Annual Business Plan and Medium Term Strategy 2015-16 to 2017-18

Cambridgeshire Pension Fund

LGSS

Executive summary

The purpose of this Annual Business Plan and Medium Term Strategy 2015-2018 is to outline the Fund's objectives and provide a plan of action as to how key priorities over the next three years will be achieved in order to further these objectives.

Over the last few years the Fund has faced increasing complexities and there has been and continues to be new legislation that has fundamentally changed the way in which we work and our relationship with our stakeholders.The complexities have stemmed from but are not limted to the following;

- Introduction of the 2014 LGPS Scheme
- Public Service Pensions Act 2013
- Funding pressures resulting from past and present market conditions and increased longevity
- Overriding HMRC legislation
- Automatic Enrolment legislation
- Increased diversity of Scheme Employers resulting from alternative service provision models
- The Academy agenda
- End of contracting-out of the State Second Pension (S2P – previously SERPS)

This means that the Fund faces challenging times and will need to be flexible and responsive to adapt to all these and future changes in a timely and effective manner.

This Business Plan also outlines the expected non-investment related Fund receipts and payments, for the current financial year 2014-15, and projections for 2015-16 through to 2017-18 as well as the administration and investment expenses.

This Annual Business Plan also details the key performance indicators by which the Fund's performance will be measured. A full lisiting of these indicators can be found in Appendix 1.

Officers will update the Pension Fund Committee (as it will be known from 1 April 2015) on the progress made against all aspects of the Business Plan in the Business Plan Update reports presented at each Committee meeting.

Purpose and scope of the Fund

The Cambridgeshire Pension Fund is one of 89 Funds making up the Local Government Pension Scheme (LGPS). Cambridgeshire County Council is the statutorily appointed Administering Authority for the Cambridgeshire Pension Fund.

In 2014, the LGPS became a career revalued average pension scheme having previously been a final salary pension scheme since its inception. The LGPS is principally funded by its constituent employers and members, with assistance from investment returns. Unlike other public service pension schemes, the LGPS is fully invested in financial markets and aimed to be fully funded over the long term.

Administration of the Fund

In 2012, the administration of the Cambridgeshire Pension Fund was converged with Northamptonshire Pension Fund following the creation of LGSS, a joint partnership between Cambridgeshire and Northamptonshire County Councils. The Pension Funds, however, remain as two distinct entities.

Both administration and investment activites are now fully converged and based at the Northamptonshire offices. Since 2012, both Funds have benefited from cost savings through the ability to procure services such as investment consultancy and custodian services on a joint basis as well as streamlining the provision of the administration functions.

Governance and Management of the Fund

The Cambridgeshire Pension Fund Committee is responsible for the proper administration of the Fund in all its aspects.

The Pension Fund Committee has its delegation direct from full Council. The Committee focuses on all aspects of administration and investment and is assited by an Investment Sub-Committee that looks at the operational governance of investment issues.

From 1 April 2015, there will be a further layer of governance in the form of a non-decision making local pension board. The local pension board is a direct requirement of the Public Service Pensions Act 2013 and its role as defined in the Regulations is to assist the Administering Authority (Cambridgeshire County Council) to:

- Secure compliance with the LGPS regulations and other legislation relating to the governance and administration of the LGPS and also the requirements imposed by the Pensions Regulator in relation to the LGPS; and
- Ensure the effective and efficient governance and administration of the LGPS.

Stakeholders of the Pension Fund

Stakeholders of the Fund fall into the following categories;

- Active, deferred and retired members of the Scheme, their dependants and prospective members
- Scheme Employers
- Regulatory Bodies
    - DCLG (the responsible authority)
    - HMRC
    - Department of Work and Pensions
    - The Pensions Regulator
- Trades Unions
- Administering Authority (the scheme manager)
- The UK tax-payers

The Fund has a responsibility to all of its stakeholders to carry out its business in an open and transparent manner.

Fund Objectives

The objectives have been agreed for the Fund through key strategy documents such as the Funding Strategy Statement, Communications Policy, Governance Compliance Statement, Knowledge Management Policy and Statement of Investment Principles.

