

PENSION FUND COMMITTEE



Date: Thursday, 29 March 2018

Democratic and Members' Services

Quentin Baker

LGSS Director: Law and Governance

11:00hr

Shire Hall

Castle Hill

Cambridge

CB3 0AP

Kreis Viersen Room

Shire Hall, Castle Hill, Cambridge, CB3 0AP

AGENDA

Open to Public and Press

1. **Apologies for absence and declarations of interest**
Guidance on declaring interests is available at <http://tinyurl.com/ccc-conduct-code>
2. **Minutes and Action Log of the Pension Fund Committee held 7th December 2017** **5 - 12**
3. **Internal Audit Report 2017-18** **13 - 30**
4. **Pension Fund Annual Business Plan Update report 2017-18** **31 - 42**
5. **Employer Admissions and Cessations Report** **43 - 48**
6. **Governance and Legislation Report** **49 - 58**
7. **Payment of Employee and Employer Pension Contribution Policy Review** **59 - 70**
8. **Pension Fund Annual Business Plan and Medium-Term Strategy 2018-19 to 2020-21** **71 - 106**

9. Investment Strategy Statement

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10. LGSS Pensions Service Website Demonstration

11. Exclusion of Press and Public

To resolve that the press and public be excluded from the meeting on the grounds that the agenda contains exempt information under Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended, and that it would not be in the public interest for this information to be disclosed information relating to any individual, and information relating to the financial or business affairs of any particular person (including the authority holding that information)

12. Asset Pooling Update

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

The Pension Fund Committee comprises the following members:

Mr Gareth Deeble Councillor Andrew Fraser Mr Matthew Pink Councillor David Seaton and Mr John Walker Councillor Peter Downes Councillor Anne Hay Councillor Roger Hickford Councillor Terence Rogers Councillor Josh Schumann and Councillor Mike Shellens

For more information about this meeting, including access arrangements and facilities for people with disabilities, please contact

Clerk Name: Dawn Cave

Clerk Telephone: 01223 699178

Clerk Email: dawn.cave@cambridgeshire.gov.uk

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Public speaking on the agenda items above is encouraged. Speakers must register their intention to speak by contacting the Democratic Services Officer no later than 12.00 noon three working days before the meeting. Full details of arrangements for public speaking are set out in Part 4, Part 4.4 of the Council's Constitution <https://tinyurl.com/ProcedureRules>.

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MINUTES OF THE PENSION COMMITTEE

Date: Thursday 7th December 2017

Time: 10:05-11.30

Place: Room 128, Shire Hall, Cambridge

Committee Members

present: County Councillors P Downes, A Hay, R Hickford (Vice-Chairman), T Rogers (Chairman) and M Shellens; T Roden

Officers: D Cave, S Heywood, M Oakensen, J Walton and M Whitby

Apologies: Cllrs Schumann, Seaton and Fraser; John Walker

44. DECLARATIONS OF INTEREST

There were no declarations of interest.

45. MINUTES AND ACTION LOG OF THE PENSION FUND COMMITTEE MEETING HELD ON 19th OCTOBER 2017

The minutes of the Pension Fund Committee meeting held on 19th October 2017 were approved as a correct record and were signed by the Chairman.

The following items were noted under the Action Log:

Minute 21 – Statement of Accounts – following discussions with Councillor Shellens, it was proposed to include a user-friendly summary. CIPFA were coming to talk to the whole team about simplifying the presentation whilst remaining within the regulatory reporting requirements. This would be implemented in the next financial year.

Minute 35 (2) – officers updated the Committee on their discussions with a late-paying employer, a Multi Academy Trust, which needed to be resolved. Legal advice had been sought from Eversheds-Sutherland LLP, and a limited range of options had been suggested, which would be discussed with the scheme actuary. Whilst it was not possible to exclude a persistent late-paying employer, they could be charged more. Tracy Roden offered to open up dialogue with that particular employer, given that she worked in the same sector, to see if she could assist further, and it was agreed that Tracy would liaise with officers outside of the meeting.

Action required.

The Committee noted the Action Log.

46. PENSION FUND ANNUAL BUSINESS PLAN UPDATE REPORT 2017-18

Michelle Oakensen presented the third Business Plan update for the 2017-18 financial year.

The Payroll Reconciliation had finished on 06/12/17. 236 members had been overpaid, and 255 members underpaid, which in percentage terms was quite low. The reasons behind the overpayments, which largely related to the application of pension increases every year, were outlined. One of the overpayments was significant - £1000 per annum over 25 years - whilst the rest were relatively low. Legal advice was being sought on the significant overpayment as it was classed as an unauthorized payment from a HMRC perspective. It was noted that Cambridgeshire had undertaken a previous reconciliation down to an agreed threshold, but the latest reconciliation had a much lower limit. The Chairman congratulated officers for completing the reconciliation 25 days ahead of schedule.

Officers reminded Members that the Guaranteed Minimum Pension (GMP) reconciliation had been outsourced to an external data audit company, ITM Limited, who had completed over half of the records. ITM had raised a significant number of queries with HMRC, but as HMRC had been inundated with similar requests on GMP reconciliations from other authorities, it was taking longer than anticipated. Therefore it had been agreed that the project should be paused, and the project deadline extended to 31/03/18. It was noted that some Pension Funds had not even started their GMP reconciliations.

A new member site was due to be launched in January 2018 hosted by Heywoods, which would be more accessible e.g. from mobile devices. The Employer site is run internally and supported by LGSS IT. Pension Members would be advised when the site was launched. A Committee Member asked what the position would be if Heywoods went bankrupt: officers advised that they would need to find another supplier and start again, but migration would be very straight forward, as it was now well embedded. However, business failure was unlikely as Heywoods were the market leader.

Turning to the confidential appendix of the report listing late payment of contributions for August and September 2017, Members noted that the first three employers were part of a Multi Academy Trust. The payment schedule for those three schools had not been received so could not be reconciled, and they had been reported to the Pensions Regulator in October for persistent late payments. The Pension Regulator had advised that they would monitor the situation over the next six months, after which point LGSS Pensions would submit another report to them if the problem was not fully resolved. The employer has acknowledged that their systems had not been up to the required standard, but they had given assurances that systems were now in place.

Moving to the last employer on the private appendix, it was confirmed that a separate report had been submitted to the Pensions Regulator regarding this employer. The issue related to both payments and schedules. Members expressed strong concerns around the cashflow situation for this employer, the substantial amount of outstanding contributions, and the lack of adequate administration in terms of raising invoices and collecting debts. It was suggested that this issue should be raised with the County Council's Chief Executive, and Councillor Hickford agreed to take this forward. **Action required.**

It was resolved unanimously to:

1. Note the attached Pension Fund Business Plan Update for the period September to October of the 2017-18 financial year.

47. DATA QUALITY

The Committee considered a report on how data quality would be assessed and rectified, and the progress of data improvement projects already underway.

Members were reminded of the legislative requirements for the Pension Fund to hold accurate data. Of particular note was the General Data Protection Regulation (GDPR) which would come into force in May 2018. Whilst regular checks of data quality were already undertaken by the Fund, a more holistic assessment of all data held by the Fund was required to ensure compliance with legislation, and also to realise the benefits of accurate data. LGSS Pensions had entered into a partnership with ITM Limited to produce the tests for a data audit unique to that of data held by LGPS funds. The audit would assess the quality of the data held on the pensions administration system and also the pensions payroll module, and provide an overall data quality score. It was clarified that the Cambridgeshire and Northamptonshire Funds would contract separately with ITM. The outcome of that Data Quality assessment would be presented to the next Pension Fund Committee meeting in March.

A Member observed that “common data”, including names, should be 100% accurate: however, in one of the later reports on the Proof of Existence exercise for Overseas Pensioners, it was stated that a number of pensioner members could not be included in this exercise as membership records did not hold a full first name(s), just initials, but that this was acceptable under the Pensions Regulator’s requirements for ‘common data’ belonging to a pension scheme. Officers explained that those particular individuals where only initials were available were members of the County Council’s compensatory scheme. This was separate to the LGPS Pension Fund managed by the Pension Fund Committee, as they were not part of that Fund. However, LGSS Pensions manage those pensions on behalf of Cambridgeshire County Council.

It was resolved unanimously to note the content of the report.

48. EMPLOYER ADMISSIONS AND CESSATIONS REPORT

The Committee received a report on the admission of two admission bodies to the Cambridgeshire Pension Fund.

It was resolved unanimously to:

1. Note the admission of the following admission bodies to the Cambridgeshire Pension Fund:
 - Pabulum Catering (City of Ely College)
 - Pabulum Catering (Sawtry College)

49. EXCLUSION OF PRESS AND PUBLIC

It was resolved:

That under Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds it contains exempt information under Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended (information which is likely to reveal information relating to the financial or business affairs of any particular person) and that it would not be in the public interest for this information to be disclosed.

50. GOVERNANCE AND LEGISLATION REPORT

The Committee received a report on governance issues concerning the Local Government Pension Scheme (LGPS) on a national and local basis, and also details of forthcoming training events.

It was resolved unanimously to note the content of the report.

51. OVERSEAS PENSIONERS PROOF OF EXISTENCE EXERCISE

Officers presented an overview of the effectiveness of the overseas pensioners proof of existence exercise.

It was resolved unanimously to note the content of the report.

52. ASSET POOLING UPDATE

The Committee considered an update on asset pooling.

It was resolved unanimously to agree the recommendations as set out in the report.

53. DATE OF NEXT MEETING 10am Thursday 29th MARCH 2018

CAMBRIDGESHIRE PENSION FUND

Pension Fund Committee

Agenda Item: 2(b)

Action log from previous meeting

This log captures the actions from the Pension Fund Committee of the 7 December 2017 together with any carried forward items from previous meetings and updates members on the progress on compliance in delivering the necessary actions. This is the updated action log as at 13 March 2018.

Outstanding actions from 27 July 2017 meeting of the Pensions Committee

Item No.	Item	Action to be taken by	Issue	Action/Status
21.	Pension Fund Annual Report and Statement of Accounts	Mark Whitby	It was suggested that officers could explore how to present more user-friendly information within the confines of the requirements, e.g. with narrative, footnotes and cross-references.	Completed – CIPFA have discussed user friendly options whilst staying within the regulatory reporting requirements. The new format will come into effect from the next financial year.

Outstanding actions from 19 October 2017 meeting of the Pensions Committee

Item No.	Item	Action to be taken by	Issue	Action/Status
35.	Pension Fund Annual Business Plan Update Report 2017-18	Cory Blose/ Michelle Oakensen	In response to a Member question, it was confirmed that in terms of enforcement the ultimate sanction for some employers was to report late-paying employers to the Pensions Regulator. Whilst this had the desired effect on some employers, regrettably the approach of the Pensions Regulator was often that it was up to the	Completed- Following the 19 October Committee Meeting, Officers have considered the actions suggested by Committee members and Eversheds-Sutherland LLP have provide legal

			<p>Pension Fund to manage the situation, and they should contact the Pensions Regulator again in six months' time if the issue had not been resolved. Whilst some employers could be expelled from the scheme, it was not possible to expel or even charge interest on Scheduled Bodies. A Member pointed out that there was a contract between Multi Academy Trusts and the DfE, and late payment issues should be reported through the Regional Schools Commissioner. Another Member suggested that a guarantee could be requested from the DfE. Another Member suggested that further leverage could be gained by a senior officer from the County Council meeting with a senior officer from the Trust, and the Section 151 Officer agreed to do this</p> <p>Officers agreed to investigate the feasibility of these actions and report back to the next meeting</p>	<p>advice on the possible sanctions that the Fund could levy on Scheduled Bodies that do not pay their contributions, as required. The recommendations have been incorporated into the Payment of Employer and Employee Pension Contributions Policy which is due for approval at this meeting.</p>
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Outstanding actions from 7 December 2017 meeting of the Pensions Committee

Item No.	Item	Action to be taken by	Issue	Action/Status
45	Minutes and Action Log of the 19 October 2017 meeting.	Cory Blose/ Tracy Roden	Officers updated the Committee on their discussions with a late-paying employer, a Multi Academy Trust, which should now be resolved. Legal advice had been sought from Eversheds-Sutherland LLP, and a limited range of options had been suggested, which would be discussed with the scheme actuary. Whilst it was not possible to exclude a persistent late-paying employer, they could be charged more. Tracy Roden offered to open up dialogue with that particular employer, given that she worked in the same sector, to see if she could	Ongoing - The Employer Services and Systems Manager has been in contact with Tracy Roden to discuss possible options for dealing with this matter. Payment was late again in February. This has not been reported to the Pension Regulator as at last reporting, the regulator asked us to monitor the situation for a period of time which we determined to be 6 months based

			assist further, and it was agreed that Tracy would liaise with officers outside of the meeting.	on previous advice and report back if there was no improvement within that period. A letter has been sent to the employees of the employer to inform them of the late payment and late payment charges and interest have been charged to the employer. The employer has now engaged an outside consultant to help review their processes and resolve this matter. A review meeting has been requested for April and Tracy has agreed to be involved in such a meeting.
46	Pension Fund Annual Business Plan Update Report	Mark Whitby/ Councillor Hickford	There was one employer in the private appendix that has repeatedly not paid contributions in a timely manner, as such, it was suggested that this issue should be raised with the County Council's Chief Executive, and Councillor Hickford agreed to take this forward.	Ongoing - To be advised at the 29 March meeting.
50.	Governance and Legislation Report	Jo Walton/ Sarah Heywood	Following a discussion on the cost of the Local Pension Board insurance product versus the officer and Member time this was taking up, the Committee concluded that the responsibility did not rest with them, but they would recommend to the Section 151 Officer that they did not see any need for it	Completed – the section 151 officer was informed that the Committee did not support the liability insurance.
52.	Asset Pooling Update	Mark Whitby	There would be an ACCESS Joint Committee on 13/12/17, and information would be circulated to the Committee after that.	Completed - distributed 3 January 2018.

