



Buckinghamshire County Council

Agenda

PENSION FUND COMMITTEE

Date Thursday 29 November 2007
Time 2.00 pm
Venue Large Dining Room, Judges Lodgings

Agenda Item	Page No
1 APOLOGIES FOR ABSENCE / CHANGES IN MEMBERSHIP	
2 DECLARATIONS OF INTEREST To declare any personal and prejudicial interests	
3 MINUTES of the meeting held on 20 September 2007, to be confirmed.	1 - 4
4 ACTUARIAL VALUATION Presentation of the three year Actuarial Valuation by Graeme Muir, Barnett Waddingham LLP.	5 - 12
5 PENSION FUND CONSULTATIVE GROUP - UNCONFIRMED MINUTES The unconfirmed minutes of the Pension Fund Consultative Group meeting, held on 26 October 2007, are attached for information.	13 - 16
6 AVC OPTIONS PRESENTATION Presentation by Julie Vrondis, Pensions Manager.	17 - 18
7 FUND MANAGERS' PERFORMANCE Report by Julie Edwards, Treasury Manager	19 - 26
8 PENSION FUND STATEMENT OF ACCOUNTS Report of Julie Edwards, Treasury Manager.	27 - 28
9 RISK ASSESSMENT FOR THE PENSION FUND - UPDATE Report of Julie Edwards, Treasury Manager.	29 - 32
10 GOVERNANCE POLICY Report of Clive Palfreyman, Assistant Head of Finance, Corporate Financial Services	33 - 38
11 DATE OF NEXT MEETING	

The next meeting of the Pension Fund Committee will be held on 21 February 2008 in Mezzanine Room 3. Dates of future meetings are as follows:

2008

17 April
29 May
11 September
23 October
20 November

2009

5 March
2 April

- 12 EXCLUSION OF THE PRESS AND PUBLIC**
To resolve to exclude the press and public as the following item is exempt by virtue of Paragraph 3 of Part 1 of Schedule 12a of the Local Government Act 1972 because it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)
- 13 CONFIDENTIAL MINUTES** **39 - 44**
Of the meeting held on 20 September 2007, to be confirmed.
- 14 PENSION FUND CONSULTATIVE GROUP - CONFIDENTIAL UNCONFIRMED MINUTES** **45 - 48**
The confidential unconfirmed minutes of the Pension Fund Consultative Group meeting, held on 26 October 2007, are attached for information.
- 15 PENSION FUND INVESTMENT STRATEGY** **49 - 86**
Presentation by Mercer Investment Consulting.

*For further information please contact: Maureen Keyworth on 01296 383603
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Members

Mr S Crooks
Mr F Downes (C)
Mr P Gerrella
Mr P Hardy (VC)
Mr Q Ings-Chambers

Mr C Jones
Mr D Meacock
Mr D Phillips
J Wassell



Buckinghamshire County Council

Minutes

PENSION FUND COMMITTEE

MINUTES OF THE MEETING OF THE PENSION FUND COMMITTEE HELD ON THURSDAY 20 SEPTEMBER 2007, IN NEW IRELAND ROOM, NEW COUNTY OFFICES, AYLESBURY, COMMENCING AT 9.35 AM AND CONCLUDING AT 12.03 PM.

MEMBERS PRESENT

Mr S Crooks, Mr F Downes (Chairman), Mr P Hardy (Vice-Chairman), Mr C Jones and Mr D Meacock

OFFICERS PRESENT

Harriet Anthony, Mercer Investment Consulting
Julie Edwards, Treasury Manager (Finance)
Keith Neale, Independent Adviser
Anwen Owens, Mercer Investment Consulting
Jacqueline Yates, Head of Finance

AGENDA ITEM

1. APOLOGIES FOR ABSENCE / CHANGES IN MEMBERSHIP

Apologies were received from Don Phillips, Julia Wassell and Philip Gerrella.

2. DECLARATIONS OF INTEREST

There were no declarations of Interest.

3. MINUTES

The minutes of the meeting held on 26 July 2007 were confirmed.

4. FOREIGN INCOME DIVIDENDS AND MANNINEN TAX CLAIMS

Members received the report of the Treasury Manager, the purpose of which was to ask members to agree to the Fund joining the Foreign Income Dividends and Manninen tax claims. This is in connection with repayment of tax claims on overseas dividends.

The Committee noted that the Fund could receive a tax repayment of £3.19m, with costs of £74,700 plus 2% of a successful claim. The 2% is capped at £150,000 for both claims.

The report set out the probability of success of claims being made and noted that if the group litigation is unsuccessful, the HMRC may file for costs across all the

organisations that joined together to make the case. It was noted that if BCC did not join the other authorities in making this claim and KPMG was successful, there was no guarantee that if BCC lodged a claim itself it would be individually successful

RESOLVED

Members AGREED to the Fund joining the Foreign Income Dividends and Manninen tax claims.

5. UPDATE FROM THE LGC INVESTMENT SUMMIT

Members received a verbal report from the Chairman, who considered the Summit to be a good networking opportunity. With regard to those Funds who are in the upper percentile, it was difficult to see what they were doing which was different to the work by BCC.

The Chairman also reported on a presentation from the Corporation of London on restructuring of their fund.

6. DATE OF NEXT MEETING

The next meeting of the Committee will be held on Thursday 29 November 2007 at 1.00pm in the Large Dining Room, Judges Lodgings, Aylesbury.

Dates of Future Meetings:

21 February 2008	23 October 2008
17 April 2008	20 November 2008
29 May 2008	5 March 2009
11 September 2008	2 April 2009

7. EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED

That the press and public be excluded for the following item which is exempt by virtue of Paragraph 3 of Part 1 of Schedule 12a of the Local Government Act 1972 because it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)

8. CONFIDENTIAL MINUTES

The confidential minutes of the meeting held on 26 July 2007 were confirmed.

9. FUND MANAGERS' PERFORMANCE

Members received the report of the Treasury Manager, the purpose of which was to present the performance of the Pension Fund's Managers for the second quarter of 2007 and ask for the Committee's comments on the report.

The market value of the Fund had increased from £1,201m to £1,242m during the three months ending 30 June 2007.

During the quarter ending 31 March 2006, the Pension Fund was ranked in the 48th percentile in the WM local authority universe. In the year to 31 March 2007, it was ranked 55 and over an average of three years to 31 March 2007 it was ranked at 51. The Fund's five year average is the 81st percentile. The three and five year

percentiles demonstrate the improving trend in the Fund's performance.

Discussion took place regarding the timing of Committee meetings and production of quarter end figures. It normally takes at least four weeks to provide data on the returns. However, information could be sourced from the Managers themselves but the independent total return would not be available. All data was needed in order to make comparisons.

It was also noted that with regard to performance over the year to 30 June 2007, the fund had achieved 13.7% against its benchmark of 13.6% and the WM Local Authority Universe benchmark of 14%.

The WM Report to the end of March 2007, noted that the Fund achieved 6.8% against 7.1% over 12 months to the end of March. The local authority average was 7%.

Members discussed the performance of those local authorities who consistently performed well. However, it was noted that even though those authorities may perform well overall, it was difficult for them to do this consistently. Investment strategy was obviously a key factor, as well as choosing consistently good fund managers. It was suggested that the investment managers involved with the top Local Authorities should be looked at, but it was noted that many local authorities have different objectives with regard to equities and bonds.


A member stated that many investment managers had reported that there were factors in the market which had distorted the true valuation of stocks and considered whether there would be a re-adjustment of prices.

It was suggested that the different strategies used by other local authorities should be looked at.

10. PENSION FUND INVESTMENT STRATEGY

Members received the Report of the Assistant Head of Finance the purpose of which was to ask members to discuss preferences to investments over coming years in order to be in a position to agree a new strategy towards the end of 2007. Members were asked to discuss their preferences for the pension fund investment strategy, reaching agreement on key principles in order for officers and advisers to begin developing an outline strategy in advance of the next Pension Fund Committee meeting.


CHAIRMAN



Barnett Waddingham

The 2007 Valuation..... and beyond....

Graeme Muir FFA
November 2007



1



Barnett Waddingham

Agenda

- A quick reminder
- Where were we?
- Where are we now?
- How did we get here?
- Where are we going?



2

What is an actuarial valuation?

Barnett Waddingham

- **Assessment of "ongoing accrual cost"**
 - Cost of benefits accruing each year
- **Assessment of "past service position"**
 - How much money have we saved up so far
 - Compare with how much we need for all pension earned/in payment so far
- **Ongoing cost lion's share of total contribution rate**
 - Funding level less important!



3

What is an actuarial valuation?

