

Pension Fund Committee

Date: 19th March 2020

Report by: Head of Pensions

Subject:	Pension Fund Annual Business Plan Update report 2019/20
Purpose of the Report:	To present the Business Plan Update for the period 1 st November 2019 to the end of the financial year to the Pension Fund Committee.
Recommendations:	The Pension Fund Committee is asked to note the Business Plan Update to the end of the 2019/20 financial year.
Enquiries to:	Mark Whitby, Head of LGSS Pensions mwhitby@northamptonshire.gov.uk

1. Background

- 1.1 Good governance requires that updates to the pre-agreed Annual Business Plan and Medium-Term Strategy are provided to the Committee on a regular basis. This update highlights the progress made on the key activities for the period up to the end of 2019/20 financial year.
- 1.2 A full list of the key activities for the 2019/20 financial year can be found in appendix 1 of this report.

2. Key Pension Fund Activities

2.1 Service Delivery (SD)

Reference	Key action/task	2019/20				Medium term	
		Q1	Q2	Q3	Q4	2020/21	2021/22
SD1	Monitor staffing levels in line with organisational reform	✓G					

2.1.1 SD1 - Monitor staffing levels in line with organisational reform

Action: Keep under review the ability to recruit and retain staff during the forthcoming period of organisational reform with regards to the future shape of LGSS and local government in Northamptonshire anticipated in 2021. The Pension Fund Committee will be kept informed of all developments in this area.

Update: The Pensions Service had no recruitment and retention issues during the year. The Committee will be kept abreast of any impacts arising from 1) the move to a lead authority shared service model and 2) local government reorganisation in Northamptonshire.

Key Milestones:

- All actions to be completed for Q1 to Q4 April 2019 to March 2020 – **Completed.**

2.2 Governance and compliance (GC)

Reference	Key action/task	2019/20				Medium term	
		Q1	Q2	Q3	Q4	2020/21	2021/22
GC1	Procure a supplier of specialist legal advice			✓G			
GC6	Scope potential liability reduction exercises				✓A		
GC7	Complete the Guaranteed Minimum Pension reconciliation project with rectification of members records				✓R		

2.2.1 GC1 – Procure a supplier of specialist legal advice

Action: The Fund needs to procure its own supplier of Legal Services that has a specialism in pensions and investment law. As such the National LGPS Framework for Legal Services will be used to conduct the procurement to avoid a full OJEU procurement process. It is proposed that the procurement is undertaken jointly with Northamptonshire Pension Fund to benefit from economies of scale as has been achieved with other joint procurements.

Update: The procurement for a specialist of legal advice has now concluded and a contract has been awarded to Squire Patton Boggs following a robust selection process, effective from 1 February 2020.

Key Milestones:

- Produce specification Q3 September 2019 – **Completed**
- Publish tender Q3– **Completed**
- Award contract December 2019 – **Completed in January 2020.**

2.2.2 GC6 - Scope potential liability reduction exercises

Action: The Fund has an increasing number of records belonging to members that are due a refund of pension contributions (due to having insufficient membership of the scheme to qualify for a pension entitlement) and also a large number of pensions in payment of a very low value that could be fully commuted into a one-off payment which would extinguish any future liability from the Fund.

It has become increasingly common for pension schemes to look at ways of reducing these numbers particularly when the annual cost of the pensions administration and payroll system is calculated on the number of records held. As such the Fund should look at communicating with these members in order to assess their eligibility and desire to receive payment of the refund or fully commute their benefits.

Update: Due to the continuing work to improve the quality of address data held by the Fund and reducing the number of undecided leavers it has been necessary to delay the scoping of this exercise until February 2021 by when there will be a better understanding of the number of records involved and the potential amount of liability that could be reduced.

Key Milestones:

- Scope exercise January to March 2020 – **Delayed –see update.**
- Conduct exercise April 2020 to March 2021 – **Delayed – see update.**

2.2.3 GC7 - Complete the Guaranteed Minimum Pension reconciliation project with rectification of members' records

Action: Following the introduction of the end of contracting-out on 6th April 2016, it was necessary for all pension schemes to reconcile their scheme members' contracted out liability against that recorded by Her Majesty's Revenue and Customs (HMRC). Failure to record the correct data for individual scheme members could result in schemes having to pay benefits in respect of members for which they do not have a liability. The Fund outsourced the reconciliation stage of this project to ITM Limited and it was estimated to complete in April 2019 when HMRC had responded to all queries that have been raised. The next stage would be to rectify any errors with the data held by the Fund.