Perspective	Outcome
Funding and Investment	• To ensure that the Fund is able to meet its liabilities for pensions and other benefits with the minimum, stable level of employer contributions. • To ensure that sufficient resources are available to meet all liabilities as they fall due. • To maximise the returns from its investments within reasonable risk parameters.
Communications	• Promote the Scheme as a valuable benefit. • Deliver a clear and consistent message; that is simple, relevant and impactful, uses plain English throughout and engages all levels of stakeholders understanding. • Provide clear information about the Scheme, including changes to the Scheme, and educate and engage with members so that they can make informed decisions about their benefits. • Seek and review regular feedback from all stakeholders about communication and shape future communications appropriately. • Look for efficiencies in delivering communications including through greater use of technology and partnership working.
Administration	• Provide a high quality, friendly and informative administration service to the Funds' stakeholders. • Administer the Funds in a cost effective and efficient manner utilising technology. • Ensure the Funds and its stakeholders are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Funds. • Put in place standards for the Fund and its employers and ensure these standards are monitored and developed as necessary. • Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount. • Maintain accurate records and ensure data is protected and has authorised use only. • Understand the issues affecting scheme employers and the LGPS in the local and national context and adapt strategy and practice in response to this.
Governance	• To have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies. • Ensure the Fund and its stakeholders have the appropriate skills and receive training to ensure those skills are maintained in a changing environment.

Key Fund activities 2015-16

There are a number of activities facing the Fund in the administration and governance of the Local Government Pension Scheme for the Cambridgeshire Pension Fund during 2015-16 and into subsequent years.

These activities are related to the objectives of the Fund and as a result of changing Regulations. A number of the activities are also scheduled reviews of polices, strategies and contractual services which enable the Fund to carry out its functions effectively.

The following tables identify each of the activities and provides the course of action by which they will be managed and achieved.

Regulatory, strategic/objective based and contractual activities

Activity	Lead Officer	Timescale for completion	Approach to achieving/managing
Regulatory activities			
Implementing the 2015 governance changes.	Governance and Regulations Manager	This will be an ongoing process throughout 2015-16 into 2016-17.	• Embed the Pensions Regulator Code of Practice – Governance and administration of public service pension schemes. • Assist LGSS Democratic Services with the creation and ongoing operation of the Public Service Pensions Act 2013 requirement for each public service pension scheme to have a local pension board.
Strategic/Objective based activities			
Improving employer performance and engagement.	Employer and Systems Manager	Ongoing.	• Undertake full review of Administration Strategy including approach to dealing with poor performing employers. • Introduce improved system for escalation of endemic employer issues from casework officers to

			Employers Team.
Customer satisfaction.	All	This will be an ongoing process throughout 2015-16 into 2016-17.	• Organisational Workforce Development to facilitate Customer Service Excellence Standard training with a view to achieving this Standard. • Embed customer service culture. • Carry out customer satisfaction surveys. • Continue to build on staff capabilities with a number of learning and development activities.
Source efficiencies to reduce the cost of administering the Fund.	All	Throughout 2015-16	• Improve efficiency of business processes, particularly those in connection with non Altair based activity. • Improve employer performance. • Move to electronic annual benefit statements. • Promote greater use of employer and member self-service facility. • Continue to build on staff capabilities with a number of learning and development activities.
Managing the risks associated with the increasing volume and diversity of scheme employers as a result of the move to alternative service delivery models.	Employer and Systems Manager	Throughout 2015-16	• Monitor and manage resource pressures as a result of increasing numbers of scheme employers. • Identify split between statutory and potentially chargeable non-statutory activity. • Investigate and progress as appropriate employer covenant monitoring, liability monitoring and employer risk register projects.
Improve data quality.	All	Throughout 2015-16	• The Guaranteed Minimum Pension (GMP) reconciliation project will ensure that the correct amount of GMP is held on both Altair and on the individual pensioner payroll records. • Reconciliation of the pensioner payroll against Altair pensioner records will be run in tandem with the GMP reconciliation project.