**CAMBRIDGESHIRE
PENSION FUND**



Pension Fund Committee

Date: 29th March 2018

Report by: LGSS Chief Internal Auditor

Subject:	Internal Audit Report 2017-18
Purpose of the Report	To present the findings of Internal Audit work during 2017-18.
Recommendations	The Pension Committee note the Internal Audit work during 2017-18.
Enquiries to:	Stephen Mangan, Audit and Risk Manager, LGSS Internal Audit Tel: 01604 365921 Email: SMangan@northamptonshire.gov.uk

1. Background

- 1.1 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 1.2 The work of Internal Audit complements and supports the work of external auditors in forming their opinion on the financial accounts. Internal audit work is coordinated with the external auditors and they place reliance on the work of internal audit to reduce the level of testing they undertake themselves. This reduces overall costs by avoiding unnecessary duplication of effort and supports delivery of an efficient and effective service.

2. Findings

- 2.1 During 2017-18, Internal Audit work focused on the annual audit of the administration of the Cambridgeshire Pension Fund.

- 2.2 The audit assessed the adequacy of design and implementation of controls for the administration of the pension fund. Based on the completion of our fieldwork and the testing carried out, we gave **substantial** assurance for both the control environment in place and for compliance. The full report is included as **Appendix A**.

3. Relevant Pension Fund Objectives

- 3.1 The audit work undertaken was designed to support the Pension Service in achieving its objectives through the effective management of risk. The work therefore supports all of the objectives of the Pension Service.

Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance. <i>Objective 1</i>
Manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers. <i>Objective 2</i>
Ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment. <i>Objective 3</i>
Continually monitor and measure clearly articulated objectives through business planning. <i>Objective 4</i>
Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate. <i>Objective 5</i>
Ensure regular monitoring of employer covenants, putting in place mitigations of adequate strength to protect the Fund. <i>Objective 6</i>
Ensure appropriate exit strategies are put in place both in the lead up to and termination of a scheme employer. <i>Objective 7</i>
Put in place performance standards for the Fund and its employers and ensure these are monitored and developed as necessary. <i>Objective 8</i>
Ensure employer contributions are as stable as possible, recognising the characteristics, circumstances and affordability constraints of each employer. <i>Objective 9</i>
Administer the Fund in a professional and efficient manner, utilising technological solutions and collaboration. <i>Objective 10</i>
Maintain accurate records and ensure data is protected and used for authorised purposes only. <i>Objective 11</i>
Promote the Scheme as a valuable benefit. <i>Objective 12</i>
Deliver consistent plain English communications to Stakeholders. <i>Objective 13</i>
Provide Scheme members with up to date information about the Scheme in order that they can make informed decisions about their benefits. <i>Objective 14</i>
Seek and review regular feedback from all stakeholders and use the feedback appropriately to shape the administration of the Fund. <i>Objective 15</i>
Ensure cash flows in to and out of the Fund are timely and of the correct amount. <i>Objective 16</i>
Ensure the long-term solvency of the Fund, taking a prudent long term view, so that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment. <i>Objective 17</i>
Put in place a Strategic Asset Allocation ensuring it is appropriately maintained taking into account the Funding Strategy. <i>Objective 18</i>
Maximise investment returns over the long term within agreed risk tolerances. <i>Objective 19</i>
Ensure an appropriate cash management strategy is in place so that net cash outgoings can be met as and when required. <i>Objective 20</i>

4. Risk Implications

a) Risk(s) associated with the proposal

Risk	Fund objective at risk (refer to previous section)	Mitigation	Residual Risk
The audit work may identify significant weaknesses with potential for reputational damage to the Pension Service.	All	A process is in place for timely and effective response to the findings of internal and external auditors.	Green

b) Risk(s) associated with not undertaking the proposal

Risk	Risk Rating
Unmitigated risks to the objectives of the Pension Service are not identified and addressed. The legal obligation to ensure internal audit is undertaken would not be met.	Red

5. Finance & Resources Implications

5.1 There are no finance or resource implications associated with this policy.

6. Communication Implications

Direct Communications	The work of auditors is transparent and reported to the Pension Committee.
Website	The report will also be published on internet.

7. Legal Implications

7.1 The requirement for an Internal Audit function derives from section 151 of the Local Government Act 1972. All principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations 2003 in England (Appendix 41) [4] should make provision for Internal Audit in accordance with the Code.

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 Not applicable

11. Appendices

11.1 Appendix 1 – Internal Audit Report: Administration of the Cambridgeshire Pension Fund 2017-18

Checklist of Key Approvals	
Is this decision included in the Business Plan?	Not applicable
Will further decisions be required? If so, please outline the timetable here	Not applicable
Is this report proposing an amendment to the budget and/or policy framework?	No
Has this report been cleared by Section 151 Officer?	Sent to Sarah Heywood – 9 March 2018
Has this report been cleared by Head of Pensions?	Mark Whitby – 9 March 2018
Has the Chairman of the Pension Fund Committee been consulted?	Councillor Rogers– 14 March 2018
Has this report been cleared by Legal Services?	Quentin Baker – 14 March 2018

Internal Audit Report

Administration of the Cambridgeshire Pension Fund

Governance Opinion

Control Environment	Substantial
Compliance	Substantial
Organisational Impact	Minor

Report Issued	8 February 2018
Follow Up due	30/9/18

Executive Summary

1 Background

- 1.1 LGSS Pensions administers the Local Government Pension Scheme on behalf of Northamptonshire County Council and Cambridgeshire County Council.
- 1.2 The administration of the scheme is subject to an annual audit and provides assurance around arrangements to the employer organisations, the Pensions Committee and also the Pension Fund's External Auditors. In the 2016-17 review, substantial assurance was provided that around the effectiveness of arrangements in place.

2 Audit Approach / Scope (including Volume / Value Indicators)

- 2.1 There are 140,000 members of the Cambridgeshire and Northamptonshire Pensions Funds and circa 550 scheme employers, the service holds a portfolio of assets in excess of £5 billion.
- 2.2 The objectives of this review will be to ensure that:
 - New members are set up accurately (including transfers in) and on a timely basis.
 - The correct contributions are received from employer organisations on a timely basis.
 - Appropriate action is taken upon notification that a member has left the scheme.
 - Pension payments are made in accordance with LGPS regulations and in line with relevant administering authority and employing authority discretions.
 - Pension payments are paid at the correct amount with the correct rate of annual increase.
 - Reconciliations are completed for key financial areas.

The review also followed up actions agreed in the 2016-17 review.

3 Internal Audit Opinion and Main Conclusions

3.1 Main conclusions

Based on the completion of our fieldwork we are giving **Substantial** assurance for the control environment covering LGPS administration and **Substantial** assurance for compliance.

The assurance level reflects our view that effective and embedded procedures are in place to oversee the administration of pensions. Additionally, developments continue to take place to further automate processes by capturing data electronically and providing management information to assist with key processes.

The review did however identify the following issues:

- Our review identified a number of instances where the status of members was 'suspended' and cases, we have not been able to establish the reason for this. Additionally, these cases are not subject to regular review to ensure the status remains accurate.
- In terms of reconciliations, a number of issues were identified, namely:
 - The year-end reconciliation of employers' contributions for 2016-17 has not yet been completed, although it is acknowledged that a significant proportion of the variances identified had been resolved.
 - Whilst progress has been made on the reconciliation of historical payroll / Altair records to identify under / over payments, work is still required to resolve payment discrepancies identified.

4. Main recommendations

For each of the issues identified we have agreed actions in the action plan. When implemented these will positively improve the control environment.

Detailed agreed actions are listed within the Management Action Plan (MAP) at pages 7 and 8 of this report.

DETAILED FINDINGS

5 Control Objective (1) New members are set up accurately (including transfers in) and on a timely basis.

- 5.1 Employers are responsible for notifying LGSS Pensions of any new employees or existing employees who wish to join the pension scheme. This information is currently captured by several methods, manual forms submitted, employer self-service portal, employer file transfer via i-connect, a bespoke interface provided by Heywood which links to Altair, and by data transfer.
- 5.2 Analysis highlighted that the Pensions Systems Team complete checks and balances processes on this data to ensure that only correct and complete records are uploaded into Altair to create the member record. Progress with these tasks is monitored to ensure that employer's data is processed on a timely basis after it has been received.
- 5.3 New members who wish to transfer in from another pension scheme are able to do so providing they complete the appropriate forms and meet key criteria. Ten transfers in for the NPF were tested and controls were found to be working effectively in that:
- A transfer in request form was on file signed by the member.
 - The pension certificate has been provided by the previous pension provider.
 - A calculation of the transfer in value was on file which had been subject to review and authorisation.
 - The payment had been received from the previous pension provider.
 - The member's pension record on Altair had been updated accurately.

6. Control Objective (2) The correct contributions are received from employer organisations on a timely basis.

- 6.1 A clearly defined process is in place to oversee the monthly payment of employer contributions to the Pension Fund. A review of contribution records for 10 employers found that:
- Contributions reflected in the PEN18 returns were in the main agreed as accurate. Where variances existed these were minor in value and had been investigated and resolved with the relevant employer.
 - Payments were received from employers in line with agreed deadlines.
 - Payments received were traced to Pension Fund bank account.
- 6.2 In addition to the monthly process, an annual year end reconciliation of employers and members contributions to monies for 2016-17 has been undertaken. Where variances were identified, this would result in an automated letter being generated to the employer

providing details of any variances in payments, request the employer to provide an explanation for these and also notify them that an invoice would be raised for any balances owed. Testing identified that whilst this had delivered clear benefits and most employers records had reconciled immediately the overall reconciliation had still not been finalised at the time of the audit.

(See MAP 1)

7. Control Objective (3) Appropriate action is taken upon notification that a member has left the scheme, including transfers out.

7.1 Employers notify Pensions when an employee leaves and the member's pension is then "deferred" unless they request and meet the criteria for a refund.

7.2 Five transfers out were reviewed and testing highlighted that:

- A transfer out request form was on file signed by the member.
- Evidence was on file to confirm the member had left their pensionable employment.
- A calculation of the transfer out value was on file which had been subject to review and authorisation.
- The payment had been made to the appropriate Pension Fund.

7.3 Notification of five pensioner deaths were reviewed and testing highlighted that:

- A death certificate was on file in all cases.
- The pension was suspended on a timely basis.
- A reconciliation had been completed to confirm if over / under payments had occurred and appropriate action was taken based on the reconciliation.

8. Control Objective (4) Pension payments are made in accordance with LGPS regulations and in line with relevant administering authority and employing authority discretions.

8.1 Testing of 15 new pensioners and 10 dependent pensioners confirmed that effective controls were in place and pensions were paid without delay once all relevant confirmation and documents were received from the respective parties.

8.2 Calculations were made based on membership within the relevant scheme i.e. pre 2008, 2008-2014 and post 2014 with appropriate deductions made where relevant.

8.3 In the case of dependent pensioners their status was confirmed and for death in service / pensioner deaths a calculation of potential death grants was also completed.

9. Control Objective (5) Pension payments are paid at the correct amount with the correct rate of annual increase.

- 9.1 Controls were in place to ensure that the pensioner payroll was set up to pay the correct pension as per the calculation and any relevant adjustments e.g. interest for late payment and mid-month adjustments.
- 9.2 Twenty five pensioner calculations and payments were checked (15 retirees and 10 dependents as considered in section 8) and all were found to be accurate.
- 9.3 The annual uplift process was completed by the Systems team based on national guidance. Altair is updated as required and the implementation of any changes is checked for its impact on member pensions to ensure that these are correct.
- 9.4 During testing of the uplift process we became aware that a number of member records were not receiving an increase as they had a status of “suspended”. Examination of the records failed to identify why this status had been awarded. It was also confirmed that there was not a regular review of these records in order to either reinstate payments or close the record down.

(See MAP 2)

10. Control Objective (7) Reconciliations are completed for key financial areas.

- 10.1 In addition the contribution reconciliation referred to in section 6 of the report, other reconciliations take place of the various Pension Fund bank accounts and also between payroll and Altair. These are considered below.
- 10.2 Bank reconciliations – The Pension Fund bank accounts had been reconciled each month and were subject to a management check to confirm this.
- 10.3 Reconciliation between pension payroll and Altair - The reconciliation between the historic pension payroll and Altair records has continued during 2017-18 and good progress has been made with identifying the anomalies. The resolution of these is now to be progressed commencing in January 2018.

(See MAP 4)

MANAGEMENT ACTION PLAN

The Agreed Actions are categorised on the following basis:

Likelihood	H	S	I	E
	M	S	I	E
	L	S	I	
	L	M	H	
	Impact			

Essential

- Action is imperative to ensure that the objectives for the area under review are met.

Important

- Requires action to avoid exposure to significant risks in achieving objectives for the area under review.

Standard

- Action recommended to enhance control or improve operational efficiency.