Due to the number of member records estimated to require rectification, it was proposed that ITM Limited will be procured jointly with Northamptonshire Pension Fund via direct award from the National LGPS Framework for Third Party Administration Services to complete this stage.

Update: HMRC were scheduled to issue a final file of data by 31 December 2019 that would allow the rectification of pensions in payment that did not include the correct contracted-out earnings. HMRC are unable to confirm when this data will become available and the Fund have stressed to HMRC that potential costs incurred as a result of the delay will ultimately fall upon the taxpayer. A project pause is in the process of being arranged with ITM to minimise additional project management costs which will cease once the final data file is received. The Pension Fund Committee will continue to be updated and this activity will continue into 2020/21 and possibly 2021/22.

Key Milestones: (amended due to delays with HMRC)

- Completion of reconciliation stage was scheduled for Q1 April 2019 but is still ongoing due to delays with processing queries by HMRC – **Ongoing**
- Direct award contract for rectification Q1 April 2019 – **Completed.**
- Planning and testing, verification of results Q1-Q4 April 2019 to February 2020 – **Delayed due to HMRC not issuing final file of data.** This activity will continue into 2020/2021 (see update).

2.3 Communications, Systems and Employer Management (CSEM)

Reference	Key action/task	2019/20				Medium term	
		Q1	Q2	Q3	Q4	2020/21	2021/22
CSEM3	Review cyber resilience				✓G		
CSEM4	Implement monthly data collection for all employers	✓A					
CSEM5	Manage the 2019 valuation	✓G					

2.3.1 CSEM3 – Review cyber resilience

Action: As holders of vast amounts of personal, sensitive and financial information, Pension Funds are exposed to both accidental and targeted cyber threats. Reviewing the Fund's resilience to cyber threats is an important part of managing the Fund's risks.

Update: This activity has now been added to a wider review of the Fund's Business Continuity Planning and the actions have therefore been moved into the 2020/21 Business Plan.

Key Milestones:

- Carry out an updated review of the Fund's cyber resilience January to March 2020 – **Rescheduled to the 2020/21 Business Plan.**

2.3.2 CSEM4 – Implement monthly data collection for all employers

Action: The Fund needs to collect and hold up to date, accurate records of members benefits to respond to the number of members using their online pension account to monitor their current pension benefits and obtain pension estimates. This requires the monthly collection of member data from employers. Some large employers already use i-connect to submit their data on a monthly basis, but, this must be rolled out to all employers. Monthly data will improve the efficiency of the data collection process, provide improvements in the quality of data received and improve the service provided to scheme members.

Update: The majority of employers have now started providing data on a monthly basis. There are two ways that employers can submit data via i-Connect. Employers with 50 members or less now submit data via the i-Connect portal using an exception reporting process. Of this tranche, only 26 employers are yet to start providing monthly data. Larger employers submit their data using an extract from their payroll software and 45 employers are yet to start providing monthly data using the i-Connect extract. Some other employers have had to delay due to upcoming changes to their payroll arrangements or other business pressures. This project is now expected to be completed in June 2020 but it is accepted that this may not include all employers.

Key Milestones:

- Cease issuing old data collection interfaces to new employers Q1 April 2019 – **Completed.**
- Migrate existing small employers to the online i-connect portal Q1-Q3 April to December 2019 – **Rescheduled to Q1 2020/21.**
- Migrate existing large employers to monthly i-connect extract Q2-Q3 September to November 2019 – **Rescheduled to 2020/21.**

2.3.3 CSEM5 – Manage the valuation

Action: The Fund must be valued on a triennial basis with employer contribution rates set for the following 4 years. The last valuation was carried out in 2016 and the current valuation will be carried out as at 31st March 2019 with whole Fund results issued in the summer of 2019 and individual employer results and contribution strategies issued in the winter. The new rates will come into effect from 1st April 2020.

Update: The valuation is progressing well and on target for completion. A full update is provided as an agenda item at this meeting.

Key Milestones:

- Carry out pre-valuation data activities Q1 April to June 2019 – **Completed.**
- Actuary carry out the Valuation Q2 July to August 2019 – **Completed.**
- Draft the Fund's Funding Strategy Statement Q2 September 2019 – **Completed.**
- Funding Strategy Statement to be approved by the Committee Q3 October 2019- **Completed.**
- Issue whole Fund valuation results Q3 October 2019 – **Completed.**
- Issue individual employer results Q3 2019 November 2019 – **Completed.**
- Publish Valuation Report Q4 March 2020 – **Completed.**

2.4 Operations (OPS)

Reference	Key action/task	2019/20				Medium term	
		Q1	Q2	Q3	Q4	2020/21	2021/22
OPS1	Processing of undecided leavers		✓R			✓R	
OPS2	Design a range of customer experience key performance indicators		✓G				

2.4.1 OPS1 – Processing of undecided leavers

Action: The Fund has a number of undecided leaver records where a member has left a period of pensionable employment, is not entitled to immediate payment of pension benefits, but is entitled to either a refund of contributions, aggregation with another period of pensionable membership and/or a deferred pension award.