Renewal/review of contracts			
Procurement of actuarial, governance and benefits consultancy service.	Governance and Regulations Manager	Procurement of a new supplier or reawarding to existing supplier process to complete by June 2017.	• LGSS Pensions participation in the refreshing of the National LGPS Framework for Actuarial and Benefits Consultancy contracts to commence from May 2015.
Review Additional Voluntary Contribution providers.	All	Information to be gathered for Pension Fund Committee consideration for October 2015 meeting of the Committee.	• Gather investment and membership data and analyse performance and popularity of the current providers. • Seek information on other suppliers Additional Voluntary Contribution facilities for LGPS members.

Policy and Strategy activities

Policy/Strategy	Action	Target date to be achieved
Pension Overpayments Policy	Draft new policy on how pension overpayments should be treated.	Draft policy to be considered by the Pension Fund Committee at the June 2015 meeting.
Admission Bodies, Scheme Employers and Bulk Transfer Policy	Update existing policy following new Regulations.	Draft policy to be considered by the Pension Fund Committee at the June 2015 meeting.
Objectives of the Fund	Review current objectives to ensure relevance and determine changes and additions.	Report to be presented to the Pension Fund Committee for discussion at the July 2015 Annual General Meeting.
Investment Strategy	Review of current strategy to ensure relevance and effectiveness.	Draft strategy to be considered by the Pension Fund Committee at the July 2015 Annual General Meeting.
Knowledge Management Policy	Review of current policy to ensure relevance and effectiveness.	Draft policy to be approved at the July 2015 Annual General Meeting.
Risk Register	Review current register to ensure relevance and determine changes and additions.	Draft Risk Register to be considered by the Pension Fund Committee at the July 2015 Annual General Meeting.

Treasury Management Strategy	Review of current strategy to ensure relevance and effectiveness.	Draft strategy to be considered by the Pension Fund Committee at the December 2015 meeting.
Sustainable and Responsible Investment Policy	Review of current policy to ensure relevance and effectiveness.	Draft policy to be considered by the Investment Sub-Committee at the February 2016 meeting.
Communication Strategy	Review of current strategy to ensure relevance and effectiveness.	Draft policy to be considered by the Pension Fund Committee at the March 2016 meeting.
Administration Strategy	Review of current strategy to ensure relevance and effectiveness.	Draft policy to be considered by the Pension Fund Committee at the March 2016 meeting.

Financial forecasting

In order for the Fund to meet its objectives and provide a forecast of both the Fund account and the cost of running the Fund, it needs to understand the external pressues it faces. These pressures range from changing membership profiles, the levels of employee and employer contributions expected to be received, the changing types of employers withn the Fund and any changes in payments to Scheme members.

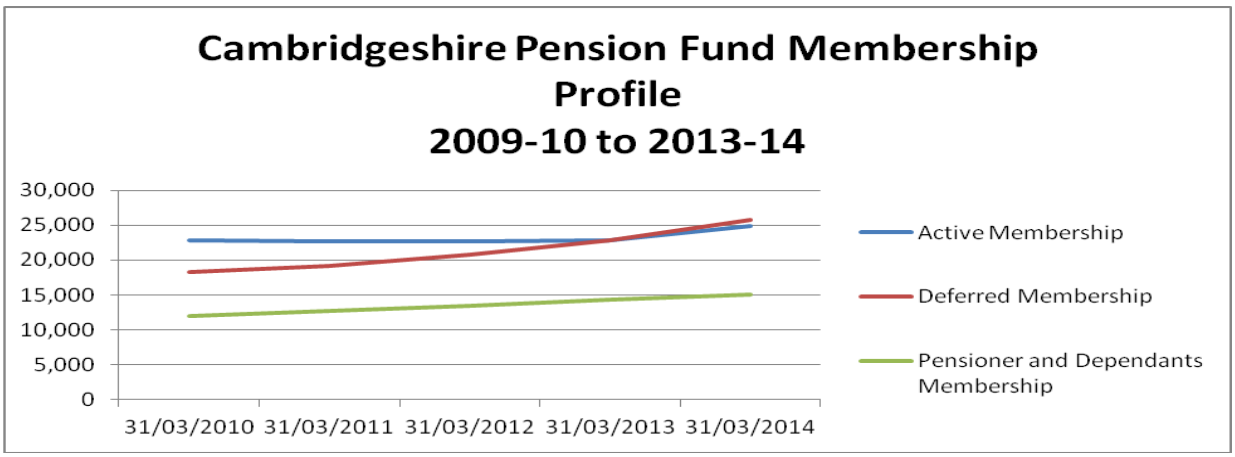
The following section provides a commentary and statistical information on these pressures which has been used in the financial forecasting for the period 2015-16 to 2017-18 on pages 12 and 13. Key data on the Fund's membership profile, funding position, investment allocations and an actuarial cash flow forecast can be found in Appendix 2.