Barnett Waddingham

- **Overall how much do we need to pay in future to ensure**
 - Everybody gets the pension they were expecting
- **Actuarial valuation used to agree funding plan**
 - Hard cash required
 - Aiming for stable contribution rates
- **FRS 17 valuation a bit different**
 - "Cost" of pensions
- **Don't compare!**

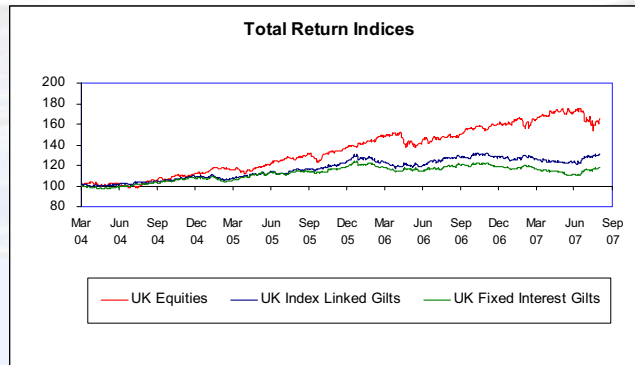


4

Where have we got to?

Barnett Waddingham

Change in Asset Values



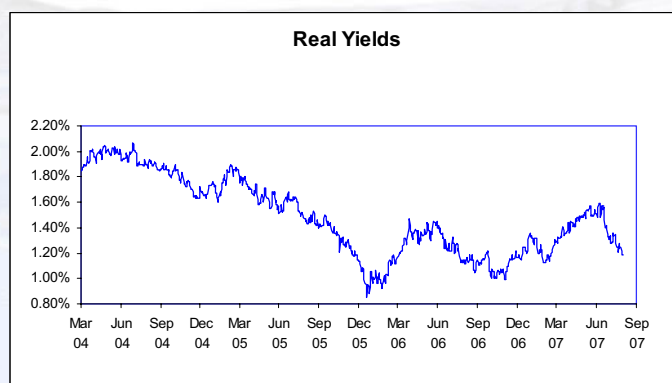
Assets assumed to grow but overall higher than anticipated

5

Where have we got to?

Barnett Waddingham

Change in Real Gilt Yields



- **Increase in liability values and ongoing costs**

6

Where have we got to?

Barnett Waddingham

Change in Past Service Position

Funding Level at 2004	66%
Deficit Funded	7%
Investment returns	13%
Other	(2%)
Funding Level at 2007	84%

7

Where have we got to?

Barnett Waddingham

Change in Ongoing Cost	% payroll	% ees	Avg Ee Rate
As at 2004	10.7%	180%	6.0%
Change in market conditions	1.6%		
Re-instate Rule of 85	1.3%		
2008 Scheme	(0.2%)	13.4%	205%

- **Funding level up - 84% funded**
- **Ongoing costs up - 13.4% of payroll**
- **Deficit contribution still required**
 - For how long? - 20 years at 2004
- **But what about mortality?**

8

Some scary stuff.....

Barnett Waddingham

- **Improvement in mortality during 20th century**
 - 20% improvement between 1901 and 1969 (68 years)
 - 20% improvement between 1969 and 1986 (17 years)
 - 20% improvement between 1986 and 1996 (10 years)
- **Varies by "cohort"**
- **Will these trends continue?**

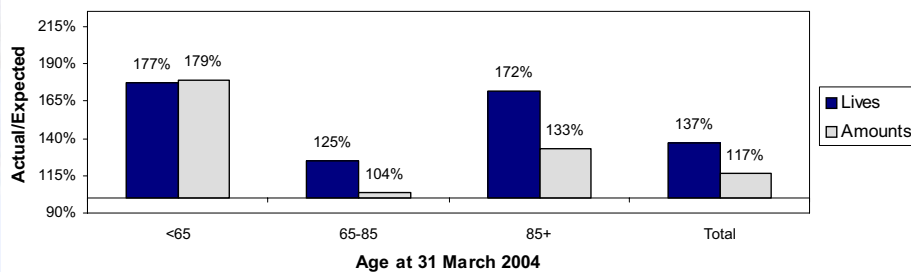


9

Bucks Fund 2004/7

Barnett Waddingham

Pensioner Mortality by Age



10

Bucks Fund 2004/7

Barnett Waddingham

Year	Ave Age of Death	Ave Term of Pension (Yrs)
2004/2005	77.8	16.8
2005/2006	78.4	17.9
2006/2007	78.0	17.1
Average	78.1	17.3

11

Key issues

Barnett Waddingham

- **Evidence suggests Bucks assumptions look okay at the moment**
- **But what about the future?**
 - Huge uncertainty
 - Update to 2007
 - Allow for further 10% improvement
- **Funding level**
 - Down 3%
- **Ongoing costs**
 - Plus 0.6% of payroll



12

In summary

Barnett Waddingham

- **Financial position of Fund has improved**
- **Average contribution rate broadly stable**
- **Varies by employer**
- **Slight reduction for some**
 - Suggest reducing deficit recovery period to maintain current level
- **Slight increase for others**
 - Phase in any increases over 3 to 5 years



13

Questions and Discussion



14



Buckinghamshire County Council

Minutes

PENSION FUND CONSULTATIVE GROUP

MINUTES OF THE MEETING OF THE PENSION FUND CONSULTATIVE GROUP HELD ON FRIDAY 26 OCTOBER 2007, IN NEW IRELAND ROOM, NEW COUNTY OFFICES, AYLESBURY, COMMENCING AT 10.00 AM AND CONCLUDING AT 11.40 AM.

MEMBERS PRESENT

Mr R Atkins, Ms S Burgess, Mr S Cox, Mr F Downes (Chairman), Mrs J Eubank, Ms A Howes, Mr S Mason, Mr J McMillan, Mr C Palfreyman, Mr D Radford, Ms L Turvey, Ms B Wheeler and Ms J Whiteley

OFFICERS PRESENT

Maureen Keyworth, Democratic Services Officer
Julie Smith, Pensions Manager
Katharine Woodard, Pensions Officer

AGENDA ITEM

1. WELCOME AND INTRODUCTIONS

The Chairman welcomed all the members to the meeting and introductions were made.

The Chairman explained the rationale for setting up the Consultative Group as an advisory group to the Pension Fund Committee, would enable a more open and transparent process in decision-making.

2. 2008 LGPS SCHEME UPDATE

The Group received a presentation on the new LGPS Scheme from Julie Smith, Pensions Manager, The new Scheme will take effect from 31 March 2008.

Points of note:

- Previously, new employees employed on a contract of less than three months were not eligible to join the Scheme. Under the new regulations they will be able to join after three months, but the pension will not be retrospective.
- Casual staff employed on contracts with mutuality of obligation will be able to join the Scheme. However, they will only remain in the scheme until they cease working for the Authority.
- Final salary benefit will be 1/60th rather than the current 1/80th. However, service accrued to 31 March 2008 will still be calculated at 1/80th.
- There is no automatic lump sum payment.

- There will be some protection under the new scheme for those moving over, such as eligibility under the 85 year rule.
- There are now three tiers of ill health retirement. This has recently changed from two tiers.
- Death benefits have improved.
- Employee contributions will be banded according to salary.

Discussion took place with regard to calculation for employees' contributions from April 2008 in connection with those members whose hours vary. Regulations state that the pensionable pay is based on what is accrued for a whole year. Changes in hours will not affect the calculation unless it is a drop in hours and employers are required to re-assess for any band changes. This will be built into SAP.

Employees will be notified of the changes through a newsletter which will be circulated with the Annual Pension Statement. Work is ongoing with the Local Government Pensions Association on the production of a DVD explaining the changes. If employers in the Pension Fund wish, this can be sent to all staff members. However, there will be a charge.

Internal Dispute Resolution Procedure (IDRP) rules will apply if there is an appeal with regard to contribution banding and it would be against the employer.

With regard to staff working on term time basis only, the fte would be calculated over 44 weeks.

The CLG is still working on whether those members who achieve the 85 year rule in 2008 will be eligible to retire.

Employer's contribution will be a percentage of the payroll rate and valuation reports will translate how the move will be made from percentage of employee rate to payroll rate.

With regard to additional contributions there will be some protection regarding the movement from buying additional years and buying additional pension in multiples of £250.

3. PENSION FUND ANNUAL REPORT

Members received a copy of the Annual Report and Accounts 2006-2007. The Pension Fund is required to produce an annual report and notify stakeholders of its existence. The Assistant Head of Finance asked members of the Consultative Group to advise their Finance Teams and HR and employers groups of the report. If any further copies are needed members should contact Clive Palfreyman or Julie Smith. The Report is also available on the BCC website.

4. PENSIONS ADMINISTRATION PERFORMANCE

Members received a presentation from Julie Smith, Pensions Manager, who gave an update on the amount of work generated in order to introduce the new regulations. A copy of the presentation is available on the website.

Points of note:

All of the 1,671 general queries as at 1 April 2007 have now been cleared. There are still 250 leavers queries remaining of the 922. Many of these are related to employers not understanding what was required of them. This also relates to year end queries which have reduced from 3,679 to 1,500.