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
1.	<p><u>Employer and Employee Contributions Reconciliations</u></p> <p>The year-end reconciliation of employers and employees for 2016/2017 i.e. contributions v members records and payments received had still not been finalised at the time of the audit.</p> <p><u>Risk</u></p> <p>Incorrect payments received. Benefits paid for which contributions have not been paid.</p>	<p>Important</p> <p>A target date should be set by which the annual reconciliation process should be completed and progress against this should be monitored.</p> <p>Agreed – Target date for 2017/2018 reconciliations will be 31/8/18.</p>	<p>Paul Tysoe, Investments and Fund Accounting Manager</p> <p>31/8/18</p>

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
2.	<p><u>Suspended Pensioners</u></p> <p>As part of the review, we came across a number of member records which had been suspended. Examination of the records failed to identify why this status had been awarded. It was also confirmed that there was not a regular review of these records in order to either reinstate payments or close the record down.</p> <p><u>Risk</u></p> <p>Incorrect payments could be made, pensioners continued to be active when they should have been closed down on the payroll.</p>	<p>Important</p> <p>A review of these records should be completed to determine whether the pension needs to be reinstated, closed down or remain suspended.</p> <p>The reasons for pensions being suspended should be noted clearly on their record and a process agreed for following up suspended records to resolve the issue.</p> <p><i>Agreed - The review process will be agreed by 28/2/18 and the target date for completion of current suspensions will be 30/6/18, thereafter they will be reviewed on a quarterly basis.</i></p> <p><i>Agreed - A note will be placed on Altair in future when records are suspended provide a clear audit trail of why this action has been taken.</i></p>	<p>Akhtar Pepper, Operations and Technical Manager</p> <p>Process by 28/2/18</p> <p>and</p> <p>Ensure the review current suspended records by 30/6/18</p>

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
3.	<p><u>Historic payroll v Altair records reconciliation</u></p> <p>Although progress has been made in identifying where adjustments in pay are required this exercise has not been finalised.</p> <p><u>Risk</u></p> <p>Incorrect payments continue to be made.</p>	<p>Important</p> <p>A target date should be set by which the reconciliation process should be completed and progress against this monitored.</p> <p><i>Agreed - Given the complexity of resolving these queries, particularly in relation to the recoupment of overpayments for which legal advice is required - to ensure the process is completed correctly and to reduce the number of potential complaints and challenges that have to be responded to - the target date will be 31/3/2019. LGSS Pensions met their reconciliation target date of December 2017; a rectification target could not be set until the number of cases to be rectified was known.</i></p> <p>Internal Audit will review progress with this on 30/9/18.</p>	<p>Joanne Walton, Governance and Regulations Manager</p> <p>31/3/19</p>

Appendix 1 – Glossary / Definitions

Internal Audit is not permitted to be responsible for control / governance in order to protect its independent audit of those controls and systems. There are three elements to consider when determining an assurance opinion as set out below.

1 Control Environment / System Assurance

The adequacy of the control environment / system is perhaps the most important as this establishes the key controls and frequently systems 'police/ enforce' good control operated by individuals.

Assessed Level	Definitions
Substantial	Substantial governance measures are in place that give confidence the control environment operates effectively.
Good	Governance measures are in place with only minor control weaknesses that present low risk to the control environment.
Satisfactory	Systems operate to a moderate level with some control weaknesses that present a medium risk to the control environment.
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

2 Compliance Assurance

Strong systems of control should enforce compliance whilst ensuring 'ease of use'. Strong systems can be abused / bypassed and therefore testing ascertains the extent to which the controls are being complied with in practice. Operational reality within testing accepts a level of variation from agreed controls where circumstances require.

Assessed Level	Definitions
Substantial	Testing has proven that the control environment has operated as intended without exception.
Good	Testing has identified good compliance. Although some errors have been detected these were exceptional and acceptable.
Satisfactory	The control environment has mainly operated as intended although errors have been detected that should have been prevented / mitigated.
Limited	The control environment has not operated as intended. Significant errors have been detected and/or compliance levels unacceptable.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse. The system of control is essentially absent.

3 Organisational Impact

The overall organisational impact of the findings of the audit will be reported as major, moderate or minor. All reports with major organisational impact will be reported to SMT along with the relevant Directorate's agreed action plan.

Organisational Impact	
Level	Definitions
Major	The weaknesses identified during the review have left the Pension Fund open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole
Moderate	The weaknesses identified during the review have left the Pension Fund open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole
Minor	The weaknesses identified during the review have left the Pension Fund open to low risk. This could have a minor impact on the organisation as a whole.

4 Findings prioritisation key

When assessing findings, reference is made to the Risk Management matrix which scores the impact and likelihood of identified risks arising from the control weakness found, as set out in the MAP

For ease of reference, we have used a high/medium/low system to prioritise our recommendations, as follows:

E	<p>ESSENTIAL Failure to address the weakness has a high probability of leading to the occurrence or recurrence of an identified high-risk event that would have a serious impact on the achievement of service or organisational objectives, or may lead to significant financial/ reputational loss.</p> <p>The improvement is critical to the system of internal control and action should be implemented as quickly as possible.</p>	I	<p>Important Failure to respond to the finding may lead to the occurrence or recurrence of an identified risk event that would have a significant impact on achievement of service or organisational objectives, or may lead to material financial/ reputational loss.</p> <p>The improvement will have a significant effect on the system of internal control and action should be prioritised appropriately.</p>	S	<p>Standard The finding is important to maintain good control, provide better value for money or improve efficiency. Failure to take action may diminish the ability to achieve service objectives effectively and efficiently.</p> <p>Management should implement promptly or formally agree to accept the risks.</p>
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Circulation Details:**Confidential**

Issued to Chris Malyon, Finance Director, S151 NCC
Matt Bowmer, LGSS Director of Finance
Mark Whitby, Head of Pensions
Joanne Walton, Governance and Regulations
Manager
Akhtar Pepper, Operations and Technical Manager
Paul Tysoe, Investments and Fund Accounting
Manager

Date 14 February 2018

Lead Auditor Janette Lynn

Status of report Final Report

CAMBRIDGESHIRE PENSION FUND



Pension Fund Committee

Date: 29 March 2018

Report by: Head of Pensions

Subject:	Pension Fund Annual Business Plan Update report 2017-18
Purpose of the Report	To present the Pension Fund Business Plan Update for the period November to January of the 2017-18 financial year to the Pension Fund Committee.
Recommendations	The Committee are asked to note the attached Pension Fund Business Plan Update for the period November to January of the 2017-18 financial year.
Enquiries to:	Michelle Oakensen - Governance Officer moakensen@northamptonshire.gov.uk

1. Background

- 1.1 Good governance requires that updates to the pre-agreed Annual Business Plan are provided to the Committee on a regular basis. This update highlights the progress made on the key activities during the period November 2017 to January 2018 and ensures that the Pension Fund's objectives are being met.

2. Key Business Plan Activities

2.1 Cambridgeshire Pension Fund Pensioner administration v pensioner payroll records reconciliation

- 2.1.1 The reconciliation stage of this exercise completed on 6 December 2017 resulting in a total of 491 variances identified with a difference of £100pa or more. Of the 491 variances identified there were 255 underpayments and 236 overpayments. Of the 17,303 pensions that were in payment, this equates a variance rate of 2.83%.
- 2.1.2 Whilst waiting for legal advice to inform the revised Overpayments of Pension Policy the underpayments have been processed first.
- 2.1.3 As at 13 March 2018 88 underpayments have been fully reconciled. The individuals have been contacted in order to explain how the error occurred and were provided with a statement of arrears detailing the correct rate of pension that they should have received, along with information to enable to their tax code to be adjusted as appropriate.
- 2.1.4 As at 13 March 2018 average arrears and interest payment was £4,301.97 per member.

- 2.1.5 The remaining underpayments will continue to be rectified over the following months alongside the rectification of the overpayments once the revised Overpayment of Pensions policy has been agreed.

2.2 Guaranteed Minimum Pension reconciliation

- 2.2.1 As reported in the Business Plan Update at the December 2017 meeting, the project outsourced to ITM Limited to reconcile Guaranteed Minimum Pension (GMP) data held by the Fund compared with that held by HMRC has been subject to a three month pause to allow time for HMRC to process the queries that have been raised with them. The project pause will end on 31 March 2018.
- 2.2.2 During the period of the pause, ITM Limited have confirmed that HMRC responded to 2,070 out of 22,011 queries presented to them.
- 2.2.3 LGSS Pensions have 5,280 queries raised by ITM Limited to resolve and return so that any further queries can be raised with HMRC by the deadline of 31 October 2018. HMRC will not accept any further queries after this date.
- 2.2.4 Once the Fund is in receipt of the reconciled GMP data work will commence on rectifying any discrepancies which may lead to under or overpayment of members' pensions.

2.3 Service Improvement Plan

- 2.3.1 As a result of the employer survey and internal Customer Service Excellence standard workshop the service has made some key changes. The most significant change has been the development of a new member and employer website as well as improvements made to employer training including increasing and enhancing employer webinar training and multi skilling staff to improve the customer experience.

2.4 Procurement of actuarial, governance and benefits consultancy service

- 2.4.1 Transition to the new governance and benefits consultancy is progressing well with business planning in place with the new provider. The actuarial service is also progressing well with any changes to the contract starting to be implemented, this includes the migration to the new solution for ill health retirement strain costs.

2.5 Funding update

- 2.5.1 The funding level at the latest formal valuation was 78.5%. As at 31 December 2017 the funding level has increased to 84.1%. This represents a deficit of £625m at 31 March 2016 decreasing to a deficit of £567m at 31 December 2017.

3. Pension Fund Administration

3.1 Overpayment of Pensions

- 3.1.1 The following table summarises the overpayments of pension, those overpayments in recovery and those written off during the period 1 November 2017 to 31 January 2018. Further detail is provided in sections 3.1.2 to 3.1.3.

Overpayment Type	Action	Amount	Total
Death of a Pensioner/Dependent	Written off	£3,613.40	£6,195.80
	In the process of recovery	£2,582.40	
Retirement	Written off	£0	£0
	In the process of recovery	£0	

**Total Pensioner Payroll for the 16/17 financial year was £64.3m*

- 3.1.2 During the period 1 November 2017 to 31 January 2018, 39 scheme members passed away and the date of notification to the Fund resulted in an overpayment of the late member's pension. Of the overpayments, 38 were automatically written off as the value of the overpayment was less than £250. The remaining 1 case is currently being pursued for recovery of the overpayment.
- 3.1.3 In this period £18,157.28 has been recovered to date for the current financial year across all overpayment types.

3.2 Timeliness of employer and employee pension contributions

- 3.2.1 The following table shows the percentage of employers in the Cambridgeshire Pension Fund who paid their employee and employer contributions and/or submitted their schedules on time or late (after the 19th of the month following deduction) for the period 1 January 2017 to 31 December 2017.

Month/Year	% of Employers Paid on Time	% of Employers Paid Late	% of Employers that Submitted Schedule on Time	% of Employers that Submitted Schedule Late
January 2017	98.0	2.0	95.0	5.0
February 2017	97.7	2.3	94.7	5.3
March 2017	98.0	2.0	94.4	5.6
April 2017	96.4	3.6	97.8	2.2
May 2017	97.7	2.3	91.7	8.3
June 2017	98.0	2.0	96.0	4.0
July 2017	95.3	4.7	94.3	5.7
August 2017	97.6	2.4	97.3	2.7
September 2017	98.0	2.0	97.7	2.3

October 2017	97.2	2.8	95.8	4.2
November 2017	98.8	1.2	98.4	1.6
December 2017	99.1	0.9	99.1	0.9
Average for period	97.6	2.4	96.0	4.0

3.2.1 Details of late paying employers can be found in **appendix 1** of this report (**Private appendix**)

3.3 LGSS Pensions and scheme employer key performance indicators

3.3.1 The performance for LGSS Pensions against the 6 key performance indicators for the period 1 November 2017 to 31 January 2018 can be found in **appendix 3**.

3.3.2 The performance for scheme employers for the period 1 August 2017 to 30 September 2017 is as follows -

Key Performance Indicators	Target %	Month		
		October	November	December
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.	100%	97.2	98.8	99.1

3.4 Variances against the forecast of investments and administration expenses

3.4.1 The table in appendix 2 provides a breakdown of the fund account and supporting tables detailing management expenses from 1 April 2017 to 31 January 2018.

4. Relevant Fund objectives

Continually monitor and measure clearly articulated objectives through business planning.