Membership profiles

The membership profile of the Cambridgeshire Fund between 2009-10 and 2013-14, reflected in the chart below, shows active members have increased very slightly, with an increase in pensioner members and a more significant increase in deferred members. Active membership has not fallen despite the contining austerity pressures. The 50:50 membership option and automatic enrolment appear to have provided stability to the active membership numbers.

However, the 50:50 option whilst retaining members may significantly impact on contribution levels if a significant number adopt that option. The Fund will understand the impact of the 50:50 membership option after the 2014-15 year end processes are complete.

The increase in numbers of deferred and pensioner numbers are to be expected in a gradually maturing Fund.



Employee contributions

In respect of the new banded contribution rates the higher paid employees have seen significant rises to their contributions, which could encourage them to transfer to the

50:50 section of the scheme. Lower paid members have seen little or no increases in their rates. A factor that has become more common is with outsourcing which has seen more closure to new entrants, which in the short term may not see deterioration in contributions but over time will have an impact.

Employer contributions

The results of the 2013 triennial valuation will, over the three years, generate a net increase of contributions to the Fund and is the biggest single reason that employer contributions will maintain a steady annual increase, as each year sees a stepped increase in employer rates. For the majority of employers a percentage of payroll and cash deficit value was adopted, this has the benefit of protecting the Fund against a potentially falling payroll base.

Initiatives such as Automatic Enrolment and the 50:50 option will also protect the income into the Fund via additional employer contributions. In particular, the 50:50 option will protect income to the Fund as the employer is still required to pay their contributions at the full employer rate. This initiative should see a benefit for the employer as any “over payment” against future liabilities will be credited to the relevant employer account in the Fund which may soften, depending on volume, future employer increases.

The main detractor on employer contributions could be the trend for outsourced employers to take the closed scheme option which would deny any new employees who were not employed at the start date of the outsourced contract from entering the scheme. In addition, should the LGPS Regulations continue to allow wholly owned companies of scheduled bodies to designate which members are eligible for entry to the scheme, this could add further pressures to the Fund.

Member benefits

Increases in the number of retirees combined with the index link increases to pensions will see the cost of benefits rise quite significantly, compouned by any continuation of Scheme employers using the pension Scheme for workforce management purposes. A longer term factor is the increases in longevity which is seeing an average of a one year increase in live expectancy every decade.

Fund employers

The 2014-15 year has also seen a continued increase in the number and diversity of scheme employers in the Fund. The number of schools converting to academy status continues to increase, sometimes forming single employers or becoming part of a multi-academy trust. As pressures on local authority budgets increase over the next few years, the Fund is likely to see more scheduled bodies outsourcing services or seeking alternative service provision models which will further add to the number of scheme employers in the Fund adding to the cost of administration.

Fund Account

Based on the information in the previous section,the following table sets out Fund Account forecasts covering the period 2014-15 to 2017-18.

Fund Account				
	2014-15 Forecast £'000	**2015-16 Forecast £'000**	**2016-17 Forecast £'000**	**2017-18 Forecast £'000**
Contributions.	-105,100	-111,100	-115,400	-120,100
Transfers in from other pension funds:	-4,100	-5,700	-5,700	-5,700
TOTAL INCOME	**-109,200**	**-116,800**	**-121,100**	**-125,800**
Benefits payable.	93,800	97,800	102,300	107,200
Payments to and on account of leavers.	36,680	5,700	5,700	5,700
Administration Expenses.	2,768	2,608	2,648	2,683
TOTAL EXPENDITURE	**133,248**	**106,108**	**110,648**	**115,583**
Net additions from dealing with members.	**24,048**	**-10,692**	**-10,452**	**-10,217**

The deficit for 2014-15 occurs due to the bulk transfer of membership (and therefore asset share) for those members with an active, frozen refund, deferred or pension members of the Cambridgeshire Probation Service whose pension administration was transferred to the Greater Manchester Pension Fund as part of a national centralisation programme. The value of the transfer was £34m without which the Fund would have forecast a surplus of approximately £10m.