In order to ensure that employers know what is required of them, a Service Level Agreement (SLA) was introduced with effect from 1 August 2007. This will reduce the number of employer related queries.

The Team was commended for the amount of work undertaken in order to clear year end queries.

5. DATE OF NEXT MEETING

The next meeting of the Consultative Group will be held on Tuesday 11 March 2008 at 10.00am in Mezzanine Room 3, County Hall.

6. EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED

That the press and public be excluded for the following item which is exempt by virtue of Paragraph 3 of Part 1 of Schedule 12a of the Local Government Act 1972 because it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)

7. PENSION FUND MANAGER PERFORMANCE

The Group received the report on the performance of the Pension Fund's Managers for the second quarter of 2007.

The Pension Fund Committee will be considering the investment strategy for the fund and making decisions on strategic direction based on the Actuary's valuation and current and past performance of Fund Managers.

Members were asked for comments on the investment strategy that could be fed back to the Pension Fund Committee.

8. AVC OPTIONS PRESENTATION

The Group received a presentation on AVC Arrangements for BCC.

The Pension Fund Consultative Group RECOMMENDED that the Pension Fund Committee consider the possibility of offering the Prudential AVC arrangement to scheme members.

9. VALUATION RESULTS

The Group received a presentation on the Draft Fund Valuation and its impact on employer contribution rates. The Group was asked to feed back any comments on the document, which will remain in draft form until 31 March 2008.

CHAIRMAN



Report to Pension Fund Committee

Title: AVC arrangement

Date: 29th November 2007

Date Decision can be implemented: 29th November 2007

Author: Pensions Manager

Contact Officer: Julie Vrondis 01296 382328

Electoral Divisions Affected: n/a

Portfolio Areas Affected: All

Summary

The re-opening of the AVC scheme with Prudential was agreed by members of the PFCG at their meeting on 26th October.

Recommendation(s)

PFC Members are asked to APPROVE the opening of the AVC scheme with Prudential

A. Main issues arising

The LGPS must offer scheme members the facility to pay additional contributions with an AVC provider. The Council appointed Prudential as provider in 1989. A review of providers was undertaken in 2000 and Clerical Medical was appointed as the provider but scheme members who were already paying with Prudential could continue to pay into their scheme.

In order to give scheme members more choice and flexibility, it is recommended that the scheme with Prudential be reopened allowing new scheme members to choose which provider they wish their AVCs to be invested with.

C. Resource Implications

N/A

D. Legal Implications

It is a statutory requirement for the Council provide an AVC scheme with an outside provider.

E. Other implications / issues

None.

F. Feedback from consultation and Local Member Views

The PFCG supported the proposal at their meeting on 26th October

G. Communication Issues

Prudential have offered to communicate their scheme at no cost to the authority.

H. Progress Monitoring

To be reviewed by the PFCG annually.

I. Background Papers

A copy of Prudential's presentation.

Your questions and views

If you have any questions about the matters contained in this paper please get in touch with the Contact Officer whose telephone number is given at the head of the paper.

If you have any views on this paper that you would like the Cabinet Member to consider, or if you wish to object to the proposed decision, please inform the Democratic Services Team by 5.00pm on [Date]. This can be done by telephone (to 01296 383604 or 383610), Fax (to 01296 382538), or e-mail to cabinet@buckscc.gov.uk



Report to PENSION FUND COMMITTEE

Title: Fund Managers' Performance

Date: 29 November 2007

Author: Treasury Manager

Contact Officer: Julie Edwards 01296 383910

Electoral Divisions Affected: n/a

Portfolio Areas Affected: None

Summary

To present the performance of the Pension Fund's managers for the third quarter of 2007.

Recommendation

The Group is asked to comment on the report

Fund Value and Asset Allocation

The market value of the Fund increased from £1,242m to £1,268m during the three months ending 30 September 2007. Table 1 below shows the asset allocation, the distribution of investments across categories of assets, such as cash, equities and bonds:

TABLE 1		
Asset Allocation by Class at 30 September 2007	£m	£m
Equities		
UK		401
Overseas		452
North America	160	
Europe (ex UK)	144	
Japan	54	
Developed Pacific (ex Japan)	22	
Emerging Markets	72	
Bonds		228
Fixed Interest Gilts	194	
UK Index-Linked Gilts	34	
Property		100
Private Equity		1
Absolute Return Funds		45
Cash		41
		1,268

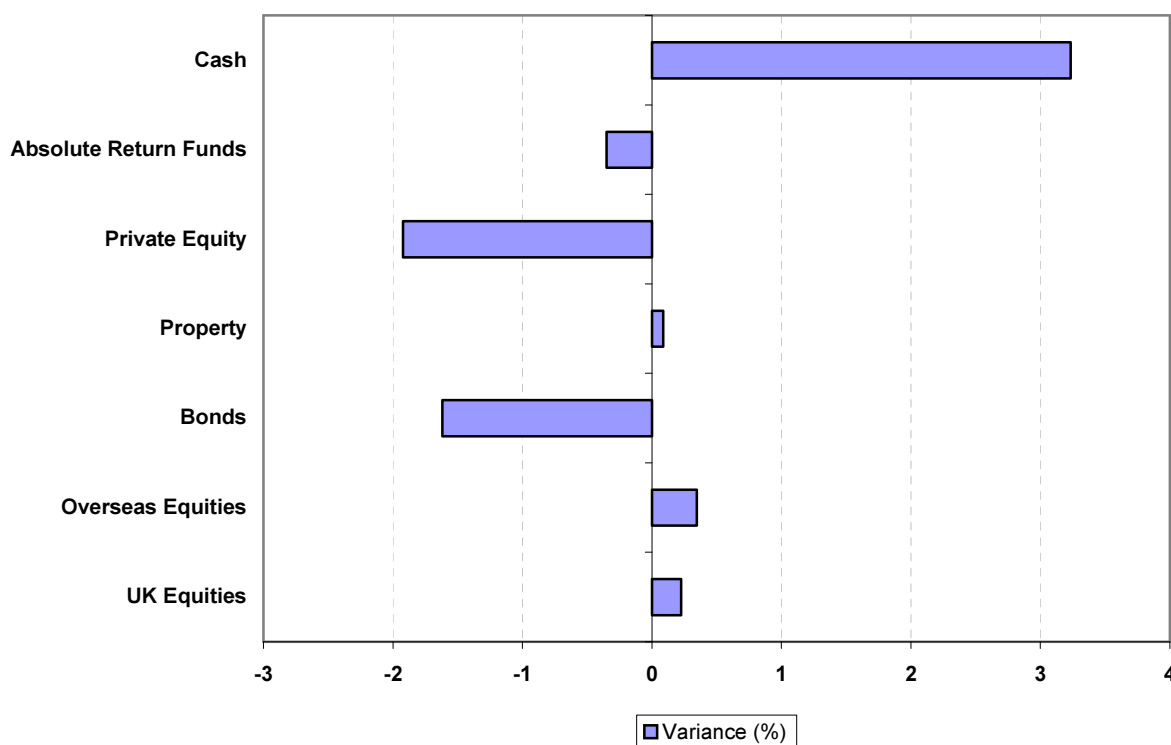
Table 2 shows how the Fund's assets as at 30 September 2007 varied from the planned allocation, the percentages change each quarter since the different asset classes generate different returns. Bonds' performance compared to equities in the previous 12 months has resulted in the value of bonds as at 30 September falling below the planned allocation by 1.6%. Pension Fund cash exceeds the asset allocation by 3.2% since employee and

employer contributions exceed the cost of benefits and administration; following the Pension Fund Committee's decision earlier this year the cash held at 30 September has since been allocated to Morley Fund Management, the property manager, and Blackstone, the hedge fund of fund manager. The 2% investment in private equity fund of funds, managed by Pantheon Private Equity, will be staggered over the next few years when investment opportunities arise and Pantheon calls on the cash from the Fund; in the meantime the Committee has agreed that up to an additional 2% has been allocated to UK equities.

TABLE 2			
Asset Class	Strategic Asset Allocation %	Allocation at 30 Sept 2007 %	Variance From Strategic Allocation %
Equities			
UK	31.4	31.7	0.3
Overseas	35.3	35.6	0.3
Bonds	19.6	18.0	-1.6
Property	7.8	7.9	0.1
Private Equity	2.0	0.1	-1.9
Absolute Return Funds	3.9	3.5	-0.4
Cash	0.0	3.2	3.2
	100.0	100.0	0.0

Graph 1 below shows the percentage difference of the Fund's assets as at 30 September 2007 compared to the investment strategy.