5. Risk Implications

a) Risk(s) associated with the proposal

Risk	Mitigation	Residual Risk
There is no risk associated with this as the content has been agreed in the Business Plan	Approved Business Plan	Green

b) Risk(s) associated with not undertaking the proposal

Risk	Risk Rating
If the Fund does not have a Business Plan Update there will be significant lack of direction, control and structure in the management of its business.	Green

6. Communication Implications

Direct Communications	The Business Plan Update will be presented to the Pension Committee at its quarterly business meetings.
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7. Legal Implications

7.1 Not applicable

8. Consultation with Key Advisers

8.1 Consultation with the Funds advisers was not required for this report.

9. Alternative Options Considered

9.1 Not applicable

10. Background Papers

10.1 Not applicable

11. Appendices

11.1 Appendix 1 – (Private) Details of late paying employers

11.2 Appendix 2 - Variances against the forecast of investments and administration expenses

11.3 Appendix 3 – KPI supporting information

Checklist of Key Approvals	
Is this decision included in the Business Plan?	Not applicable
Will further decisions be required? If so, please outline the timetable here	Not applicable
Has this report been cleared by Section 151 Officer?	Sarah Heywood – 8 March 2018
Has this report been cleared by Head of Pensions?	Mark Whitby – 26 February 2018
Has the Chairman of the Pension Fund Committee been consulted?	Councillor Rogers – 14 March 2018
Has this report been cleared by Legal Services?	Quentin Baker – 14 March 2018

Appendix 2 - Variances against the forecast of investments and administration expenses

	2017-18 Estimate	2017-18 Forecast	Variance	Comments
	£000	£000	£000	
Contributions	(128,000)	(128,000)	-	Estimate was based on past trends. We are now able to assess what the actual year end position will be.
Transfers in from other pension funds:	(5,400)	(2,100)	3,300	
Total income	(133,400)	(130,100)	3,300	
Benefits payable	100,000	100,000	-	Estimate was designed to eliminate the effect of transfers in. We are now able to assess what the actual year end position will be.
Payments to and on account of leavers:	5,400	7,200	1,800	
Total Payments	105,400	107,200	1,800	
	(28,000)	(22,900)	5,100	
Management Expenses	8,156	8,114	(42)	See below
Total income less expenditure	(19,844)	(14,786)	5,058	
Investment Income	(29,000)	(29,000)	-	
Taxes on Income	-	-	-	
(Profit) and losses on disposal of investments and changes in the market value of investments	(75,000)	(75,000)	-	
Net return on investments	(104,000)	(104,000)	-	
Net (increase)/decrease in the net assets available for benefits during the year	(123,844)	(118,786)	5,058	

Management Expenses	2017-18 Estimate	2017-18 Forecast	Variance	Comments
	£000	£000	£000	
Total Administration Expenses	2,494	2,452	(42)	See below
Total Governance Expenses	432	432	-	
Total Investment Expenses	5,230	5,230	-	
TOTAL MANAGEMENT EXPENSES	8,156	8,114	(42)	

Administration Expenses Analysis	2017-18 Estimate	2017-18 Forecast	Variance	Comments
	£000	£000	£000	
<i>Staff Related</i>	1,321	1,305	(16)	Vacancy factor
<i>Altair System</i>	261	280	19	Increased cost due to Membership movements not anticipated when the budget was set.
<i>GMP/Payroll Reconciliation Project</i>	150	95	(55)	Unused spend is being carried forward to next year.
<i>Communications</i>	54	28	(26)	Efficiency savings realised in using electronic communication.
<i>Other Non-Pay and Income</i>	100	135	35	Includes additional legal advice charged to the fund of £10k , software licences of 13K and Subscriptions of £10k
<i>County Council Overhead Recovery</i>	608	609	1	
Total Administration Expenses	2,494	2,452	(42)	

Appendix 3 – Analysis for November, December and January								
November 2017 – Cambridgeshire Pension Fund								
Function/Task	Indicator	Target	Completed	Within Target	Over Target	% Within Target	RAG	Comments
Notify leavers of deferred benefit entitlement.	Notify leavers of deferred benefit entitlements or concurrent amalgamation within 15 working days of receiving all relevant information.	90%	391	390	1	99	G	SLA target met.
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%	81	79	2	97	G	SLA target met.
Award dependant benefits.	Issue award within 5 working days of receiving all necessary information.	95%	35	35	0	100	G	SLA target met.
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%	130	126	4	97	G	SLA target met.
Provide transfer-in quote to scheme member.	Letter issued within 10 working days of receipt of all appropriate information.	95%	50	49	1	98	G	SLA target met.
Payment of transfer out	Process transfer out payment – letter issued within 10 working days of receipt of all information needed to calculate transfer out payment.	90%	20	20	0	100	G	SLA target met.

December 2017 – Cambridgeshire Pension Fund								
Function/Task	Indicator	Target	Completed	Within Target	Over Target	% Within Target	RAG	Comments
Notify leavers of deferred benefit entitlement.	Notify leavers of deferred benefit entitlements or concurrent amalgamation within 15 working days of receiving all relevant information.	90%	235	226	9	96	G	SLA target met.
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%	22	22	0	100	G	SLA target met.
Award dependant benefits.	Issue award within 5 working days of receiving all necessary information.	95%	26	26	0	100	G	SLA target met.
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%	65	61	4	94	G	SLA target met.
Provide transfer-in quote to scheme member.	Letter issued within 10 working days of receipt of all appropriate information.	95%	24	24	0	100	G	SLA target met.
Payment of transfer out	Process transfer out payment – letter issued within 10 working days of receipt of all information needed to calculate transfer out payment.	90%	7	7	0	100	G	SLA target met.

January 2018 – Cambridgeshire Pension Fund								
Function/Task	Indicator	Target	Completed	Within Target	Over Target	% Within Target	RAG	Comments
Notify leavers of deferred benefit entitlement.	Notify leavers of deferred benefit entitlements or concurrent amalgamation within 15 working days of receiving all relevant information.	90%	287	287	0	100	G	SLA target met.
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%	30	29	1	97	G	SLA target met.
Award dependant benefits.	Issue award within 5 working days of receiving all necessary information.	95%	21	20	1	95	G	SLA target met.
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%	68	64	4	94	G	SLA target met.
Provide transfer-in quote to scheme member.	Letter issued within 10 working days of receipt of all appropriate information.	95%	10	10	0	100	G	SLA target met.
Payment of transfer out	Process transfer out payment – letter issued within 10 working days of receipt of all information needed to calculate transfer out payment.	90%	9	9	0	100	G	SLA target met.

Green:

- Equal to or above SLA target.

Amber:

- If there is a statutory target - below SLA target, but all within statutory target.
- If there is no statutory target - below SLA target, but number completed within target is within 10% of the SLA target.

Red:

- If there is a statutory target - below SLA target and not within statutory target.
- If there is no statutory target - below SLA target and number completed within target is not within 10% of the SLA target

CAMBRIDGESHIRE PENSION FUND



Pension Fund Committee

Date: 29 March 2018

Report by: Head of Pensions

Subject:	Employer Admissions and Cessations Report
Purpose of the Report	<ol style="list-style-type: none"> 1. To report the admission of three admission bodies to the Cambridgeshire Pension fund. 2. To report the admission of two academy trusts to the Cambridgeshire Pension fund.
Recommendations	<p>That the Pension Committee</p> <ol style="list-style-type: none"> 1. Notes the admission of the following admission bodies to the Cambridgeshire Pension Fund: <ul style="list-style-type: none"> • VHS Cleaning Services Ltd • Easy Clean Contractors Ltd (Hemingford Grey) • ABM Catering Ltd (Abbots Rippon Primary School) 2. Notes the admission of the following Multi Academy Trusts to the Cambridgeshire Pension Fund: <ul style="list-style-type: none"> • Soke Education Trust • Aces Multi Academy Trust
Enquiries to:	<p>Name – Mark Whitby, Head of LGSS Pensions</p> <p>E-mail – mwhitby@northamptonshire.gov.uk</p>

1. Background

- 1.1. The Local Government Pension Scheme Regulations 2013 (as amended) [the Regulations] provide for the admission of a number of different types of body to the Local Government Pension Scheme; scheduled bodies, designating bodies, and admission bodies.
- 1.2. This report provides an update on admissions to the Cambridgeshire Pension Fund since the last meeting of the Pension Committee.

2. New Admission Bodies

- 2.1 Paragraph 1 of Part 3 of Schedule 2 to the Regulations provides for an Administering Authority making an admission agreement with an admission body, enabling employees of the admission body to be active members of the Local Government Pension Scheme.
- 2.2 A body which falls under paragraph 1(d)(i) of Part 3 of Schedule 2 is an admission body that is providing a service or assets in connection with the exercise of a function of a scheme employer, as a result of a transfer of the service or assets by means of a contract or other arrangement. Though the Regulations effectively provide discretion on the administering authority as to which bodies become paragraph 1(d)(i) admission bodies, guidance by the Department of Communities and Local Government in December 2009 states *"The administering authority cannot decline to admit a contractor if the contractor and the letting authority agree to meet the relevant requirements of the LGPS regulations."*
- 2.3 The Pension Committee is asked to note that the following have become new admission bodies in the Cambridgeshire Pension Fund under paragraph 1(d)(i)

Date	New Admission Body	Background information
01/09/2016	VHS Cleaning Services	Netherhall School outsourced their cleaning service and transferred their cleaning staff to VHS Cleaning Services, under TUPE regulations. Netherhall School, a scheme employer in their own right, agreed to a Pass Through admission and will retain responsibility for the pension liabilities.
01/07/2017	Easy Clean Contractors Ltd	Hemmingford Grey Primary School outsourced their cleaning service and transferred their cleaning staff to Easy Clean Contractors Ltd, under TUPE regulations. As the recognised scheme employer, Cambridgeshire County Council agreed to a Pass Through admission and will retain responsibility for the pension liabilities.
01/01/2018	ABM Catering	Abbots Ripton Church of England Primary School outsourced their catering service and transferred their catering staff to ABM Catering Ltd, under TUPE regulations. As the recognised scheme employer, Cambridgeshire County Council agreed to a Pass Through admission and will retain responsibility for the pension liabilities.

3. New Scheduled Bodies

- 3.1 Regulation 3 (1) of the Regulations provides for a person employed by a body listed in Schedule 2 to be an active member of the Local Government Pension Scheme. Part 1 of Schedule 2 includes “a proprietor of an Academy” as being a class of Schedule 2 employer and therefore a Scheduled Body. There is no discretion on the administering authority or the employer as to whether or not employers in Schedule 2 are provided with access to the Fund; it is a requirement.
- 3.2 The LGPS Regulations recognise the proprietor of the Academy as the scheme employer. Where Academies are part of a Multi Academy Trust (MAT), the Trust is the scheme employer and not each individual Academy. Academies joining an existing MAT are not reported as they are therefore not recognised as new scheme employers.

Date of admission	Academy Trust	Name of Academies transferring
01/01/2018	Soke Education Trust	John Clare Primary Gunthorpe Primary Werrington Primary Wittering Primary
01/01/2018	Aces Multi Academy Trust	Hinchingbrooke School Cromwell Academy

- 3.3 Actuarial advice has been sought on appropriate employer contribution rates from the fund actuary and these will be advised to the new Academy proprietors.

4. Relevant Pension Fund Objectives

Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance. <i>Objective 1</i>
Manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers. <i>Objective 2</i>
Ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment. <i>Objective 3</i>

5. Finance & Resources Implications

- 5.1 Actuarial costs incurred by obtaining a calculation of employer contribution rates, bond levels and funding positions at commencement are recharged directly to the relevant employer.
- 5.2 The employer contribution rates contain an allowance for administration charges, meaning the new admissions should be cost neutral.

- 5.3 Employers who are unable to pay monies due during the course of active membership may result in unpaid liabilities being borne by other employers in the Fund. Measures to mitigate such an eventuality are readily available for admission bodies and set out in section 6 below.

6. Risk Implications

a) Risk(s) associated with the proposal

Risk	Mitigation	Residual Risk
A new employer does not pay the pension contributions due in full or on time. A late payments policy is in place which sets clear policies on how we deal with late or non-payment of contributions.	A late payments policy is in place which sets clear policies on how we deal with late or non-payment of contributions.	Green
A company admitted to the Fund as an admission body may become financially unviable.	A surety bond or guarantor is required to cover the potential risk of the admitted body becoming insolvent and the monetary value of this risk is reviewed regularly to ensure it provides adequate cover for the financial risks involved.	Green
An Admission Body joining the Fund may cease as an employer in the Fund if they have no more active members	We maintain regular two way communication regarding the current funding position of the employer, reductions in membership numbers and any other activity that may affect the continuation as an employer in the Fund.	Amber
Future pension liabilities that cannot be supported by an Academy Trust	A parliamentary minute, laid in July 2013, concerning Academies and Local Government Pension Scheme (LGPS) liabilities, provides assurance that the Department for Education will meet any outstanding Local Government Pension Scheme liabilities in the event of an Academy Trust closure.	Green

b) Risk(s) associated with not undertaking the proposal

Risk	Risk Rating
Non compliance with CLG guidance that, an application by an admission body falling under paragraph 1(d)(i) of Part 3 Schedule 2 of the regulations, cannot be declined where the requirements of the LGPS Regulations are met.	Red
Non compliance with the mandatory requirement to allow academies admission to the Pension Fund.	Red

7. Communication Implications

Direct Communications	Direct communications will be required to facilitate employer start up in the LGPS.
Newsletter	Regular pension bulletins are issued to the scheme employers on topical matters.
Induction	New employers require an introduction to their employer responsibilities under the LGPS.
Seminar	Employers will be entitled to attend an annual Employer Forum.
Training	Generic and bespoke training courses will be made available.
Website	New employers are given access to the employer's guidance available on the pension's website.

8. Legal Implications

- 8.1 Admitted bodies enter into an admission agreement with the administering authority in order to become an employer within the Cambridgeshire Pension Fund. This agreement sets out the statutory responsibilities of an employer, as provided for under the Regulations governing the LGPS.

9. Consultation with Key Advisers

- 9.1 Contribution rate and bond assessments are undertaken by Hymans Robertson, the Fund Actuary.
- 9.2 A precedent admission agreement has been drafted by Eversheds, specialist pension legal advisers in consultation with LGSS Law.

10. Alternative Options Considered

- 10.1 None available.

Checklist of Key Approvals	
Is this decision included in the Business Plan?	No
Will further decisions be required? If so, please outline the timetable here	No
Is this report proposing an amendment to the budget and/or policy framework?	No
Has this report been cleared by Section 151 Officer?	Sarah Heywood – 8 March 2018
Has this report been cleared by Head of Pensions?	Mark Whitby – 21 February 2018
Has the Chairman of the Pension Fund Committee been consulted?	Councillor Terry Rogers – 14 March 2018
Has this report been cleared by Legal Services?	Quentin Baker – 14 March 2018

**CAMBRIDGESHIRE PENSION
FUND**



Pension Fund Committee

Date: 29 March 2018

Report by: Head of Pensions

Subject:	Governance and Legislation Report
Purpose of the Report	To provide the Pension Committee with: 1) Information on potential, new or amending legislation affecting the LGPS; 2) Information on other pensions legislation; 3) Activities of the LGPS Scheme Advisory Board and the Pensions Regulator; 4) Information on issues concerning the governance of the Local Government Pension Scheme (LGPS) on a national and local basis; and 5) Skills and knowledge opportunities.
Recommendations	That the Pension Committee notes the content of the report.
Enquiries to:	Jo Walton – Governance and Regulations Manager, LGSS Pensions Service E-mail: jwalton@northamptonshire.gov.uk

1. Background

- 1.1 This is a standing report that identifies issues concerning the governance of the Local Government Pension Scheme (LGPS) and also potential, new, amending and overriding legislation that will have an impact on how the Scheme is managed and on members' benefits.