In addition to membership profiles the forecasts have been based upon a wide range of information including, actuarial cash flow forecasts and assumptions on future pay and pension inflation, in addition to making assumptions regarding the 2016 valuation.

Transfers in from other pension funds and payments to and on account of leavers are deliberately offset reflecting the demand led and unpredictability of these activities.

Administration expenses are explained in a separate section below.

Pensions Administration Expenses

Pensions Administration is a historical definition and covers all aspects of support costs for managing a LGPS fund. Recently CIPFA commenced a review of the breakdown and future presentation of these costs to better reflect their nature. LGSS Pension Services concur with the need for such a review and indeed commenced their own "reclassification" of costs, especially to align costs following a number of consultations during 2014, in particular the "Call for Evidence" initiative, focussing on investment related activities.

As LGSS Pensions Service is the joint administrator of the Cambridgeshire and Northamptonshire Pension Funds. Joint costs such as investment consultancy and custodian services are shared appropriately between the respective Funds.

The table below sets out the forecast and estimate of administration and investment expenses up to 2017-18. The definition of each of the expenditure categories are detailed beneath the table.

Administration and Investment Expenses.				
	2014-15 Forecast £'000	**2015-16 Estimate £'000**	**2016-17 Estimate £'000**	**2017-18 Estimate £'000**
LGSS Pension Services	1,496	1,491	1,495	1,493
County Council Related Overheads	879	702	716	730
Administration Expenses	**2,375**	**2,193**	**2,211**	**2,224**
Direct Fund Administration expenses	393	415	437	459
Total Administration Expenses*1	**2,768**	**2,608**	**2,648**	**2,683**
Investment Expenses	243	250	270	254
Total Administration and Investment Expenses *2	**3,011**	**2,858**	**2,918**	**2,937**

*1 [Note11 of the Statement of Accounts]
*2 [Note14 of the Statement of Accounts – investment expenses reduce the return on investments in the Statement of Accounts and therefore will not touch the Fund Account shown above]

LGSS Pension Services being the core service costs covering staffing and activities such as the pensions administration system, member services, communications, employer services and accounting services. These costs are centrally collated and recharged to the respective Funds based upon membership numbers.

County Council Overheads are the costs of indirect services provided by the County Council to the Fund such as accommodation, payroll and exchequer services, and are recovered against the respective Funds based upon membership numbers.

Direct Fund Administration being mainly the costs of the Actuary, Audit, subscriptions, Governance and the CIPFA Skills and Knowledge framework and associated attendance at seminars and events. These costs are charged to the respective Funds based upon a mix of direct fund charge or apportioned against membership numbers, dependant upon their nature. The gradual increase in costs reflects both the expected increase in governance costs following the implementation of the Local Pension Board Regulations and increased costs associated with the 2016 Valuation.

Investment Expenses covering the custody costs, investment consultancy and performance monitoring and are mainly charged directly to the Pension Funds. All years reflect modest price increases and for 2016-17 costs are provided for an independent study on the performance and trading behaviour of the Funds' Investment Managers.

Influences on Fund Estimates

The following table looks at the factors that influence the estimation of the Fund Account in future years, split between items that will benefit the Fund's funding position and those that will put pressure on the Fund:

Influences on Fund Estimates		
	Positive	**Negative**
Employee Contributions	Stabilising active members	Reducing active membership
	50:50 Option	50:50 Option
	Auto Enrolment	Outsourcing – closure to new entrants
	New contribution bandings	New contribution bandings
Employer Contributions	Valuation Uplift	Outsourcing – closure to new entrants
	Auto Enrolment	
	50:50 option	
Benefit Payments		Index Linked uplifts
		Continuation of austerity programmes.
		Longevity
		Increased profile of pensioners
	Freedom and Choice (1 April 2015) – Transfers of individual member fund values out of the Fund. Although there is no experience data available, it is possible that an increased number of transfers out of the Fund could actually benefit liabilities. Future legislation may also allow the Fund to restrict the value of a transfer payment should an increased amount of payments result in a worsening of the Funding position.	