Graph 1 - Variance from Strategic Asset Allocation



The value of the Fund held by each fund manager at 30 September 2007 is shown in Table 3 below:

Fund Manager	Mandate	£m	%
Alliance Bernstein	Less constrained global equities	108	8
Blackrock	Cash / inflation plus	21	2
Blackstone	Hedge fund of funds	24	2
Capital International	Global equities	128	10
LGIM*	Passive global equities and bonds	435	34
LGIM*	Bonds	177	14
Mirabaud	UK equities	134	11
Morley	Property fund of funds	102	8
Pantheon	Private Equity	1	0
Standard Life	Less constrained UK equities	102	8
Pension Fund	Cash	36	3
Total		1,268	100

*LGIM – Legal and General Investment Management

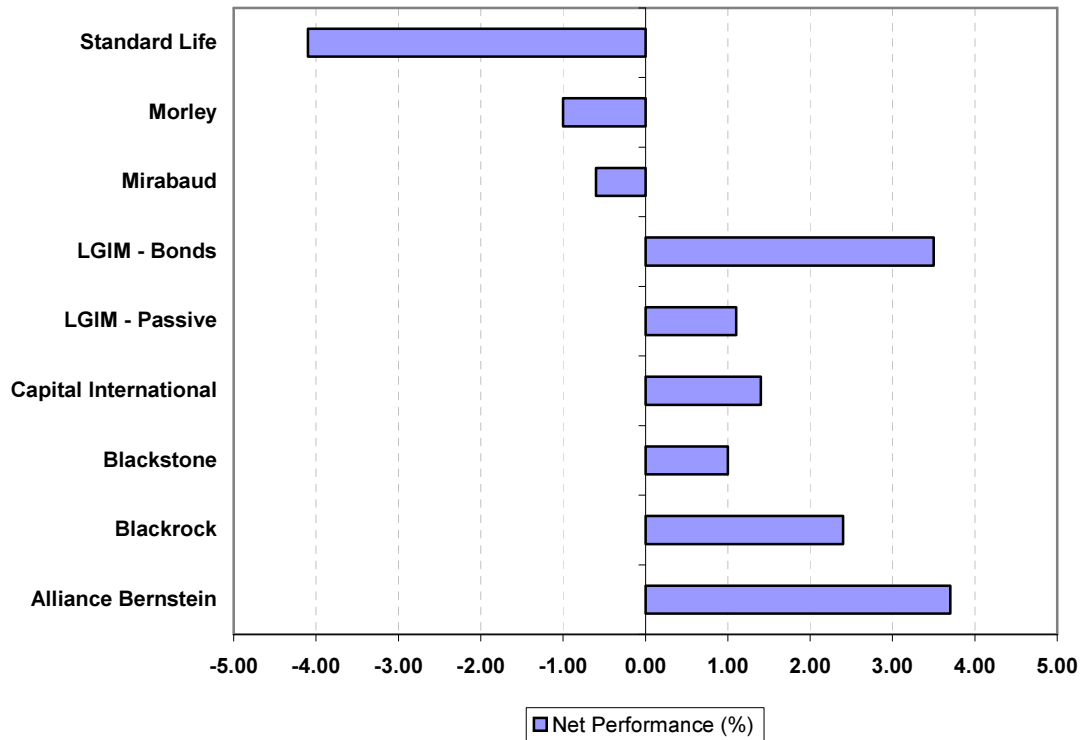
The combined Fund achieved gross return of 0.9% compared to its benchmark return of 0.8%, an outperformance of 0.1%. Table 4 below shows the fund managers' net performance for the quarter to 30 September 2007 compared to the benchmark:

Fund Manager	Mandate	Benchmark %	Net Performance %	Net Relative Return %
Alliance Bernstein	Less constrained global equities	0.9	3.7	2.8
Blackrock	Cash / inflation plus	0.3	2.4	2.1
Blackstone	Hedge fund of funds	1.4	1.0	-0.4
Capital International	Global equities	2.0	1.4	-0.6
LGIM	Passive global equities and bonds	1.1	1.1	0
LGIM	Bonds	3.4	3.5	0.1
Mirabaud	UK equities	-1.8	-0.6	1.2
Morley	Property fund of funds	-1.3	-1.0	0.3
Standard Life	Less constrained UK equities	-1.8	-4.1	-2.3
		0.8		

The global equity, "cash/inflation plus", hedge fund of funds and bonds mandates achieved positive returns for the quarter, the property and UK mandates produced negative returns. For the quarter to 30 September 2007 Alliance Bernstein, BlackRock, LGIM – active bonds, Mirabaud and Morley have outperformed their benchmarks. Blackstone, Capital International and Standard Life have underperformed their benchmarks. Returns in the early years of a private equity fund's life are not generally meaningful due to accepted industry valuation standards.

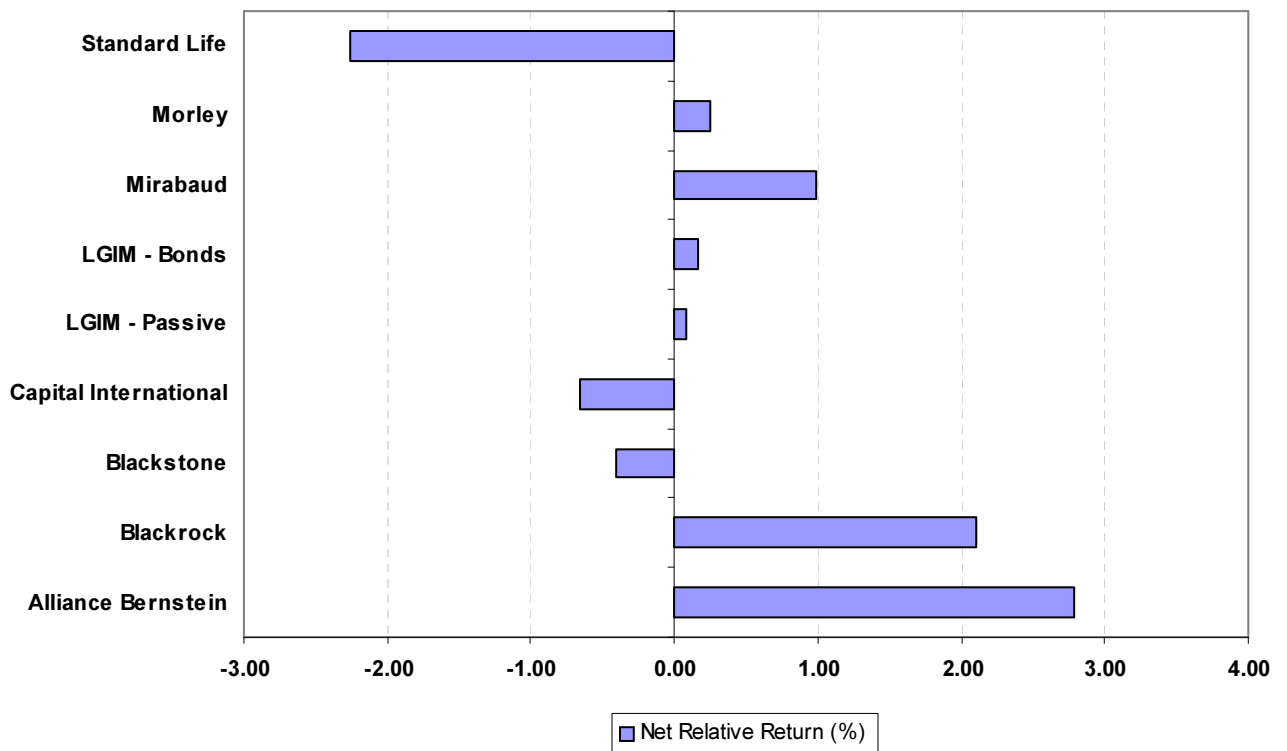
Graph 2 - Fund Managers' Net Performance for the Quarter

Fund managers' actual performance after fees.