2. Activities of the Pensions Regulator

2.1 Quick guides to improving and measuring data

- 2.1.1 The Pensions Regulator has recently published quick guides for trustees and scheme managers of pension schemes on improving and measuring their data. From 2018 it will be mandatory for schemes to include common and scheme specific (conditional) data scores on their annual scheme return.
- 2.1.2 LGSS Pensions were already aware of this requirement which has been incorporated into the Data Audit conducted by ITM Limited and the Data Improvement Plan.

- 2.1.3 In addition, the Scheme Advisory Board for the LGPS in England and Wales are looking to set up a working group including the Government Actuaries Department and the Pensions Regulator with a view to providing guidance on what data should be included in the key scheme-specific (conditional) data for the LGPS (E&W).

3. Activities of the Scheme Advisory Board

3.1. Tier 3 employer project – publication of surveys

- 3.1.1 The Scheme Advisory Board for the LGPS in England and Wales (SAB) has appointed Aon Hewitt to help them in their review of Tier 3 employers in the LGPS. Tier 3 employers are all those with no tax-payer backing (i.e. colleges, universities, housing associations, charities and any admission bodies with no guarantee from a Council, academy or other tax-payer backed employer).
- 3.1.2 The aims of the exercise are to identify:
- the duties, benefits, issues and challenges for LGPS funds, Tier 3 employers and their scheme members with regard to their participation in the LGPS
 - options for change that would improve the funding, administration, participation and member experience with regard to Tier 3 employers.
- 3.1.3 A key element of this project is information gathering and, on 27th November, the SAB launched three surveys for completion by:
- a) LGPS administering authorities - <http://lgpsregs.org/survey/administering-authorities.php>,
 - b) Tier 3 employers - <http://lgpsregs.org/survey/employer.php> , and
 - c) LGPS members employed by tier 3 employers - <https://lgpsmember.org/survey/member.php>
- 3.1.4 The surveys closed on 31 January 2018. LGSS Pensions responded to the survey on behalf of the Fund.
- 3.1.5 The results of the survey will be shared with the Pension Fund Committee once they become available.
- #### **3.2. Letter to the Minister regarding survivor benefits**
- 3.2.1 As agreed by the Scheme Advisory Board on the 16th November, the Chair, Councillor Roger Phillips, wrote to the Local Government Minister on 27 November setting out the Board's intention to explore the scope for eliminating any existing inequalities in the scheme regarding survivor benefits.
- 3.2.2 The letter went on to confirm that the Government Actuary's Department should be commissioned to cost any such proposal ranging from full retrospection to equalising future survivor benefits only. At this stage, and in the absence of any such costing, the Scheme Advisory Board has no firm view on how any such proposal should be applied.

- 3.2.3 In the meantime, representations will continue to be made to MHCLG for clarification on the extent to which the Brewster judgement applies to the LGPS in England and Wales. It was expected that the outcome of the Elmes v Essex County Council judicial review will provide further clarity (see section 4).

4. High Court judgement in the case of Elmes v Essex

- 4.1 This case concerns Nichola Elmes versus Essex County Council with an interested party of the Ministry of Housing, Communities and Local Government which is similar to that decided upon in the Supreme Court on 8 February 2017 (Brewster v NILGOSC, the Northern Ireland LGPS).
- 4.2 This case was heard before the High Court on 18 January 2018 and declared that:
- “The requirement to nominate a person under regulations 24 and 25 of the LGPS (Benefits, Membership and Contributions) Regulations 2007 is incompatible with Article 1 of the first Protocol to, and Article 14 of, the European Convention on Human Rights and must therefore be disapplied”.
- 4.3 It is understood that the outcome of this case effectively removes the requirement for a nomination form from regulations and enables an LGPS administering authority to pay a partner’s pension, to the partner (who meets the definition of co-habiting partner set out in the LGPS Regulations 2013) of a deceased member who died without completing a nomination form, and who left active membership on or after 1 April 2008 and before 1 April 2014.
- 4.4 Whilst this judgement appears clear in respect of the payment of co-habiting partners, questions still remain around the children’s pensions that were paid at a higher rate in the absence of a co-habiting partners pension being paid and if these are now regarded as overpaid and whether administering authorities should seek recovery of these amounts.

5. Consultations

5.1 Indexation and equalisation of guaranteed minimum pensions (GMP) in public service pension schemes: HM Treasury response to the consultation

- 5.1 On 22 January 2018 HM Treasury published its response to the consultation on indexation and equalisation of GMP in public service pension schemes that was originally issued on 28 November 2016.
- 5.2 The consultation set out options for how government should continue to meet its obligations to index and equalise pension entitlements for members in public sector pension schemes with GMP entitlements (from being contracted out of the State Earnings Related Pension Scheme between 6 April 1978 to 5 April 1997) following reform to state pensions and the end of contracting out which removed the mechanism for full indexation of GMPs being paid through the State Additional Pension.

- 5.3 An “interim solution” is already in place whereby indexation on GMP for those reaching state pension age between 6 April 2016 to 5 December 2018 is paid by the public service pension scheme.
- 5.4 The government’s decision is to extend the interim solution for a further two years and four months so that indexation on GMPs in payment will now be paid by public sector pension schemes for those who reach state pension age on or before 5 April 2021.
- 5.5 During this extension period, the government proposes to investigate an alternative long-term methodology, known as “conversion” and give time for GMP reconciliation exercises to be completed and a methodology to be agreed. “Conversion” is an actuarial methodology whereby GMP is converted into a scheme benefit. This would apply to all active and deferred members of schemes reaching state pension age after the date the interim solution expires.

6. Skills and knowledge opportunities.

6.1. Training Events

- 6.1.2 Section 248A of The Pensions Act 2004 as incorporated within The Pensions Regulator’s Code of Practice (Governance and administration of public service pension schemes) requires all members of the Pensions Committee to maintain the necessary skills and knowledge to undertake their role effectively.
- 6.1.3 In order to facilitate the acquisition of skills and knowledge for members of the Pension Committee, **appendix 1** lists all events that are deemed useful and appropriate.
- 6.1.4 Requests to attend events will be facilitated by the Governance Team. It may be necessary to restrict numbers of attendees on some courses through reasons of cost.

7. Relevant Pension Fund Objectives

Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance. <i>Objective 1</i>
Manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund’s stakeholders, particularly the scheme members and employers. <i>Objective 2</i>
Ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment. <i>Objective 3</i>
Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate. <i>Objective 5</i>

8. Risk Implications

a) Risk(s) associated with the proposal

Risk	Mitigation	Residual Risk
There is no risk associated with this report as it is to note.		Green

b) Risk(s) associated with not undertaking the proposal

Risk	Risk Rating
That the Committee are ill-informed about important consultations and changes affecting the Fund they are responsible for administering	Green

9. Finance & Resources Implications

9.1 Not applicable

10. Communication Implications

Training	All staff involved in the administration of the LGPS are aware of the new legislation and the impact on the calculation and payment of benefits from the scheme.
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11. Legal Implications

11.1 There are no legal implications connected to the contents of this report.

12. Consultation with Key Advisers

12.1 There has been no requirement to consult with advisers over the content of this report.

13. Alternative Options Considered

13.1 There are no alternative options to be considered.

14. Background Papers

14.1 Not applicable

15. Appendices

15.1 Appendix 1 - List of training events/conferences.

Checklist of Key Approvals	
Is this decision included in the Business Plan?	Not applicable
Will further decisions be required? If so, please outline the timetable here	Not applicable
Has this report been cleared by Section 151 Officer?	Sarah Heywood – 8 March 2018
Has this report been cleared by Head of Pensions?	Mark Whitby – 26 February 2018
Has the Chairman of the Pension Fund Committee been consulted?	Councillor Rogers – 14 March 2018
Has this report been cleared by Legal Services?	Quentin Baker – 14 March 2018

Appendix 1 - Internal/External training and events 2018 – 2019				
Date	Event	Training Credits	Target Audience	Website Link
7 February 2018	LGSS Pensions Information Day	2	Officers, Committee/ Board Members	In house ACCESS – appointment of operator
23 February 2018	Schroders Trustee Training (Part 1)	2	Officers, Committee/ Board Members	https://www.schrodersevents.co.uk/schroders/frontend/reg/thome.csp?pageID=474304&eventID=1363&traceRedir=2&eventID=1363 The programme is designed to cover a wide range of different asset classes and investment strategies, as well as how to manage some of the risks associated with them
26 February 2018	Local Pension Board – Spring Seminar	2	Board Members	https://www.barnett-waddingham.co.uk/events/2018/02/26/lgps-local-pension-board-members-spring-seminar The latest updates on governance and the LGPS, including a focus on key emerging issues. It will also provide opportunities for discussion on the issues you face and for networking with Board members from other funds
1–2 March 2018	LGC Investment Seminar	4	Officers, Committee/ Board Members	https://investmentseminar.lgcplus.com/ Keeping the LGPS affordable and accessible through austerity and uncertain times.
16 March 2018	Schroders Trustee Training (Part 2)	2	Officers, Committee/ Board Members	https://www.schrodersevents.co.uk/schroders/frontend/reg/thome.csp?pageID=474304&eventID=1363&traceRedir=2&eventID=1363 The programme is designed to cover a wide range of different asset classes and investment strategies, as well as how to manage some of the risks associated with them
9 May 2018	CIPFA Governance Module	2	Officers, Committee/ Board Members	In house/ AON Hewitt
21-23 May 2018	PLSA Local Authority Conference	4	Officers, Committee/ Board Members	https://www.plsa.co.uk/Events/Local-Authority-Conference

27 June 2018	LGPS Local Pension Boards Three Years on	2	Board Members	http://www.cipfa.org/training/l/lgps-local-pension-boards--three-years-on-20180627
4 July 2018	LGSS Pension Information Day	2	Officers, Committee/ Board Members	In house
3-5 July 2018	LGA Annual Conference and Exhibition 2018	4	Officers, Committee/ Board Members	https://www.local.gov.uk/events The conference provides plenty of opportunities for delegates to engage in a range of sessions on how innovation and good practice can deliver the best local public services for our communities.
11–12 July 2018	Heywood Class Group AGM	4	Officers	https://www.aquilauk.co.uk/
12-13 July 2018	LGC Pension Fund Symposium	4	Officers	https://pensionfund.lgcplus.com/
6-7 September 2018	LGC Investment Summit 2018	4	Officers, Committee/ Board Members	TBC
5 October 2018	LGSS Pension Information Day	2	Officers, Committee/ Board Members	In house
12 October 2018	Schroders Trustee Training (Part 1)	2	Officers, Committee/ Board Members	https://www.schrodersevents.co.uk/schroders/frontend/reg/thome.csp?pageID=474304&eventID=1363&traceRedir=2&eventID=1363 The programme is designed to cover a wide range of different asset classes and investment strategies, as well as how to manage some of the risks associated with them
2 November 2018	Schroders Trustee Training (Part 1)	2	Officers, Committee/ Board Members	https://www.schrodersevents.co.uk/schroders/frontend/reg/thome.csp?pageID=474304&eventID=1363&traceRedir=2&eventID=1363 The programme is designed to cover a wide range of different asset classes and investment strategies, as well as how to manage some of the risks associated with them

5-7 December 2018	LAPFF Annual Conference	4	Officers, Committee/ Board Members	TBC
TBC	UBS First Steps Seminar	2	Officers, Committee/ Board Members	
TBC	UBS Second Steps Seminar	2	Officers, Committee/ Board Members	
TBC	Pension Managers Annual Conference	4	Officers, Committee/ Board Members	
TBC	PLSA Annual Conference	4	Officers, Committee/ Board Members	
13 February 2019	LGSS Pension Information Day	2	Officers, Committee/ Board Members	In house

Core training has been highlighted in the plan above. Future dates of the CIPFA modules will be distributed shortly and will also be classed as core training.

**CAMBRIDGESHIRE
PENSION FUND**



Pension Fund Committee

Date: 29 March 2018

Report by: Head of Pensions

Subject:	Payment of Employee and Employer Pension Contribution Policy Review
Purpose of the Report	To present the reviewed Payment of Employee and Employer Pension Contribution Policy
Recommendations	The Committee are asked to – 1) Approve the amendments made to the policy. 2) Confirm that future immaterial amendments to the policy can be approved through delegated authority to the Head of Pensions. 3) Confirm that material amendments to the policy can be made via the Chairman of the Pension Fund Committee on behalf of the Committee.
Enquiries to:	Michelle Oakensen, LGSS Pensions, Governance Officer moakensen@northamptonshire.gov.uk

1. Background

- 1.1 In October 2017, the revised Payment of Employee and Employer Pension Contributions Policy was presented to the Pension Fund Committee for approval. Due to a small number of employers in the Fund persistently making late payments, the Committee requested that Officers looked into strengthening section 11, 'potential additional consequences for the scheme employer of repeated non-compliance'.
- 1.2 In light of this, Officers took on board suggestions provided at the meeting and also sought advice from Eversheds Sutherland as to further consequences of non-compliance.

2. Further revisions to the policy

- 2.1 In addition to the initial revisions made to the policy and presented to the Pension Fund Committee on 19 October 2017, the following additions have been made under section 11.