Key Performance Indicators

Detailed below are the Key Performance Indicators that the LGSS Pensions Service will report on during 2015-16 as agreed in the Fund's Administration Strategy.

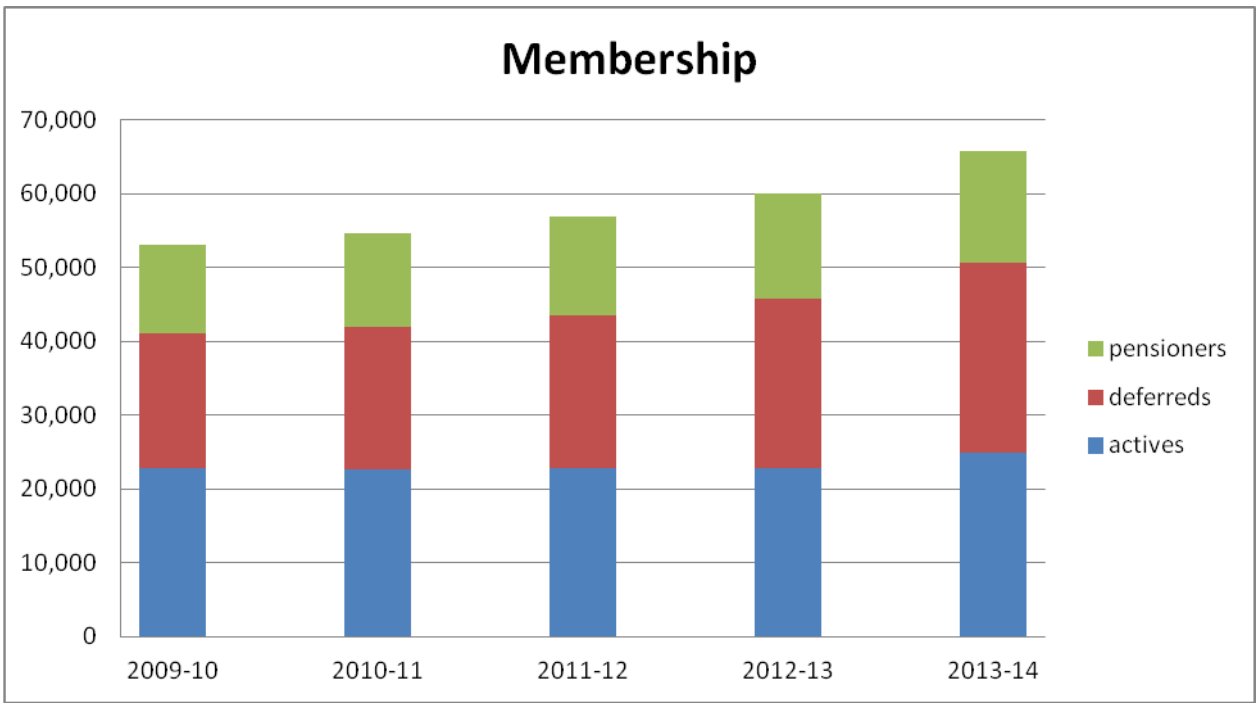
Function/Task	Indicator	Target
Notify leavers of deferred benefit entitlement.	Deferred award letter sent within 40 working days of last day of employment.	90%
Payment of retirement benefits from active employment.	Payment of lump sum within 5 working days of payable date or date of receiving all necessary information if later. First pension paid in the month of leaving or in month of receiving all necessary information if later.	95%
Award dependant benefits.	Issue award within 5 working days of receiving all necessary information.	95%
Provide a maximum of one estimate of benefits to employees per year on request.	Estimate in agreed format provided within 10 working days from receipt of all information.	90%
Provide transfer-in quote to scheme member.	Letter issued within 10 working days of receipt of all appropriate information.	100%
Arrange for the correct deduction of employee and employer contributions to Pension Fund in a timely manner, providing an associated monthly statement/schedule in a format acceptable to the Administering Authority.	Number of months in the year where contributions were in the Pension Fund by the 19th calendar day of month after deduction and statement/schedule was received by the same date as payment.	100%
Provide LGSS Pensions Service with accurate year end information in the prescribed format.	Accurate year end information to be provided for all scheme members by 30 April following contribution year end.	100%
Provide LGSS Pensions Service with all necessary information regarding new starters and hours/weeks per year variations in a format acceptable to the Administering Authority.	Accurate information provided within 10 working days of the relevant calendar month end or within 30 days of commencement/change if earlier where employer automatic enrolment duties apply.	95%
Notify the employer and scheme members of changes to the scheme rules.	Within one month of the LGSS Pensions Service being informed of the change.	95%
Issue annual benefit statements to active members as at 31 March each year.	By the following 31 August (pending timely receipt of satisfactory year end data from the scheme employer).	100%