Update: As at 6th March 2020 865 out of 1,279 (68%) cases being processed by Aon had been completed. Any remaining cases will be processed as part of the 2019/20 fixed price agreement as early as possible in 2020/21. All cases outstanding are in progress but with a scheme employer query.

Key Milestones:

- Process approx. 1,000 Multi DB cases - Q4 Mar 2020 – **Complete except where scheme employer query (see above).**
- Process other backlog cases alongside BAU - Q4 Mar 2020 - **Completed.**
- Design and implement processing solution for remaining backlog – Q4 Mar 2021 – **Completed – solution forms part of 2020-21 business plan.**

2.4.2 OPS2 – Design a range of customer experience key performance indicators

Action: The Fund's current KPIs focus on the performance of the scheme administrator. As part of improving customer excellence, the Fund is committed to understand and report on the customer experience associated with key casework procedures.

Update: The first set of Customer Journey KPIs have been implemented into workflow and are currently being tested on the ability to report accurately. The new indicators will be available for the June Committee meeting and will be presented via the Administration Report.

Key Milestones:

- Design the process of reporting the KPIs Q1 – Q2 April 2019 to September 2019 – **Completed.**
- Identify the processes which will be evaluated first Q3 October to December 2019 – **Completed.**
- Delivery of first customer journey KPIs Q4 January to March 2020 – **Delivery is complete. Reporting to be finalised early into the 2020/2021 financial year.**

2.5 Investments and fund accountancy (IA)

Reference	Key action/task	2019/20				Medium term	
		Q1	Q2	Q3	Q4	2020/21	2021/22
IA1	Continue development of the asset pool	✓G					
IA2	Implement the strategic asset allocation		✓G				
IA4	Extend global custody contract for 2 years				✓A		
IA6	Implement online payment platform for employers' contribution payments		✓A				
IA7	Re-tender for investment consultancy services				✓G		
IA8	Re-tender for the independent adviser role			✓A			
IA9	Complete sign up to the responsible investment stewardship code				✓G		
IA10	Consider multi-fund investment strategies	✓G			✓G		

2.5.1 IA1 – Continue development of the asset pool

Action: The ACCESS asset pool development is a long-term project currently focussed on establishing liquid asset sub-funds, with expansion into alternative asset classes in the later part of 2019/20. The main activities of this project in 2019-20 are set out below.

Update: Development of the ACCESS asset pool continues at pace with the liquid sub funds on track to be materially complete by May/June 2020. The focus is now changing to the Illiquid asset classes with the appointment of bfinance to support the asset pool develop the illiquid platform options, with progress submitted to the 9th March ACCESS Joint Committee.

Key Milestones:

- Complete recruitment of the ACCESS Support Unit: April to June 2019 – **Completed.**
- Complete on boarding of tranches 3, 4 and 5 sub-funds: January to March 2020 – **Completed.** The Sub Funds have been launched successfully and assets recently transferred into the Longview sub fund.
- Commence non listed / illiquid assets: January to March 2020 – **Ongoing.** The creation of an Illiquid Investment Platform remains on track with a progress report presented to the ACCESS Joint Committee meeting of the 9th March 2020.

2.5.2 IA2 – Implement the strategic asset allocation

Action: The 15th February 2019 Investment Sub Committee agreed the asset allocation changes to be presented to the 28th March Pension Fund Committee for approval and adoption. The implementation of the revised strategic allocation is as follows.

Update: The infrastructure mandates are substantially in place with the drawdown to the IFM infrastructure complete and JPMorgan due at the end of April. In respect of equities the transfer of assets to Longview has been completed as has the withdrawal of funds from the Schroders UK equity mandate. In respect of fixed income, officers have met with eight MAC investment managers including all those earmarked for the ACCESS asset pool, a report was presented to the ISC on the 20th February updating on progress.

Key Milestones:

- Implement infrastructure mandates Q2 July to September 2019 – **Completed.**
- Implement revised equity mandates Q3 October to December 2019 – **Completed February 2020.**
- Review fixed income strategy Q3 October to December 2019 – **Completed February 2020.** A report was presented to the 20th February 2020 Investment Sub Committee on progress.