- 2.2 **Impose a statutory debt** – Given that there is a statutory requirement to make payment as per Regulations 67-70 of the Local Government Pension Scheme Regulations, failure on behalf of an employer is a breach of this statutory requirement. This can be potentially claimed as a statutory debt from the employer. Before this approach can be adopted it is advised that communications are checked to ensure all obligations have been clearly stated and information provided. Before a statutory demand is issued the Cambridgeshire Pension Fund will seek appropriate legal advice.
- 2.3 **Involvement from the Administering Authority's Section 151 Officer** – As the Section 151 Officer is responsible for exercising the proper administration of the Council's financial affairs under section 151 of the Local Government Act 1972, and all other relevant legislation and regulations. It would be appropriate for the Head of Pensions to inform the Section 151 Officer of any employer who was persistently making late contribution payments with the ability to intervene where deemed appropriate.
- 2.4 **Involvement from the Schools Commissioner Group** – The National Schools Commissioner and Regional Schools Commissioners work with school leaders to take action in underperforming schools. Regional School Commissioners work on behalf of the Secretary of State for Education and are accountable to the National Schools Commissioner.
- 2.4.1 Regional Schools Commissioners are responsible for intervening in academies where governance is inadequate as well as other key responsibilities and therefore for this particular type of employer it may be deemed prudent to involve them as decided by the Head of Pensions in consultation with the Chairman of the Pensions Committee.

3. Next steps

- 3.1 Once the policy has been approved it will be published on the LGSS Pensions website. The revised policy will also be sent to all scheme employers as a reminder of their statutory obligations and as standard practice the policy will be sent to all new employers of the scheme.
- 3.2 In addition, all e-mails sent to employers from within the service will be reviewed to ensure a clear consistent message is being delivered and that prior warning is given regarding reporting late payments to the Pensions Regulator and other possible intervention in all correspondence.

4. Relevant Pension Fund Objectives –

Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance. <i>Objective 1</i>
Manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers. <i>Objective 2</i>
Administer the Fund in a professional and efficient manner, utilising technological solutions and collaboration. <i>Objective 10</i>

Deliver consistent plain English communications to Stakeholders. <i>Objective 13</i>
Ensure cash flows in to and out of the Fund are timely and of the correct amount. <i>Objective 16</i>
Ensure the long-term solvency of the Fund, taking a prudent long term view, so that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment. <i>Objective 17</i>

5. Finance and resource implications

5.1 Not applicable.

6. Risk implications

a) Risks associated with this proposal

Risk	Mitigation	Residual risk
No risks associated with this proposal		

b) Risks associated with not undertaking this proposal

Risk	Risk rating
The Fund could be open to challenge if aspects of the policy are open to interpretation	Green
Failing to closely monitor receipt of accurate and timely employee and employer contributions would not be acting in the best interests of the scheme members	Green

7. Communication implications

Direct Communications	Emails to be sent to scheme employers after late/missing payments
Website	To be updated with current policy

8. Legal implications

8.1 Not applicable

9. Consultation with key advisers

9.1 Legal advice obtained from Eversheds Sutherland.

10. Alternative options considered

10.1 Not applicable

11. Background Papers

11.1 Not applicable

12. Appendices

12.1 Draft revised Payment of Employee and Employer Contributions Policy

Checklist of Key Approvals	
Is this decision included in the Business Plan?	Not applicable
Will further decisions be required? If so, please outline the timetable here	Not applicable
Is this report proposing an amendment to the budget and/or policy framework?	No
Has this report been cleared by Chief Finance Officer/Section 151 Officer?	Sarah Heywood – 9 March 2018
Has this report been cleared by Head of Pensions?	Mark Whitby – 26 February 2018
Has the Chairman of the Pension Fund Committee been consulted?	Councillor Rogers – 14 March 2018
Has this report been cleared by Legal Services?	Quentin Baker – 14 March 2018

Payment of Employee and Employer Pension Contributions Policy

2018

Cambridgeshire Pension Fund

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1. Introduction

- 1.1 This is the Payment of Employee and Employer Contributions Policy for Cambridgeshire Pension Fund which is administered by LGSS Pensions on behalf of Cambridgeshire County Council (the Administering Authority).
- 1.2 This policy sets out the expectations of the Scheme Employer with regards to the payment of employee and employer pension contributions and the associated reconciliation processes performed by LGSS Pensions Officers of the Fund.
- 1.3 The ultimate aim of the policy is to ensure that employee and employer pension contributions and associated schedules to inform the breakdown of the payments are received on time (on or before the 19th of the month following the month of deduction) in accordance with prevailing legislation and are reconciled by the Fund in an appropriate timescale to aid swift resolution of any unpaid monies.
- 1.4 It is essential that contribution income is received on time to ensure that the Fund has sufficient cash available to meet its benefit payment obligations.

2. Policy objectives

- 2.1 The Fund's objectives relating to this Policy are:
- 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.
 - Administer the Fund in a cost effective and efficient manner utilising technology.
 - Ensure the Fund and its stakeholders are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration function of the Fund.
 - Put in place standards for the Fund and its employers and ensure these standards are monitored and developed as necessary.
 - To ensure that sufficient resources are available to meet all liabilities as they fall due.

3. Purpose of the policy

3.1 The purpose of the policy is to –

- have a robust process in place for managing payments and schedules received both on time and after the statutory deadline;
- ensure employers are given appropriate information in regards to the consequences of making payments and providing schedules after the statutory deadline; and
- meet the required needs in relation to the Fund's objectives.

4. Effective date and reviews

4.1 This policy was first approved by the Pension Committee and was effective from 1 April 2016. .

4.2 The policy was subject to its first review in March 2018 and became effective from 1 April 2018.

4.3 This policy will continue to be reviewed annually, and if necessary, more frequently to ensure it remains accurate and relevant.

5. Scope

5.1 This policy applies to the following –

- officers of the Fund;
- members of the Pension Committee;
- members of the Local Pension Board; and
- employers of the Fund.

6. Legal requirements

6.1 Regulation 67 and 69 of The Local Government Pension Scheme Regulations 2013 states that payment of both employee and employer contributions along with a schedule as specified by the Administering Authority must be submitted by the 19th day of the month following deduction as per overriding legislation, Regulation 49 of the Pensions Act 1995.

6.2 Regulation 5 of The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 provides that the Administering Authority keep accurate records of transactions which emphasises the requirement for employers to submit accurate and timely schedules along with their payments.

6.3 The Pensions Regulator also enforces the legal obligation of employers to pay over pension contributions and provide a schedule as detailed in the Pensions Regulator's Code of Practice (14): Governance and Administration of public service pension schemes.

7. Monitoring late payments

7.1 A late payment (including contributions expressed as a monetary amount, i.e. a cash deficit payment) is constituted by either late submission of payment schedule and/or late payment of contributions to the Fund. Both schedule and payment are due to the Fund (payment must be

cleared) by the 19th day of the month following deduction. As default, monetary deficit payments should be paid on a monthly basis. Any arrangement to pay in other frequencies must be approved by the Head of Pensions.

- 7.2 All contribution payments must be cleared in the Cambridgeshire Pension Fund bank account by the 19th day of the month following deduction.

8. Reporting late payments of contributions to the Pensions Regulator

- 8.1 If a scheme employer makes three consecutive late payments or three late payments in a rolling six month period they will be reported to the Pensions Regulator in line with the Code of Practice.

9. Administration fees and interest payable in respect of late and inaccurate payments and schedules

- 9.1 In line with the Cambridgeshire Pension Fund Administration Strategy if a scheme employer submits a schedule and/or payment late the Fund has the discretion to charge the following:

Description	Administration Fee (per occurrence)
Late/inaccurate submission of payment schedule	£80
Late/inaccurate payment of contributions	£80 if no interest charge Additional £100 if interest charges need to be calculated (Interest payable at prevailing rate if payment more than 30 days late)

- 9.2 In addition, the Cambridgeshire Pension Fund will also charge for any additional costs that are incurred by the Fund in relation to late payments. This includes the cost of contacting members if a breach is deemed of material significance under the Pensions Regulator Code of Practice and in line with the Cambridgeshire Pension Fund Reporting Breaches of the Law to the Pensions Regulator Policy.

- 9.3 Cambridgeshire Pension Fund will also reserve the right to charge interest in accordance with Regulation 44 of The Local Government Pension Scheme Regulations 2013, which states interest should be charged at the Bank of England Base Rate plus one percent compounded in 3 month rests.

10. Internal escalation process for dealing with late submission of payments and/or schedules

- 10.1 In circumstances where a scheme employer fails to meet the statutory requirements the protocol as detailed in appendix 1 will be applied.

11. Potential additional consequences for the scheme employer of repeated non-compliance

- 11.1 All late payments will be reported to the Pension Fund Committee and the Local Pension Board on a quarterly basis. For any scheme employers where a resolution has not been reached, the Employer Services and Systems Manager, with the Head of Pensions, will submit

a proposal to the Chairman of the Pension Fund Committee for potential courses of further action. Further courses of action could take the form of the following:

- If the scheme employer is an admission body the Fund has the ability to terminate the Admission Agreement under the terms of that Agreement.
- Impose a statutory debt.
- Involvement from the Administering Authority's Section 151 Officer.
- Involvement from the Schools Commissioners Group.
- Any other course of action in line with the regulations as deemed appropriate by the Pension Fund Committee.

Appendix 1 - Internal escalation process for dealing with late submission of payments and/or schedules

Stage	Owner	Action	Timescale to respond	Detail
1.	Investment and Fund Accounting Manager	Contact the scheme employer/payroll provider by the end of the calendar month that the payment/schedule falls due i.e. if payment was due 19 th May the scheme employer/payroll provider must be contacted by the 31 st May ^{*/**}	Scheme Employer/Payroll provider is given a further 5 working days to submit schedule/payment	The scheme employer/payroll provider is informed of non-compliance. LGSS Pensions to record incidence of non-compliance for future reference. The point of contact for stage 1 should be the individual that usually submits the payment/schedule.
2.	Investment and Fund Accounting Manager	If not received within 5 working days, the Funding Team issue second reminder within 3 working days ^{*/**}	The scheme employer/payroll provider is given a further 5 working days to submit schedule/payment	The scheme employer/payroll provider is informed of non-compliance and informed that the next step is escalation to the Employers Team. Where applicable, payroll providers are advised that the Employers Team will raise the issue with the scheme employer. LGSS Pensions to record incidence of non-compliance for future reference. The point of contact for stage 2 should be the Line manager of contact in stage 1.
3.	Investment and Fund Accounting Manager	If not received within 5 working days, the Funding Team escalate to the Employers Team within 2 working days ^{**}		
4.	Employer Services and Systems Manager	The Employers Team to contact the scheme employer within 3 working days after escalation ^{**}	5 working days to submit schedule/payment	The scheme employer is informed of possible ramifications if payment is not received within 5 days. If payment is not received the Employer Services and Systems Manager will make a decision on what action to take and inform the Chairman of the Pension Fund Committee. This communication should be to the highest appropriate level of authority due to the severity. If the payroll provider has failed to submit schedule/payment the scheme employer is advised and reminded that overall responsibility rests with them and they have a further 5 working days to have the matter resolved.

* If the Employer advises they are unable to pay, escalate straight to the Employers Team

** All contact with a Scheme Employer/Payroll provider must be followed up by e-mail

The Fund has the right to extend deadlines where exceptional circumstances arise and where it is not feasible for an action to be carried out within the above timescales. Any extension must be agreed by the Head of Pensions (or delegated authority).

If it is the second consecutive month or second month in a rolling six month period, the start point should be stage 2 above.

If it is the third consecutive month or third month in a rolling six month period, the start point should be stage 4 above.

**CAMBRIDGESHIRE
PENSION FUND**



Pension Fund Committee

Date: 29 March 2018

Report by: Head of Pensions

Subject:	Pension Fund Annual Business Plan and Medium-Term Strategy 2018/19 to 2020/21
Purpose of the Report	To present the Annual Business Plan and Medium-Term Strategy which details the Fund's key areas of activity over the period 2018/19 to 2020/21
Recommendations	The Committee are asked to approve the attached Business Plan and Medium-Term Strategy
Enquiries to:	Mark Whitby – Head of Pensions E-mail - mwhitby@northamptonshire.gov.uk

1. Background

- 1.1 It is considered good governance for the Cambridgeshire Pension Fund to adopt a Business Plan and Medium-Term Strategy that:
- Sets out the objectives of Cambridgeshire County Council with regards to the management of the Fund;
 - Documents the priorities and improvements to be implemented during the next three years to help achieve those objectives;
 - Enables progress and performance to be monitored in relation to those priorities; and
 - Provides a clear vision for the next three years.
- 1.2 The proposed Business Plan and Medium-Term Strategy for the Cambridgeshire Pension Fund for the period 2018/19 to 2020/21 is in **Appendix 1**.

2. The Business Plan and Medium-Term Strategy

- 2.1 The format of the Business Plan and Medium-Term Strategy has been revised for 2018/19 to reflect best practice. As such, the document concentrates on activities that are not considered business as usual, identifying key milestones and budget and resource requirements. It is split into the following core areas:
- Service delivery
 - Governance and compliance
 - Communications, systems and employer management
 - Operations

- Investments, accounting and cash flow management

2.2 Progress made against the Business Plan will continue to be reported to the Committee at each meeting. Where progress against the Business Plan has fallen behind schedule further detail will be provided.