Appendix 2

Key data of the Cambridgeshire Pension Fund

Membership

The membership profile of the Cambridgeshire Pension Fund, split by active, deferred and pensioner members, from April 2009 to March 2014 is shown below;



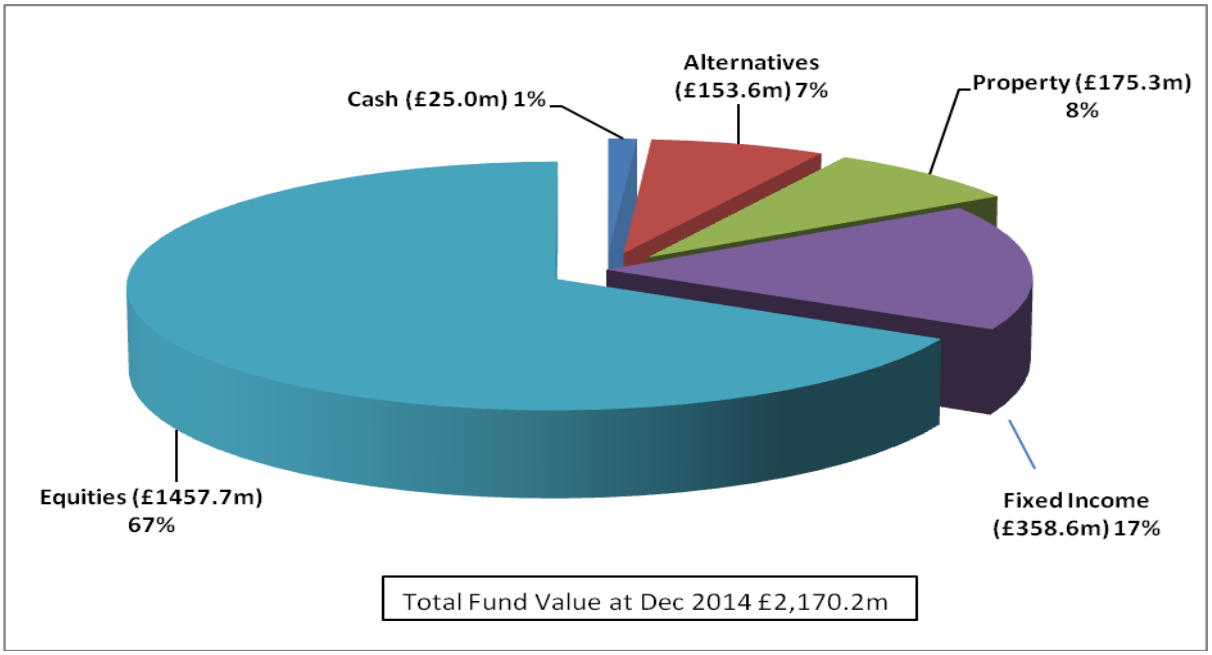
Assets and liabilities

As at 31 December 2014 the assets of the Fund were £2.1bn, which the Scheme Actuary has estimated are sufficient to meet 70.2% of the Fund's liabilities; this figure has been projected from data used for the 2013 Actuarial Valuation.

This is a reduction from a funding level of 72.4% that was certified by the Actuary at 31 March 2013. The reduction at 31 December 2014 is largely as a result of a decrease in bond yields, and subsequent discount rate, which places a higher value on the Fund's liabilities. This has been partially offset by a decrease in inflation and higher than anticipated investment returns.