2.5.3 IA4 - Extend global custody contract for 2 years

Action: The Pension Committee has approved a contract extension of two years for the Fund's global custody contract with Northern Trust. This extension ran from the expiry of the initial contract term on 30 September 2019. This extended contract will provide time for ACCESS partners to undertake a collective procurement for a successor global custody services supplier.

Update: The Global custody contract with Northern Trust was extended to September 2021 to accommodate the Fund working with ACCESS partners to procure a common custodian, the process for which commenced in February 2020.

Key Milestones:

- Extend contract July to September 2019 – **Completed.**

2.5.4 IA6 – Implement online payment platform for employers' contribution payments

Action: To implement an online payment platform for receiving contribution payments more efficiently into the Pension Fund bank account. This platform will enable online input, validation and payment of scheme employer contribution payments as well as auto-reconciliation of the payments once received. Design and implementation of the payment solution commenced in the 2018-19 year as an additional activity to the Business Plan.

Update: The scope of the platform has changed slightly, the pay by card facility has been removed due to difficulties with the payment process supplier (Civica). On review it was felt the card payment option would not be of use to most employers with BACS being the preferred payment option. The online form will replace the monthly contributions schedule and improve financial control and efficiency in reconciliation.

The online form will be launched in April 2020.

Key Milestones:

- Implementation of solution Q1 April to June 2019 – **Completed**.
- Platform live with test party Q2 July to September 2019 – **Completed**.
- Launch platform to all employers Q3 October to December 2019 – **Rescheduled to April 2020**.

2.5.5 IA7 - Re-tender for investment consultancy services

Action: The investment consultancy contract with Mercer LLC was extended in September 2017 for three years and requires re-tendering in 2019/20 through the National LGPS Frameworks.

Update: The retendering for this contract commenced in March 2020, using the National Frameworks platform.

Key Milestones:

- Commence process January to March 2020 – **Completed**. Process commenced with the National Frameworks team and Internal Procurement.
- Complete re-tender quarter 2 2020/21 – **Rescheduled**. Project transferred into the 2020/2021 business plan.

2.5.6 IA8 - Tender for an independent adviser

Action: It is proposed, subject to agreement of the Committee, to procure an independent investment adviser for the Fund. Northamptonshire Pension Fund has an existing arrangement which expires in January 2020 therefore it is proposed to share procurement costs in a joint exercise to coincide with Northamptonshire's re-tender process.

Update: A report was presented to the 20th February ISC meeting setting out the formal retendering plan.

Key milestones:

- Undertake tender Q3 October to December 2019 – **Rescheduled**. New appointment to be in place in time for the 21st May 2020 ISC meeting.

2.5.7 IA9 - Complete sign up to the responsible investment stewardship code

Action: On the information day held on 13th February 2019 the Pension Committee and Local Pension Board considered the issues regarding signing up to the Stewardship Code. The steer was to sign up to the Stewardship Code, taking account of the new code expected in July 2019 and collaboration with like-minded ACCESS partners.

Update: A report of Responsible Investment (RI) was presented to the 20th February ISC meeting setting out the plan to review the RI policy of the Fund and implement appropriate improvements to meet the Fund's RI requirements.

Key Milestones:

- Complete sign up to the revised Stewardship Code January to March 2020 – **Rescheduled as per RI Plan – date TBC.**

2.5.8 IA10 – Consider multi-fund investment strategies

Action: Following the introduction of HEAT, the Hymans Employer Asset Tracker, and the Committee agreed to consider the introduction of multiple investment strategies that could take account of the varying requirements of different classes of scheme employer.

A proposal will be brought to the Committee alongside the Funding Strategy Statement as part of the triennial valuation process. This would include a proposed implementation timeframe.

Update: This initiative has been moved to the 2020/21 Business Plan.

Key milestones:

- Initial actuarial advice on multiple investment strategies Q3 2019/20 – **Received.**
- Develop proposal with professional advisors Q4 2019/20 to Q2 2020/21 – **On track for revised target date.**
- Multi-fund investment strategy to be put forward for approval by the Pension Committee June 2020 – **On track for revised target date.**
- Communication and implementation of multi-fund investment strategy Q2 2020/21 to Q4 2020/21 - **On track for revised target date.**
- Multi-fund investment strategy live 1 April 2021 - **On track for revised target date.**

3. Relevant Fund objectives

- 3.1 Continually monitor and measure clearly-articulated objectives through business planning.