Graph 3 - Fund Managers' Net Relative Return for the Quarter

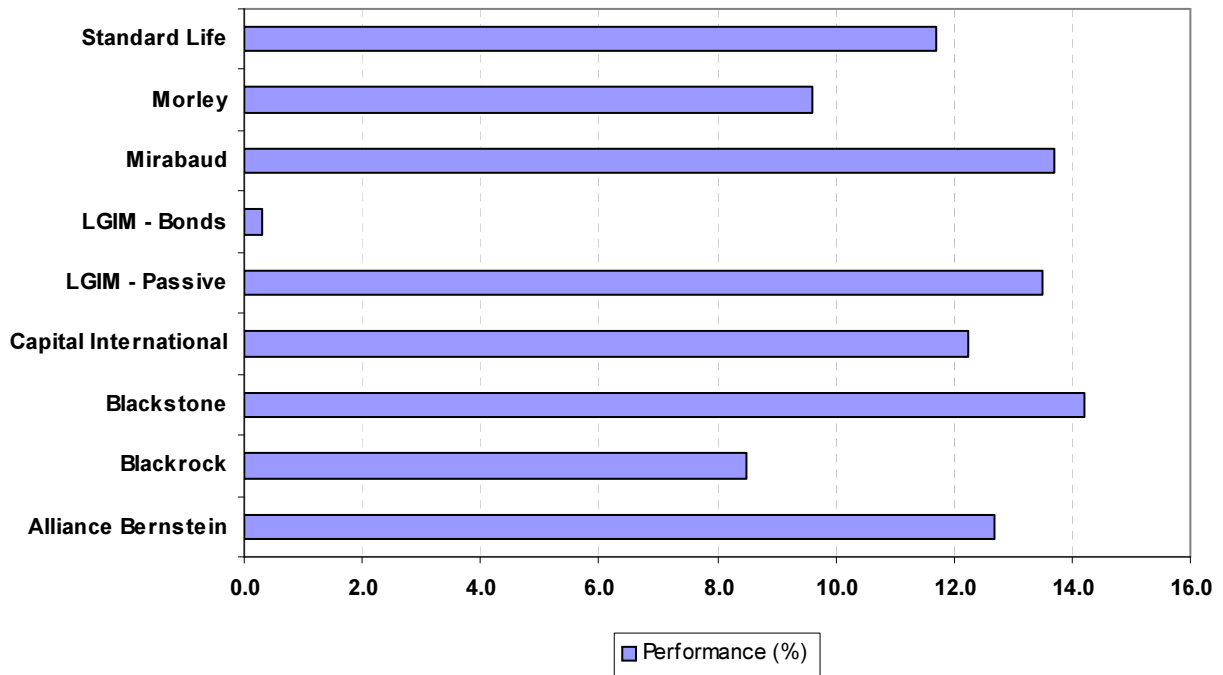
Fund managers' performance after fees compared to their benchmark



In the year to 30 September the whole Fund out performed its benchmark by 0.2% achieving an annual return gross of fees of 10.8%.

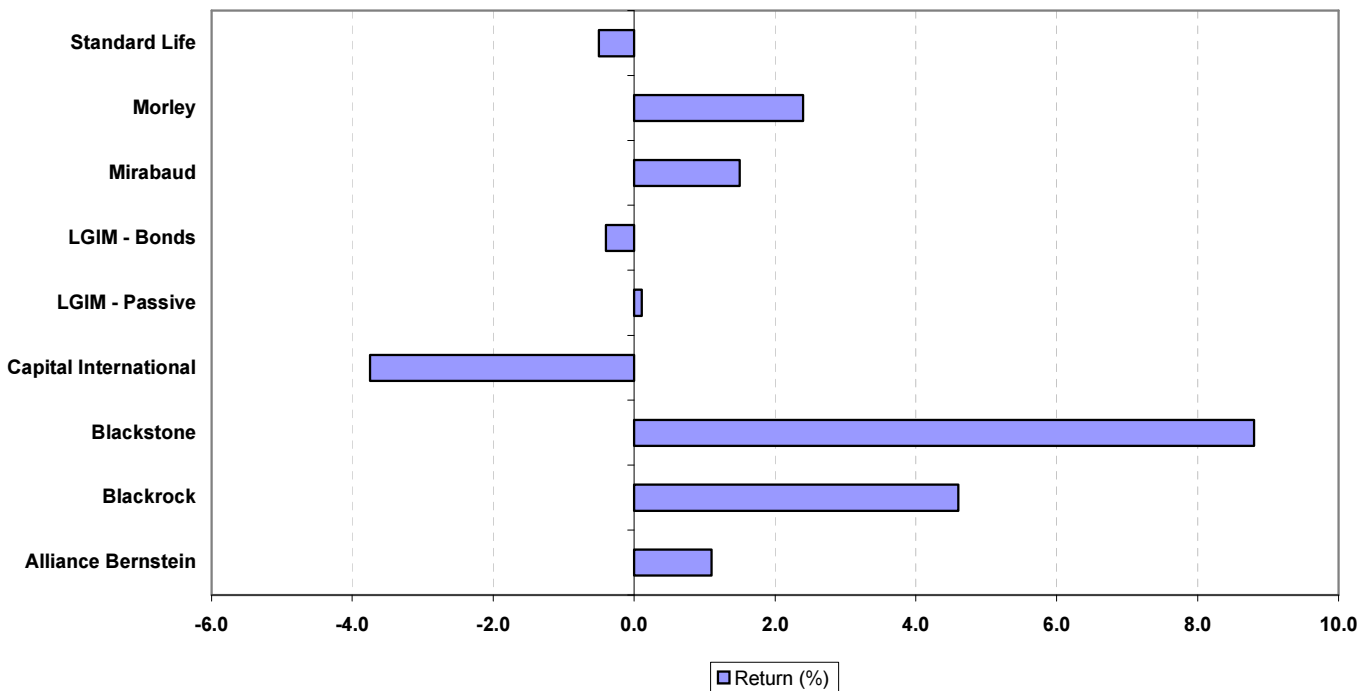
Graph 4 - Fund Managers' Net Annual Performance

Fund managers' actual performance after fees over the previous 12 months. All of the mandates have generated a positive return for the year, the bonds mandate return of 0.3% reflects the performance of the bond markets in the year to 30 September 2007.



Graph 5 - Fund Managers' Net Annual Relative Return

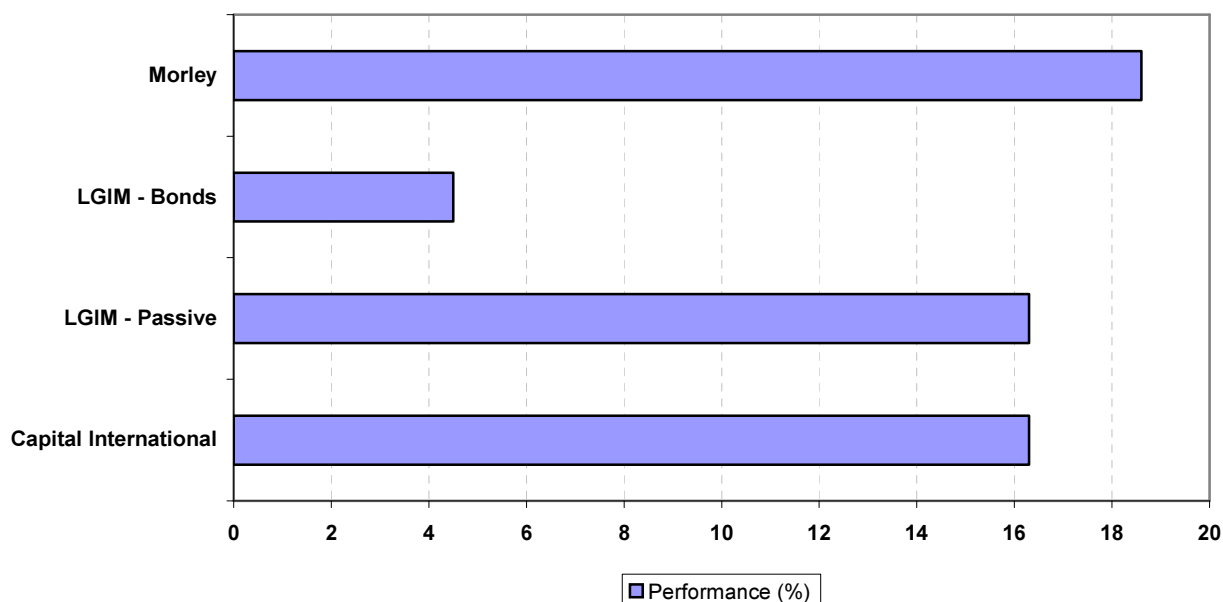
Graph 5 shows the fund managers' performance after fees over the previous 12 months against their benchmark. Morley, Mirabaud, Blackstone, BlackRock and Alliance Bernstein have all outperformed their benchmarks. Standard Life, LGIM – active bonds and Capital International have underperformed their benchmarks. LGIM – passive which tracks the changes in the equity and bond markets has matched its benchmark.



The Fund achieved a return gross of fees of 14.6% per annum in the 3 years to 30 September 2007 outperforming its benchmark by 0.1% for that period.