2.3 Within the Service Delivery section of the Business Plan, the Committee are asked to agree to an additional four posts across the Pensions Service to support the combined administration to the Cambridgeshire and Northamptonshire Pension Funds. The purpose of these four posts is as follows:

Data Quality Analyst	To have responsibility for ensuring the data quality of the Fund and to oversee large scale data projects, including reconciliations/rectification exercises following an increased industry and legislative focus in this area. Aspects of this role, including management of staff undertaking reconciliations, rests at present with the Governance & Regulations Manager, an unsustainable position.
Pensions Officer	To support the Data Quality Analyst and also specifically to process payroll and contracting out rectification casework that may otherwise require outsourcing. This activity represents an additional pressure on the Fund.
Communications Officer	Dedicated post to be responsible for all Fund communications. This will enable staff in the Employers Team, who currently lead on communications, to focus on scheme employer engagement, which is a key component of some of the activities set out in the business plan
Senior Accounting Technician	This post is to cope with new or increased demand. To support the Fund's Officer input into delivering the ACCESS project over the medium term and to support local Fund investment requirements, such as increasing allocations to alternatives and the local direct investment initiative.

2.4 Resource costs for each post are identified in the Business Plan and would be shared between the Cambridgeshire and Northamptonshire Funds.

2.5 The Pensions Committee is asked to note confidential **Appendix 2** that sets out the results of a costing exercise to establish the efficiency of LGSS Pensions over the period 2014/15 to 2017/18.

2.6 A service level agreement between LGSS and the Funds was put in place in 2014/15 which included a mechanism allowing for the sharing of efficiency savings between the parties in the ratio one third (LGSS):two thirds (Funds). A £75k transaction in connection with this arrangement is included in Administration Expenses.

3. Finance & Resources Implications

- 3.1 Performance against the financial estimates in the Business Plan will be presented to the Pension Committee each meeting.

4. Risk Implications

- a) Risk(s) associated with the proposal

Risk	Mitigation	Residual Risk
No risk as it is best practice that the Fund has an approved Business Plan.	N/A	N/A

- b) Risk(s) associated with not undertaking the proposal

Risk	Risk Rating
If the Fund does not have a Business Plan there is potential for a lack of direction, control and structure in the management of its business.	Amber

5. Communication Implications

Direct Communications	An update on progress made against the activities in the Business Plan will be presented to the Pension Committee each meeting.
Website	The Business Plan will be published on the Fund's website.

6. Legal Implications

- 6.1 Not applicable.

7. Consultation with Key Advisors

- 7.1 The Fund's current and future key advisers have been consulted in the Business Plan and Medium-Term Strategy where necessary, including Hymans Robertson and Aon Hewitt.

8. Alternative Options Considered

- 8.1 The alternative of not having a Business Plan and Medium-Term Strategy is not considered an acceptable alternative for the Fund.

9. Background Papers

- 9.1 Not applicable.

10. Appendices

- 10.1 Appendix 1 Annual Business Plan and Medium-Term Strategy 2018/19 to 2020/21
- 10.2 Appendix 2 Memorandum: Efficiency improvements in the delivery of pension services (exempt)

Checklist of Key Approvals	
Is this decision included in the Business Plan?	N/A
Will further decisions be required? If so, please outline the timetable here	No
Is this report proposing an amendment to the budget and/or policy framework?	No
Has this report been cleared by Head of Pensions?	Mark Whitby – 9 March 2018
Has this report been cleared by the Section 151 Officer?	Sent to Sarah Heywood – 9 March 2018
Has the Chairman of the Pension Committee been consulted?	Councillor Rogers – 21 March 2018
Has this report been cleared by Legal Services?	Quentin Baker – 14 March 2018

Annual Business Plan and Medium Term Strategy

2018/19 to 2020/21

Cambridgeshire Pension Fund

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Introduction

This is the business plan for the Cambridgeshire Pension Fund which is managed and administered by LGSS Pensions on behalf of Cambridgeshire County Council. The business plan details our priorities and areas of key focus in relation to the Cambridgeshire Pension Fund for 2018/19, 2019/20 and 2020/21. The business plan was approved at the Cambridgeshire Pension Fund Committee meeting on XX March 2018. The business plan is monitored throughout the year and the Pension Fund Committee may be asked to agree changes to it.

The purpose of the business plan is to:

- Explain the background and objectives of Cambridgeshire County Council in respect of the management of the Cambridgeshire Pension Fund;
- Document the priorities and improvements to be implemented by LGSS Pensions during the next three years to help achieve those objectives;
- Enable progress and performance to be monitored in relation to those priorities; and
- Provide a clear vision for the next three years.

In addition, the business plan includes a budget for expected payments to and from the Cambridgeshire Pension Fund during 2018/19 including the resources required to manage the Fund.

Further information

If you require further information about anything included or in related to this business plan please contact:

Mark Whitby, Head of Pensions
mwhitby@northamptonshire.gov.uk
07990 556197

Background to the Cambridgeshire Pension Fund

The Cambridgeshire Pension Fund is a £2.988bn Local Government Pension Fund which provides retirement and death benefits for local government employees (other than teachers) in Cambridgeshire and employees of other qualifying bodies which provide similar services.

The Fund's total membership is approximately 77,300 of which 26,700 are active members from 182 contributing employers and approximately 50,600 retired, survivor, deferred and other members.

Governance and management of the Fund

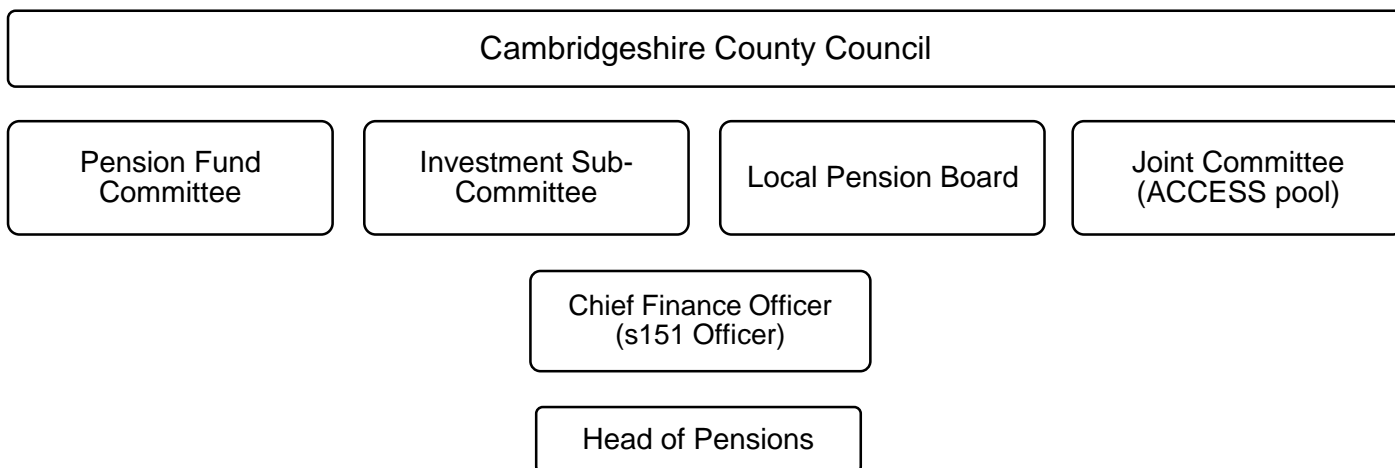
The key decision making and management of the Fund has been delegated by Cambridgeshire County Council (the administering authority) to a formal Pension Fund Committee, supported by an Investment Sub-Committee that looks at the operational governance of investment issues.

The Cambridgeshire County Council's Chief Finance Officer (Section 151 Officer) has a statutory responsibility for the proper financial affairs of the Council including Pension Fund matters.

Eleven authorities, including Cambridgeshire County Council, are working collaboratively to meet the Government's asset pooling agenda by forming the ACCESS pool. A Joint Committee with representation from each Fund has been formed to oversee the governance of the pool.

A Local Pension Board is in place to assist in securing compliance of Fund matters and ensuring the efficient and effective governance and administration of the Fund.

The governance structure is detailed below:



Administration of the Fund

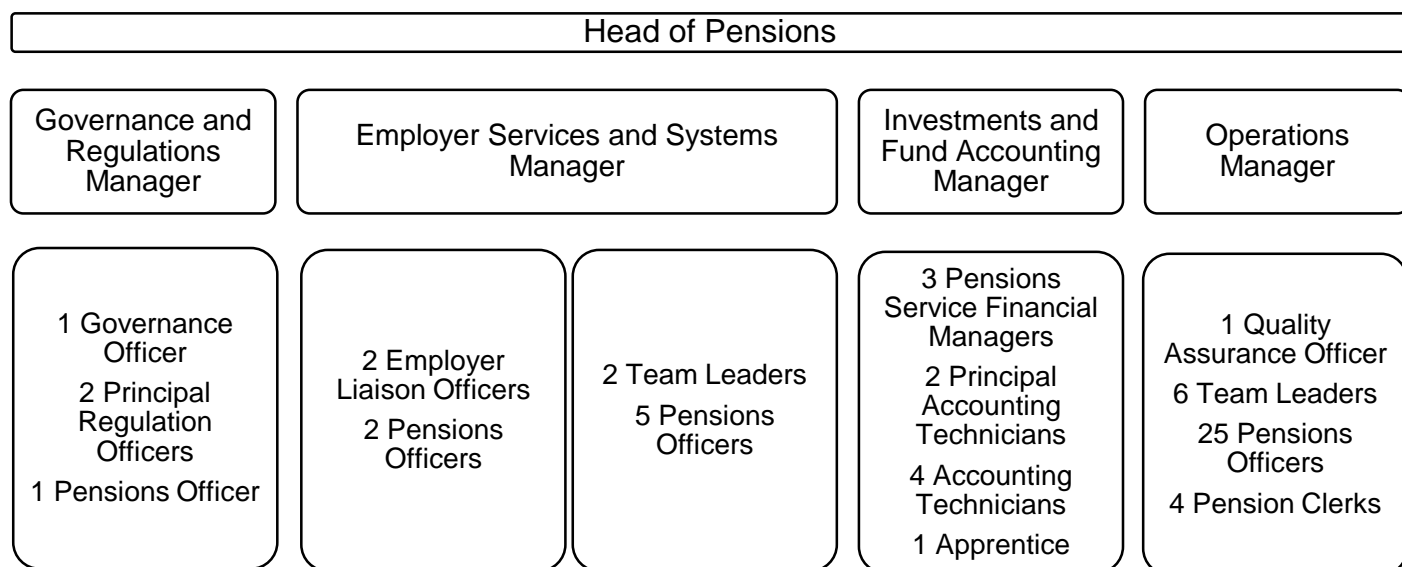
In 2012, the administration of the Cambridgeshire Pension Fund was converged with that of the Northamptonshire Pension Fund following the creation of LGSS, a shared service joint committee arrangement between Cambridgeshire County Council and Northamptonshire County Council. The Funds, however remain as two distinct entities. In 2016, Milton Keynes Council joined as a third partner but is not an LGPS administering authority.

The administration and investment functions of both Funds have been fully converged for a number of years and are based at One Angel Square in Northampton. Both Funds have benefited from cost savings through the ability to procure services such as custodian and actuarial, benefits, governance and investment consultancy services on a joint basis as well as streamlining the provision of the administration functions.

The day to day operations of the Fund are managed by the Head of Pensions who is supported by five teams:

- The Operations Team is responsible for providing the full range of pension administration services. The team delivers a service that includes the calculation of retirement, deferred, death and survivor benefits, transfers in and out, refunds and member record maintenance.
- The Systems Team is responsible for maintaining the pension administration, payroll, employer and member self-service systems, reconciling membership data received from employers and the production of annual benefit statements.
- The Employers Team provide support to employers being admitted to and leaving the scheme, managing the triennial actuarial valuation process and liaison with scheme employers with regards to the responsibilities required of them. Scheme member and employer communications form a significant part of the team's function which ranges from the design and management of the Fund's website, presentations, workshops, newsletters and written communications.
- The Governance and Regulations Team is responsible for managing agendas, producing reports and delivering training to each Pension Fund Committee and Local Pension Board. In addition the team takes the lead in the development of strategic policies relating to the operation, governance and management of the Fund and monitors compliance with prevailing LGPS specific and overriding legislation. The team specialises in data quality, data protection and pension taxation.
- The Investments and Fund Accounting Team is responsible for providing the financial control function to the Fund. It manages and accounts for the receipt of contributions from employers, processes the Fund's financial transactions and oversees the production and audit of the Annual Report and Statement of Accounts. The Investment Team is responsible for liaison with the ACCESS asset pool and governance over the Fund's investments whether held directly or by the ACCESS pool, reporting to the Investment Sub-Committee and other Committees as required.

The structure of the LGSS Pensions, which provides administration services to both the Cambridgeshire Pension Fund and the Northamptonshire Pension Fund, as at 31 March 2018 is illustrated below:



Objectives for the management of the Fund

The Fund's agreed objectives are detailed as follows;

- Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance.
- Manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers.
- Ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment.
- Continually monitor and measure clearly articulated objectives through business planning.
- Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.
- Ensure regular monitoring of employer covenants, putting in place mitigations of adequate strength to protect the Fund.
- Ensure appropriate exit strategies are put in place both in the lead up to and termination of a scheme employer.
- Put in place performance standards for the Fund and its employers and ensure these are monitored and developed as necessary.
- Ensure employer contributions are as stable as possible, recognising the characteristics, circumstances and affordability constraints of each employer.
- Administer the Fund in a professional and efficient manner, utilising technological solutions and collaboration.
- Maintain accurate records and ensure data is protected and used for authorised purposes only.
- Promote the scheme as a valuable benefit.
- Deliver consistent plain English communications to stakeholders.
- Provide scheme members with up to date information about the scheme in order that they can make informed decisions about their benefits.
- Seek and review regular feedback from all stakeholders and use the feedback appropriately to shape the administration of the Fund.
- Ensure cash flows in to and out of the Fund are timely and of the correct amount.
- Ensure the long-term solvency of the Fund, taking a prudent long term view, so that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment.