4. Risk Management

- 4.1 The Pension Fund Committee approves the Annual Business Plan and Medium-Term Strategy every March for the upcoming year. The plan highlights the key activities of the Fund and the progress of these activities are reported through the Business Plan Update reports provided to the Pension Fund Committee and Pension Fund Board at every meeting.

- 4.2 The risks associated with failing to monitor progress against the Business Plan have been captured in the Fund's risk register as detailed below.

Risk No.	Risk	Residual risk rating
7	Those charged with the governance are unable to fulfil their responsibilities effectively	Green
13	The scheme would not be administered in line with regulations and guidance	Green
15	Pension Fund objectives not defined and agreed	Green

- 4.3 A full version of the Fund risk register can be found at the following link - <https://pensions.cambridgeshire.gov.uk/app/uploads/2019/04/Cambridgeshire-Risk-Register.pdf>

5. Communication Implications

Direct Communications	The Business Plan Update will be presented to the Pension Fund Committee at each meeting.
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6. Finance & Resources Implications

- 6.1 There are no financial and resource implications associated with this report.

7. Legal Implications

- 7.1 Not applicable

8. Consultation with Key Advisers

- 8.1 Consultation with the Fund's advisers was not required for this report.

9. Alternative Options Considered

- 9.1 Not applicable

10. Background Papers

- 10.1 Annual Business Plan and Medium Term Strategy 2019/20 – <https://cambridgeshire.cmis.uk.com/ccclive/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/954/Committee/16/Default.aspx>

11. Appendices

- 11.1 Appendix 1 – Full list of Key Fund Activities for the 2019/20 financial year.

Checklist of Key Approvals	
Has this report been cleared by Section 151 Officer?	Sarah Heywood – 27 th February 2020
Has this report been cleared by Head of Pensions?	Mark Whitby – 14 th February 2020
Has the Chairman of the Pension Fund Committee been consulted?	Councillor Rogers – 4 th March 2020
Has this report been cleared by Monitoring Officer?	Fiona McMillan – 25 th February 2020

Appendix 1 – Full list of Key Fund Activities for the 2019/20 financial year.

Service Delivery

Reference	Key action/task	End of year position
SD1	Monitor staffing levels in line with organisational reform	2019/20 activities completed – to continue into 2020/21.
SD2	Retain Customer Service Excellence standard accreditation	Completed.

Governance and Compliance

Reference	Key action/task	End of year position
GC1	Procure a supplier of specialist legal advice	Completed.
GC2	Procure a supplier of mortality screening and member tracing services and process results	Completed.
GC3	Obtain proof of continued existence of scheme members residing overseas	Completed.
GC4	Re-procurement for administration and payroll system	2020/21 activity.
GC5	Deliver actions stemming from the review of the Fund's Additional Voluntary Contribution providers	Completed.
GC6	Scope potential liability reduction exercises	Rescheduled to 2020/21.
GC7	Complete the Guaranteed Minimum Pension reconciliation project with rectification of members records	Rescheduled to 2020/21.

Communications, Systems and Employer Management

Reference	Key action/task	End of year position
CSEM1	Incorporate employer covenant monitoring into the valuation cycle	Completed.
CSEM2	Develop and implement a digital communications strategy	Completed.
CSEM3	Review cyber resilience	Rescheduled to 2020/21.
CSEM4	Implement monthly data collection for all employers	Rescheduled to 2020/21.
CSEM5	Manage the 2019 valuation	Completed.

Operations

Reference	Key action/task	End of year position
OPS1	Processing of undecided leavers	To continue into 2020/21.
OPS2	Design a range of customer experience key performance indicators	Completed.

Investments and fund accountancy

Reference	Key action/task	End of year position
IA1	Continue development of the asset pool	2019/20 activities completed – to continue into 2020/21.
IA2	Implement the strategic asset allocation	Completed.
IA3	Implement the cash management policy	Completed.
IA4	Extend global custody contract for 2 years	Completed.
IA5	Re-tender collaboratively with ACCESS for global custody services	2020/21 activity.
IA6	Implement online payment platform for employers' contribution payments	Completed.
IA7	Re-tender for investment consultancy services	Rescheduled to 2020/21.
IA8	Re-tender for the independent adviser role	Rescheduled to 2020/21.
IA9	Complete sign up to the responsible investment stewardship code	Rescheduled to 2020/21.
IA10	Consider multi-fund investment strategies	Rescheduled to 2020/21.
IA11	Implement the Local Economic Development Fund	Completed.