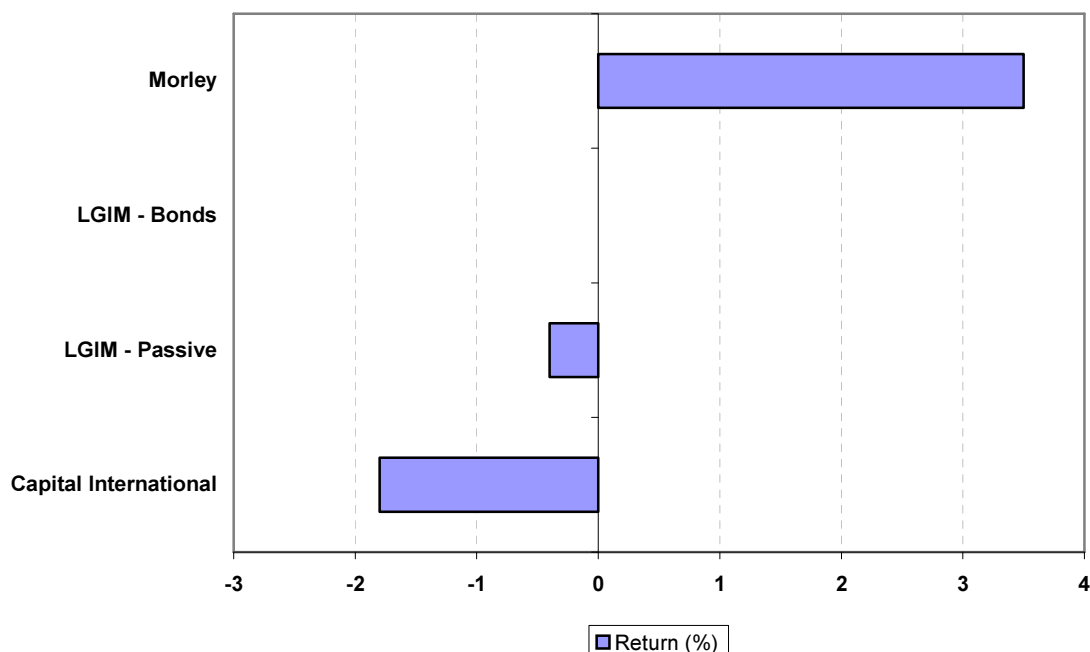
Graph 6 - Fund Managers' 3 Year Performance

Graph 6 shows the fund managers' gross actual performance over the previous three years, only Morley, LGIM – active bonds, LGIM – passive and Capital International have been managing funds for 3 years.



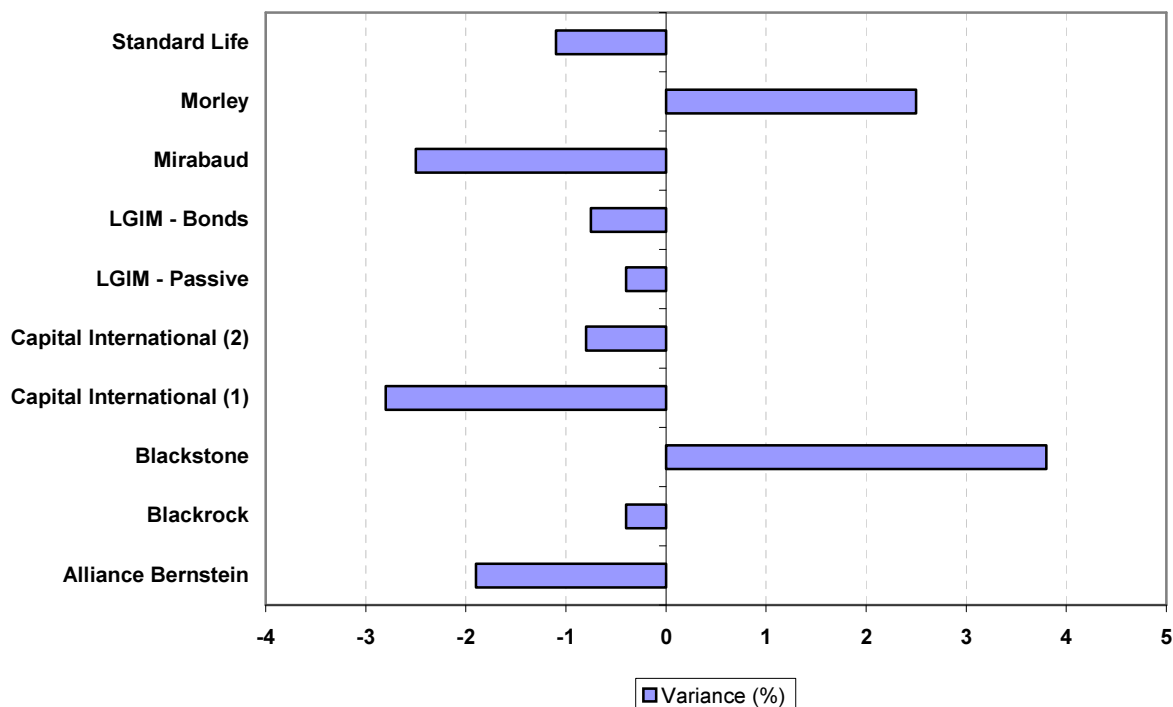
Graph 7 - Fund Managers' 3 Year Relative Return

Graph 7 shows the fund managers' gross performance over the previous three years against their benchmark, three years is a pension industry standard timescale for performance comparisons. Over the three years Morley has outperformed its benchmark of 18.6% by 3.5%, LGIM – active bonds has matched its benchmark of 4.5%, LGIM – passive has underperformed its benchmark of 16.3% by 0.4% and Capital International has underperformed its benchmark of 16.3% by 1.8%.



Graph 8 - Fund Managers' Performance Compared to Fund Manager Objectives

Graph 8 shows the fund managers' performance over the previous three years compared to the fund managers' objectives.



- (1) Relates to the out-performance objective (see fund manager objectives);
 (2) Relates to the limiting under-performance objective (see fund manager objectives).

Notes to Graph 8

- Alliance Bernstein's performance is shown for one year, the mandate has been in place since Quarter 4 2005;
- Mirabaud performance is measured against the objective for one year rather than the 3 years stated in the objective, the mandate has only been in place since Quarter 4 2004;
- Standard Life performance is measured against the objective for one year rather than the 3 years stated in the objective, the mandate has only been in place since Quarter 4 2005.

Fund Manager Objectives

The objectives for each fund manager are as follows:

- Alliance Bernstein: to achieve a return 3% per annum above the benchmark return over full market cycles, gross of fees.
- Blackrock: RPI +5% net of fees per annum.
- Blackstone: cash plus 5% over a full market cycle.
- Capital International: to out-perform its benchmark by 1% per annum over a three year rolling period and limit under-performance to 3.0% in any twelve month period.
- Legal and General Investment Management (LGIM) – Passive: to match its benchmark return.
- LGIM – active bonds: to out-perform its benchmark by 0.75% per annum over a three year rolling period.
- Mirabaud – UK Equities: to out-perform its benchmark by 2% per annum over a three year rolling period.

- Morley Fund Management – Property: to out-perform its benchmark by 1% per annum over a three year rolling period.
- Standard Life – UK Equities: to exceed the benchmark by 3% per annum gross of all investment management fees over rolling 3 year periods.

Quarter 2 and Quarter 3 2007 Fund Performance in the Local Authority League Tables

Quarter 2

The Buckinghamshire Pension Fund was ranked in the 63rd percentile for the second quarter of 2007 in the WM local authority universe. In the year to 30 June 2007 the Fund was ranked 61st, over an average of 3 years to 30 June 2007 the Fund was ranked at 56th. The Fund's 5 year average is the 63rd percentile.

Quarter 3

The Buckinghamshire Pension Fund was ranked in the 28th percentile for the third quarter of 2007 in the WM local authority universe. In the year to 30 September 2007 the Fund was ranked 40th, over an average of 3 years to 30 September 2007 the Fund was ranked at 38th. The Fund's 5 year average is 30th percentile. The quarterly and annual performance recorded each quarter can be volatile; the three years and five years percentiles demonstrate the improving trend in the Fund's performance.

Your questions and views

If you have any questions about the matters contained in this paper please get in touch with the Contact Officer whose telephone number is given at the head of the paper.



Report to PENSION FUND COMMITTEE

Title: Statement of Accounts 2006/07
Date: 29 November 2007
Author: Head of Finance
Contact Officers: Julie Edwards (01296) 383910

Summary

The Pension Fund's Annual Report and Accounts 2006/07 has been circulated with the papers for this meeting. The Statement of Accounts has been approved as part of the Council's overall accounts by Regulatory and Audit Committee on 14 September 2007 and signed off by the Audit Commission, the authority's external auditors. The Annual Report and Accounts can be viewed on the Council's website <http://www.buckscc.gov.uk/bcc/content/index.jsp?contentid=809839198>

Page 26 of the Annual Report contains the Pension Fund's Revenue Account and Net Asset Statement. In the year to 31 March 2007 the value of the Pension Fund increased by £118m to £1.205bn. This follows on from increases of £250m and £100m the previous two years, following positive returns in the equity markets for the fourth year running.

Recommendation

The Group is asked to NOTE the Statement of Accounts for the financial year ended 31 March 2007.

Background Papers

Your questions and views

If you have any questions about the matters contained in this paper please get in touch with the Contact Officer whose telephone number is given at the head of the paper.



