary on aligning Investment and Funding Strategies
2	Investment Strategy not aligned with Pension Liability Profile	Financial	Pension Liabilities and asset attributes not understood and matched.	Short Term – Insufficient Funds to Pay Pensions.	Service Manager	Monthly cash flow monitoring and retention of cash reserves.	4	2	8	Develop cash flow Model with Actuary. Gain greater understanding of employer changes. Review asset allocation.	March 2019	4	1	4	September 2018	Now working with new Actuary on aligning Investment and Funding Strategies
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 2018	3	1	3	September 2018	Working with new Actuary on Improved Reports
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 through fraud or misappropriation.	Financial	Poor Control Processes within Fund Managers and/or Custodian	Long Term - Pension deficit not closed	Financial Manage	Review of Annual Internal Controls Report from each Fund Manager. Clear separation of duties.	3	1	3			3	1	3		At Target
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		March 2018	3	2	6	March 2018	No further action subject to planned review of Funding Strategy Statement Key risks accepted as education sector.
8	Inaccurate or out of date pension liability	Financial & Administrative	Late or Incomplete Returns from	Errors in Pension Liability	Pension Servi	Monitoring of Monthly returns	4	2	12	Delivery against data quality standards.	April 2018	3	1	3	June 2018	Improved monitoring in place.

	data – LGPS and FSPS		Employers	Profile impacting on Risks 1 and 2 above.	ces Mana ger											Escalation issues to ensure data issues are resolved at earliest point, including new charges, and improved training/gu idance
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	Completion of current review of backlog work.	June 2018	3	1	3	June 2018	Improved monitoring in place, new escalation process agreed as well as new charging structure.
10	Inaccurate or out of date pension liability data – LGPS and FSPS	Administrative	Late or Incomplete Returns from Employers	Improvement Notice and/or Fines issued by Pension Regulator.	Pensi on Servi ces Mana ger	Monitoring of Monthly returns. Direct contact with employers on individual basis.	4	3	12	Improve process for monthly returns (iConnect)	March 2019	4	1	4	Septem ber 2018	
11	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	3	12	Need to address backlog of work which is impacting on ability of staff to meet statutory deadlines. External resources employed.	June 2018	4	1	4	June 2018	Work under contract by external resource currently underway.
12	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 2018	4	1	4	March 2018	Training Day to be agreed.
13	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
14	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
15	Breach of Data Security – LGPS and FSPS	Administrative	Poor Controls	Breach of Regulation	Pensi on Servi ces Mana ger	Security Controls, passwords etc.	4	1	4			4	1	4		At Target
16	Failure to Meet Government	Governance	Inability to agree	Direct Intervention	Servi ce	Full engagement	5	1	5			5	1	5		At Target

	Requirements on Pooling		proposals with other administering authorities.	by Secretary of State	Manager	in Project Brunel										
17	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
18	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	June 2018	4	1	4	June 2018	Employer's engaged. Awaiting cash flow model from Actuary to fully understand implications.