Investments

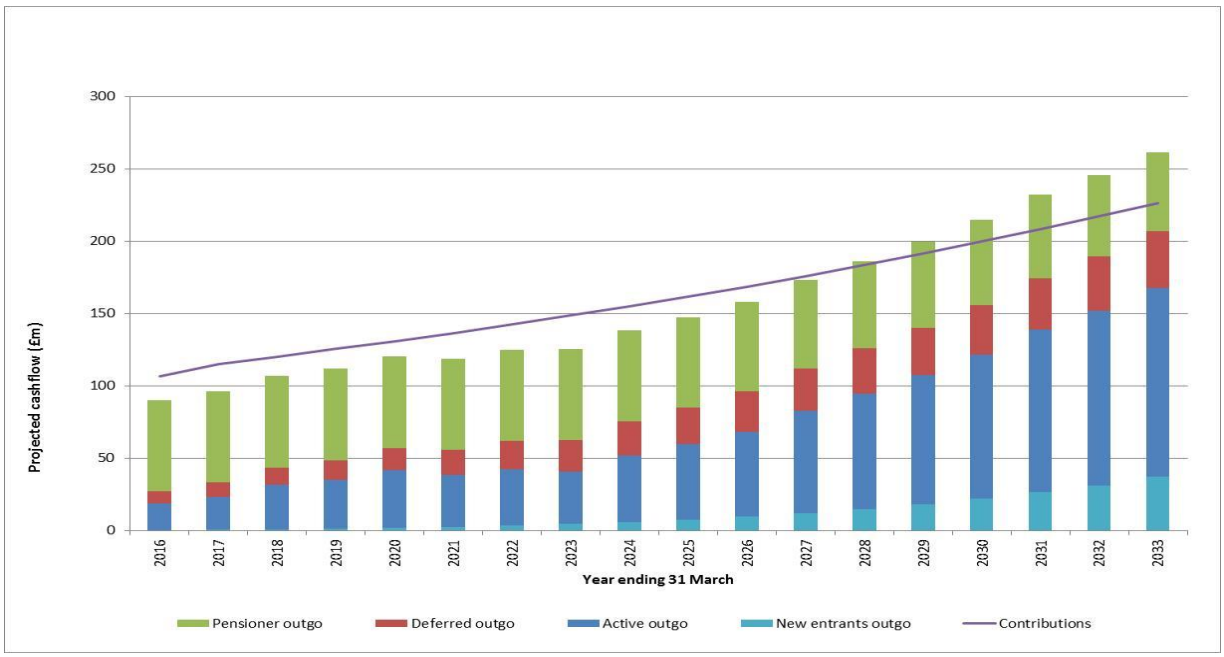
At 31 December 2014, the majority of assets were invested in return seeking assets, mainly equities as shown in the chart below. Compared to the Fund's strategic asset allocation, the Fund was overweight in equities by 1.95% and underweight in fixed income assets by 1.6%.



The Fund's assets are invested with the following managers:

Manager	**Asset class**	**£m**	**%**
Schroder	Multi Asset	702.60	32.4
State Street	Equities - Global	297.80	13.7
Newton	Equities - Global	259.10	11.9
Amundi	Equities - European	212.40	9.8
State Street	Equities - UK	205.80	9.5
Skagen	Equities - Emerging Market	88.10	4.1
Schroders	Property	175.30	8.1
Adams Street	Alternatives	52.00	2.4
Harbourvest Partners	Alternatives	40.80	1.9
UBS	Alternatives	17.90	0.8
Equitix	Alternatives	17.00	0.8
Cambridge and Counties Bank	Alternatives	16.70	0.8
Partners Group	Alternatives	9.20	0.4
M&G	Fixed Income	50.50	2.3
	Cash	25.00	1.1
		2170.20	**100**

* The UBS mandate includes a small legacy property allocation.

Actuarial Cashflow Forecasts

The chart below was provided by the Fund's Actuary to inform on the projected cashflow profile and shows a projected positive cashflow through to 2027, after which the Fund progressively shows a cash negative profile.