Report to PENSION FUND COMMITTEE

Title: Update on Risk Assessment for the Pension Fund

Date: 29 November 2007

Author: Treasury Manager

Contact Officer: Julie Edwards 01296 383910

Electoral Divisions Affected: n/a

Summary

To update the Pension Fund risk register.

Recommendation

The Group is asked to consider the Pension Fund risk register

A. Background

At its meeting on 11 October 2005 the Pension Fund Advisory Group (PFAG) identified the risks facing the Pension Fund which were consolidated into the Pension Fund risk register which was subsequently reviewed at six monthly intervals, the latest review took place on 19 April 2007, see Appendix 1.

Members are asked to review:

- that the descriptions of risk are still relevant
- the scores attributed to the impact and probability of the untreated risk
- risk treatment
- the scores attributed to the impact and probability of the residual risk.

The Risk Register will next be reviewed by the Pension Fund Committee at its meeting on 17 April 2008.

B. Resource Implications

There are none.

C. Legal Implications

None.

D. Other implications / issues

None.

Your questions and views

If you have any questions about the matters contained in this paper please get in touch with the Contact Officer whose telephone number is given at the head of the paper.

RISK REGISTER

Service Area

PENSION FUND

Updated 19 April 2007

User notes: This spreadsheet has automatic conditional formatting which changes the colour of the scoring column, Amber must go to The portfolio management team, red must go to COMT

Ref	Description of risk, ie what is the threat or opportunity to the achievement of a business/project objective, use format: "If <event happens> then <consequence of event>"	Assessment of untreated risk		Risk Treatment, ie what are we going to do about this risk	Assessment of residual risk		Owner	Last PFAG review date	Next PFAG review date	
		Impact	Probability		Impact	Probability				
P1	If the strategy does not produce the returns as envisaged / required (potentially caused by incorrect assumptions) then funds perform worse than expected, deficit increases, pressure on employer contributions, pressure on Council Tax and pressure on Pension Fund to take extreme stance	3	4	12	ongoing	ongoing	Strategy reviewed every 3 years Review strategy more frequently - annual refresh Action Plan where issues arise	Pension Fund Committee and Head of Finance	19-Apr-07	29-Nov-07
P2	If there is a significant downturn in a particular sector / geographical location then funds perform worse than expected, deficit increases, pressure on Council Tax and pressure on Pension Fund to take extreme stance	2	5	10	ongoing	ongoing	Strategy reviewed every 3 years Review strategy more frequently - annual refresh Action Plan where issues arise	Pension Fund Committee and Head of Finance	19-Apr-07	29-Nov-07
P3	If a new investment vehicle is not understood by PFAG then loss of control, limited governance exercised, poor controls / limited challenge and errors.	2	2	4	ongoing	ongoing	Ensure adequate training (more intense) Change structure of advice.	Pension Fund Committee and Head of Finance	19-Apr-07	29-Nov-07
P4	If there are natural or man made disasters / problems impacts on the markets long term then loss of confidence, worried customers, lower returns and increased liabilities	2	4	8	ongoing	ongoing	Be aware	Pension Fund Committee and Head of Finance	19-Apr-07	29-Nov-07
P5	If too many early retirements then the ratio of pensioners contributors gets worse, less able to meet obligations pressure on contributions	2	5	10	ongoing	ongoing	Tighter early retirement regime	Pension Fund Committee and Head of Finance	19-Apr-07	29-Nov-07
P6	If Local Government restructures then an increase in early retirements, increase in administration costs and impact on revenue.	3	5	15	ongoing	ongoing	Make sure that arrangements are tight.	Pension Fund Committee and Head of Finance	19-Apr-07	29-Nov-07
P7	If significant changes in government regulations, for example, FRS17 then limited opportunities, complete change in perspective and change in obligations.	1	2	2	ongoing	ongoing	Not within the Pension Fund's control	Pension Fund Committee and Head of Finance	19-Apr-07	29-Nov-07
P8	If there is a radical change in the group composition of Pension Fund Committee then there will be less control	1	5	5	ongoing	ongoing	Political changes, no control	Pension Fund Committee and Head of Finance	19-Apr-07	29-Nov-07
P9	If there is fraud at some point in the "chain" (within the Council or Fund Management House) then loss of assets, damage to credibility and reputation and potential litigation.	4	2	8	ongoing	ongoing	FRAG 21 reports, SAS70, AAF01/06 Relationships with fund managers	Pension Fund Committee and Head of Finance	19-Apr-07	29-Nov-07
P10	If there is poor Fund management caused by wrong selection, loss of key staff, change in process or not keeping up with the market then there will be poor performance, reduced assets, damage to reputation and increased deficit.	2	3	6	ongoing	ongoing	Fund managers' performance reviewed quarterly	Pension Fund Committee and Head of Finance	19-Apr-07	29-Nov-07
P11	If there is an underestimation of pensioner longevity then there will be a failure to have high enough pension contributions and increased pressure on future contributions.	4	5	20	ongoing	ongoing	Not within the Pension Fund's control Actuaries review projection of longevity regularly.	Pension Fund Committee and Head of Finance	19-Apr-07	29-Nov-07
P12	If there is a failure (by Government) to introduce the required reforms to the pensions market then there will be panic actions, short term view taken, future unclear and loss of confidence.	3	3	9	ongoing	ongoing	Ensure compliance with draft Regulations Planned communication	Pension Fund Committee and Head of Finance	19-Apr-07	29-Nov-07
P13	If inflation is significantly greater than that currently forecast then there will be lower bond returns, pay levels increase and the deficit widens.	3	3	9	ongoing	ongoing	Review bond performance regularly	Pension Fund Committee and Head of Finance	19-Apr-07	29-Nov-07

Ref	Description of risk, ie what is the threat or opportunity to the achievement of a business/project objective, use format "If <event happens> then <consequence of event>"	Assessment of untreated risk		Risk Treatment, ie what are we going to do about this risk		Assessment of residual risk		Owner	Last PFAG review date	Next PFAG review date		
		Impact	Probability	Untreated score (don't write in here)	Proximity, ie when will this risk impact	Action	By when				Impact	Probability
P14	If there is loss of confidence by employees and employers in the Pension Fund management then political fallout, seen as a poor performer, criticism from external audit and PIR report	2	2	4	ongoing	◆ Pension Fund Communications Officer	ongoing	2	1	2	19-Apr-07	29-Nov-07
P15	If stock market volatility at key points in the cycle e.g. at time of actuarial review then fail to keep pace with inflation, deficit grows and pressure on employer costs.	2	2	4	ongoing	◆ Ongoing review	ongoing	2	2	4	19-Apr-07	29-Nov-07
P16	If failure of fund management house or nominee company caused by financial issues, a catastrophic event e.g. terrorism or company policy change e.g. leaving the UK then short term performance failure, time and cost implications and potential loss of opportunity if at the wrong moment.	2	1	2	ongoing	◆ Ongoing review	ongoing	2	1	2	19-Apr-07	29-Nov-07
P17	If paid official does not follow policy decision or inappropriate / radical policy decision then too great an exposure in certain areas, greater volatility, break down of trust, policy decisions slowed, loss of opportunity and reputation damage.	3	2	6	ongoing	◆ Performance management of officers	ongoing	3	1	3	19-Apr-07	29-Nov-07
				0						0		



Report to Pension Fund Committee

Title: Governance Policy

Date: 29th November 2007

Date Decision can be implemented: 29th November 2007

Author: Assistant Head of Finance, Corporate Financial Services

Contact Officer: Clive Palfreyman. 01296 382280

Electoral Divisions Affected: n/a

Portfolio Areas Affected: All

Summary

PFAG approved new Pension Fund Governance arrangements at their November 2006 meeting which were ratified by the December 2006 Regulatory and Audit Committee and April 2007 Full Council. New procedures were implemented in May 2007. To reflect these changes, the Pension Fund's Governance Policy Statement has been updated.

Recommendation(s)

PFAG Members are asked to APPROVE the Governance Policy Statement.

A. Main issues arising

Attached to this report is the proposal for the updated Governance Policy Statement. This Governance Policy Statement sets out the County Council's arrangements for discharging its responsibilities for Pension Fund matters and covers:

- How the Administering Authority delegates its functions in relation to the Pension Fund to a committee, a sub-committee or an officer of the Council;
- The frequency of any committee's meetings;
- The terms of reference, structure and operational procedures in relation to the use of delegated powers; and
- Whether the committee includes representatives of employers or scheme members and if so, whether they have voting rights.

The statement has been updated to take account of revised governance arrangements implemented in May 2007.

B. Other options available and their pros and cons

LGPS administration rules require that the Fund has a Governance Policy Statement. Members have previously considered what governance arrangements should exist.

C. Resource Implications

Resource implications have been considered at previous meetings.

D. Legal Implications

It is a statutory requirement for the Council provide a pensions service. Revised terms of reference are included within the Constitution.

E. Other implications / issues

None.

F. Feedback from consultation and Local Member Views

Feedback on the revised governance arrangements has been obtained and considered.

G. Communication Issues

Not applicable.

H. Progress Monitoring

A governance review will be undertaken in March 2008.

I. Background Papers

1 March 07 PFAG discussion.

8 December 06 Regulatory and Audit Committee PFAG report

28 November PFAG 06 Agenda Item 4

27 September PFAG 06 Awayday discussion and presentations.

Your questions and views

If you have any questions about the matters contained in this paper please get in touch with the Contact Officer whose telephone number is given at the head of the paper.

If you have any views on this paper that you would like the Cabinet Member to consider, or if you wish to object to the proposed decision, please inform the Democratic Services Team by 5.00pm on [Date]. This can be done by telephone (to 01296 383604 or 383610), Fax (to 01296 382538), or e-mail to cabinet@buckscc.gov.uk

Governance Policy Statement of Buckinghamshire County Council Pension Fund

Background

1. The Local Government Pension Scheme (England and Wales) Regulations provide the statutory framework within which LGPS administering authorities are required to publish a governance policy statement. This Policy should be read in conjunction with our Communication Policy.

Responsibilities

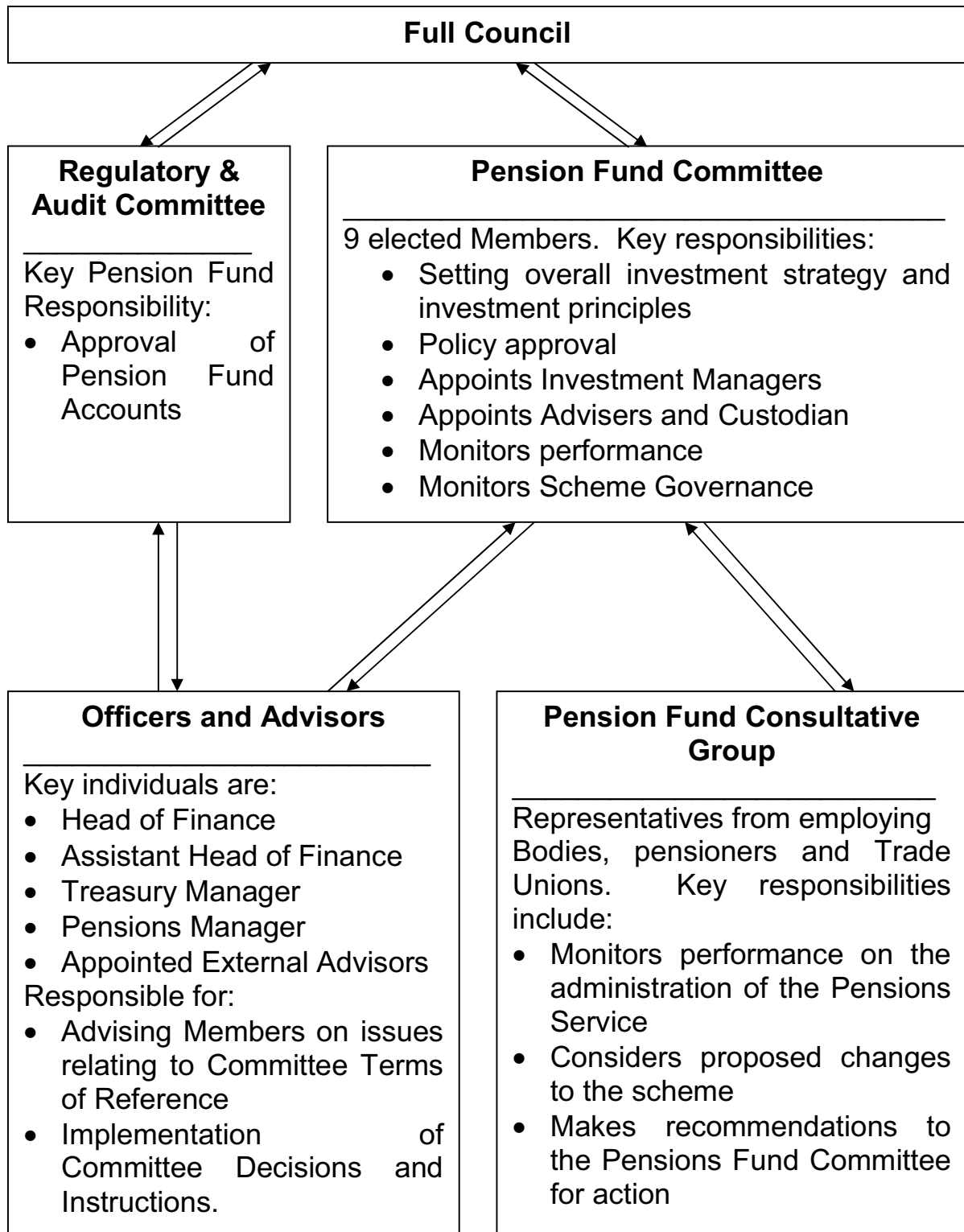
2. Buckinghamshire County Council is the designated statutory body responsible for administering the Pension Fund on behalf of the constituent Scheduled and Admitted bodies. Elected Members (the full Council) have overall responsibility for the governance of the Scheme. The governance framework is supported by:
 - (a) The Pension Fund Committee (decision making);
 - (b) The Pension Fund Consultative Group;
 - (c) Officers of the Council; and
 - (d) Professional Advisors.
3. Under the County Council's constitution, the County Council has delegated responsibility for decision-making on pension fund investments to the Pension Fund Committee. This Committee consults with the Head of Finance and the Pension Fund Professional Advisors before making decisions within the scope of their delegated powers. The Pension Fund Committee is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out regular reviews and monitoring of investments.
4. The Pension Fund Committee report annually to the Council on the discharge of their delegated responsibilities and the performance of the Fund. Responsibilities are outlined in the Pension Fund Committee's Terms of Reference (Appendix 1).
5. The key responsibilities delegated to the Head of Finance are:
 - o To act as the statutory officer of the Council under Section 151 of the Local Government Act 1972 and Section 114 of the Local Government Finance Act 1988;
 - o To manage and invest the Pension Fund in accordance with instruction from the Pension Fund Committee; and
 - o To monitor the performance of Fund Managers, the Actuary and the Custodian, reporting to the Pension Fund Committee in accordance with the Pension Fund Committee's requirements and to provide advice as necessary.
6. Responsibilities of the Pension Fund Consultative Group are outlined in its Terms of Reference (Appendix 1). The role of the Pension Fund Consultative Group is to provide a forum for stakeholder views to be raised.

Communication

7. Procedures for communicating with employers contributing to the Pension Fund are set out in the Communication Policy Statement which is available on the Pension Fund website.
8. The Pension Fund Committee has six regular meetings scheduled each year. At four of the meetings the Committee receives a report on the investment performance of the fund in the quarter and meets the Fund's investment managers to review the manager's performance. The Committee receives an annual report from the Fund's independent performance measurement advisor, which reviews the long-term performance of the fund and of each of the investment managers in relation to their targets. The other two meetings consider other issues, for example update on the Risk Assessment for the Pension Fund, Statement of Accounts, to review policy statements. Minutes are available at http://www.buckscc.gov.uk/cabinet_papers/committee_pension_fund/index.htm
9. The Pension Fund Consultative Group meets twice per year.
10. The Regulatory and Audit Committee is charged with receiving and approving the Fund accounts. This Committee also reports to the County Council.

Membership & Representation

11. Membership of both of the Pension Fund Committee and the Consultative Group is outlined within respective terms of reference (Appendix 1). Membership shall comprise of representatives from Buckinghamshire County Council, Milton Keynes Council, Thames Valley Police Authority and the four District Councils within Buckinghamshire for both panels. The Consultative Group shall also ensure appropriate representation exists for Scheme Employers, Trade Unions, Scheme Pensioners and Scheme Members.
12. The Myners Investment Principles require that investment decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. Authorities should also ensure that they have sufficient in-house staff to support them in their investment responsibilities. To this end a rolling programme of training is in place for the Pension Fund Committee, which is supported by the Finance Service.
13. Individual employers should all have a means of governing the discretionary elements of the LGPS. A Discretionary payments policy has been established.
14. All employers in the Fund are invited to attend an Annual General Meeting, which takes place after the Fund's financial statements have been published.
15. The following is a graphical representation of the Fund's governance arrangements:



Review

16. Additional information on the activities of the Fund can be found in the annual report, which is sent to all employers and is available from the Pensions team using the contact details below.
17. This statement will be reviewed on at least an annual basis. More frequent updates may be required to reflect changes in the governance of the Scheme. For more information call 01296 383755 or email pensions@buckscc.gov.uk

Agenda Item 13

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

Document is Restricted

Agenda Item 14

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

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Agenda Item 15

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

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