- Put in place a Strategic Asset Allocation ensuring it is appropriately maintained taking into account the Funding Strategy.
- Maximise investment returns over the long term within agreed risk tolerances.
- Ensure an appropriate cash management strategy is in place so that net cash outgoings can be met as and when required.

Business as usual

The appendix to the business plan highlights the key priorities for the next three years and focuses on areas of change and projects which are in addition to day to day “business as usual” duties. On a day to day basis the focus is on the following key elements of fund management:

- Paying pension benefits to beneficiaries as prescribed by the LGPS Regulations.
- Communicating with scheme members about their membership of the Fund.
- Ensuring all pension contributions that are paid by active members are received as prescribed by the LGPS.
- Ensuring all employers pay their pension contributions.
- Safeguarding the money in the Fund (the Fund’s assets).
- Investing any Fund assets that are in excess of those needed to pay immediate benefits.
- Working with the Scheme Actuary to ensure that the amount employers pay into the fund is sufficient to pay future pension benefits.

Managing this on a day to day basis involves a wide range of processes and procedures designed around achieving the Fund’s objectives. The Fund is large, complex and highly regulated. As such these processes and procedures require expert knowledge and experience as illustrated below.

Governance

- Setting the agenda, reporting and presenting to the Pension Fund Committee, Investment Sub-Committee and Local Pension Board.
- Implementing and monitoring areas such as the training, risk management, reporting breaches of the law and compliance with the Pensions Regulator’s code of practice.
- Ensuring adherence to the administering authority’s and legal requirements for procurement and data protection.
- Procurement of advisers and other services.
- Assisting internal and external auditors in their role.
- Responding to freedom of information requests.
- Participation in the Joint Committee of the ACCESS pool.

Accountancy

- Preparing and publishing the Fund’s annual report.
- Completing the annual accounts and assisting with external auditors.
- Preparing the annual budget and monitoring quarterly.
- Preparation of statutory and non-statutory returns as required.
- Conducting monthly bank reconciliations.
- Quarterly cash flow and treasury management.
- Monthly monitoring of income and expenditure including employer and scheme member contributions.
- Invoicing of employers for pensions strain and unfunded benefits.

Funding

- Agreeing the funding strategy with the Scheme Actuary every three years, consulting with employers and monitoring continued appropriateness annually.
- Managing the triennial valuation alongside the Scheme Actuary, providing membership and cash flow data and appropriately communicating with scheme employers.
- Monitoring the covenant of scheme employers including their ability to pay contributions and managing those who wish to join or cease membership of the scheme.

Investments

- Carrying out a fundamental review of the investment strategy every three years.
- Appointing, monitoring and dismissing fund managers including within the pooling environment.
- Monitoring and reporting on the Fund's funding position and implementation of the funding risk management strategy with annual health checks.
- Monthly monitoring and implementation of the tactical asset allocation decisions.
- Working with other LGPS funds within ACCESS to pool investments through the Joint Committee and the Officer Working Group.

Administration

- Providing ongoing information to scheme members and their beneficiaries as they join, leave or change status.
- Calculating and notifying scheme members of their entitlement to pension and death benefits.
- Providing quotations of retirement benefits including any additional costs to scheme employers.
- Providing information on how scheme members can increase their pension benefits.
- Maintaining scheme member records.
- Providing an online scheme member and scheme employer self-service facility.
- Administering the internal dispute resolution procedure.

Payroll

- Calculating and paying monthly pensions to pensioners and beneficiaries.
- Issuing of payslips at appropriate times.
- Issuing P60s.
- Investigating returned payments and dealing with any under or overpayment of pensions.
- Updating and maintaining accuracy of pensioner member details.

Communication

- Providing annual benefit statements to all active and deferred scheme members.
- Providing information to members via one to one sessions, workshops and newsletters.
- Maintaining the Fund's website.
- Providing new scheme employers with information about their responsibilities.
- Providing ongoing training and technical updates to employers.

Technical

- Maintaining and updating the pensions administration system.
- Providing guidance on changes in processes following new or amending legislation.
- Reporting on progress against key performance indicators and daily work management.

- Providing reports and extracts for GAD and other government departments.
- Reporting and making payments to HMRC.
- Processing bulk updates to member records such as new joiners and leavers, pensions increase and year-end or monthly contributions.

The plan for the next three years

Key challenges and influences

The current environment is such that there are an unprecedented volume of external factors that could impact the management of the Fund:

- Creation and implementation of the Local Pension Board.
- Increased oversight by the Pensions Regulator including compliance with the code of practice on governance and administration.
- Implementation of the new Local Government Pension Scheme from 1 April 2014 and each year introducing innovative ways of working.
- The national requirement to reconcile contracting out data held by the scheme with that held by HMRC following changes to the state pension.
- Increasing number of scheme members affected by the new tax regime and reducing allowances on pension savings.
- Implementing the Government's requirements of the pooling of LGPS pension fund assets with the other Funds in the ACCESS pool.
- Seeking improved investment returns by making strategic allocations to non-traditional asset classes.
- Responding to the requirements of MIFIDII including maintaining the skills and knowledge required of professional investors.
- Increasing diversity of scheme employers including academies and multi-academy trusts.

The Fund is in a strong position to meet the challenges ahead. The following are the main areas which we will need to be managed and responded to, some of which may necessitate a review of the Fund's objectives.

- Implementing any changes required as a result of the national LGPS cost control mechanism.
- Achieving the objectives of the Fund's strategy on administration and communications and employer engagement.
- Increasing scrutiny and transparency on data quality.
- Increased accountability on protecting and processing data.
- Evidencing savings and improved investment governance arising from asset pooling.

These and other priorities for the next three years are articulated in more detail in the appendix to this business plan, split into four sections:

- Governance and compliance.
- Communications, systems and employer management.
- Operations.
- Investments, accounting and cash flow management.

Budget

All the costs associated with the management of the Fund are charged to the Fund and not Cambridgeshire County Council. The following shows the expected income and expenditure (cash flow) of the Fund as well as the anticipated operating costs.

Cash flow projection 2018/19 to 2020/21

The following tables provide estimates of the Fund account, investment and administration income and expenditure for the next three years.

	2017/18 Estimate	2017/18 Forecast	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£000	£000	£000	£000	£000
Contributions	(128,000)	(128,000)	(129,000)	(132,000)	(135,000)
Transfers in from other pension funds	(5,400)	(2,100)	(4,907)	(4,907)	(4,907)
TOTAL INCOME	(133,400)	(130,100)	(133,907)	(136,907)	(139,907)
Benefits payable	100,000	100,000	101,000	103,000	105,000
Payments to and on account of leavers	5,400	7,200	7,246	7,246	7,246
TOTAL PAYMENTS	105,400	107,200	108,246	110,246	112,246
	(28,000)	(22,900)	(25,661)	(26,661)	(27,661)
Management expenses	8,156	8,114	8,492	8,593	8,788
TOTAL INCOME LESS EXPENDITURE	(19,844)	(14,786)	(17,169)	(18,068)	(18,873)
Investment income less Taxes on income.	(29,000)	(29,000)	(30,000)	(31,000)	(32,000)
(profit) and losses on disposal of investments and changes in the market value of investments	(75,000)	(75,000)	(77,000)	(79,000)	(81,000)
NET RETURN ON INVESTMENTS	(104,000)	(104,000)	(107,000)	(110,000)	(113,000)
Net (increase)/decrease in net assets available for benefits during the year	(123,844)	(118,786)	(124,169)	(128,068)	(131,873)

Notes: Contributions and benefits are based upon underlying trends in membership and contribution rates, pensions in payment and expected increases.

Transfers in and out have been based upon the average of individual transfers in and out of the scheme over the period 2015/16 to 2017/18.

Management expenses

	2017/18 Estimate	2017/18 Forecast	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£000	£000	£000	£000	£000
Total administration expenses	2,494	2,452	2,656	2,591	2,615
Total governance expenses	432	432	449	453	458
Total investment expenses	5,230	5,230	5,387	5,549	5,715
TOTAL MANAGEMENT EXPENSES	8,156	8,114	8,492	8,593	8,788

Notes: Investment expenses are mainly driven by fees paid to managers and are based upon the current year uplifted by 3% per annum.

Governance and investment expenses are expected to remain at levels similar to the current year, increasing in line with inflation. Within the governance expenses for 2018/19 is

£100,000 in respect of ACCESS related costs (2017/18 £100,000). At the point of drafting this business plan the fees and cost savings associated with the ACCESS project for 2018-19 onwards remain indicative in nature, as the Operator contract was only made effective in March 2018.

Administration expenses

	2017/18 Estimate	2017/18 Forecast	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£000	£000	£000	£000	£000
Staff related	1,321	1,305	1,434	1,448	1,462
Altair administration and payroll system	261	280	287	290	292
GMP/Payroll Reconciliation	150	95	60	-	-
CRM and new website	-	-	25	-	-
Communications	54	28	23	21	19
Other non pay and income	100	135	212	211	215
County Council overhead recovery	608	609	615	621	627
TOTAL ADMINISTRATION EXPENSES	2,494	2,452	2,656	2,591	2,615

Notes: The GMP and Payroll reconciliation costs are intended to be a one-off expenditure in order to meet the requirements of HMRC as a result of the introduction of the new state pension and cessation of contracting-out in defined benefit schemes. External expertise is required to complete this project in the most effective manner. This project will continue into 2018/19 and the unused budget from 2017/18 has been carried forward to meet this.

Staff related expenses

	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£000	£000	£000
2017/18 posts plus inflationary uplift	1,380	1,393	1,406
New posts established from 2018/19	83	84	85
Vacancy factor	(29)	(29)	(29)
TOTAL ESTIMATED STAFF COSTS	1,434	1,448	1,462

Notes: In 2017/18 staff related expenses are forecast to be lower than estimated due to the underspend on the staff budget not being fully utilised in sourcing agency staff. The future estimates include the Cambridgeshire Pension Fund share of four additional posts established in response to increased activity, and an inflationary uplift of 1%.

Delivering the business plan

Monitoring and reporting

In order to identify whether the agreed business plan is being met progress on the key priorities and budgets will be monitored by the Fund management team and reported to the Pension Fund Committee and Local Pension Board every quarter.

The quarterly updates will:

- Highlight any areas where the target is exceeded or where the target has not been achieved and the reasons why and identify any changes in response to the planned priorities as a result of this.
- Highlight any significant additional spend or underspend in relation to the agreed budget as it becomes apparent.

Key risks

The Cambridgeshire Pension Fund has embedded risk management into the governance of the Fund. The Pension Fund Committee has approved a Risk Strategy and a detailed Risk Register is maintained. Changes to the level of risk are reported to the Pension Fund Committee.

To follow is a summary of the main risks managed by the Fund and the level of risk expected when compared with the current position. Where the risk is both higher than expected and controllable the Fund's business plan will include an action on how to mitigate that risk.

The next few years will be challenging for those involved in the governance, management and operation of the Fund. The major risks as documented below are detailed in the Risk Register:

Governance

Main risks:	Those charged with governance of the Fund and are unable to fulfil their responsibilities effectively.	Current risk rating: Amber
What could increase risk?	An inappropriate governance structure, poor training, attendance and engagement, insufficient resources, conflicts of interest, absence of governance policies, absence of risk management, poor advice or impact of externally led changes outside of the Fund's control.	
Target risk	Managing governance risks are largely within the Fund's control hence risks are low. There will, however, always be some external factors outside of the Fund's direct control.	
Current risk	The current governance structure of the Fund is working well, however there are some new risks that will need attention during 2018/19: <ul style="list-style-type: none">• Relationship between the Joint Committee and the Fund• Succession planning for officers of the Fund in key areas of service delivery.	

Funding and investment

Main risks:	Market yields move at variance with actuarial assumptions resulting in increases in liability, reduced solvency levels and increased employer contribution rates.	Current risk rating: Red
What could increase risk?	A sustained fall in global markets, low interest rates, high inflation, inappropriate investment and funding strategy, failure of fund managers to meet investment	

	targets, on-going austerity reducing employer budgets and the impact of externally led changes outside of the Fund's control.
Target risk	There will always be economic, funding and investment risks that cannot be controlled by the Fund. The aim is to mitigate these risks as much as possible through a diversified investment portfolio and prudent funding strategy.
Current risk	A strategic asset allocation review will continue throughout 2018-19 to identify appropriate strategic asset allocations in light of the Fund's Funding Strategy and the current and future economic environment. The Funding Strategy will be revisited as part of the triennial valuation process in 2019-20 with close monitoring of scheme employers over the inter-valuation period, using a risk based approach.

Administration and communication

Main risks:	Failure to include all required information in documents issued to members under Disclosure regulations.	Current risk rating: Amber
What could increase risk?	A lack of a trained workforce, poor IT and reporting systems, poor communications, inefficient or inadequate procedures and increasingly complex pension and taxation laws and regulations.	
Target risk	The majority of these risks can be managed by the Fund, hence the risks are well managed and low. There will, however, always be some external factors such as the complexity and number of regulatory changes which are less controllable.	
Current risk	<p>The Fund has reviewed both the Administration and Communication Strategy which have ambitious targets. The Fund, like others in the LGPS universe, has some difficulty recruiting suitably knowledgeable and skilled staff which ultimately may start to impact on performance targets. Further external pressures and complexities which would increase risks, workloads and costs may prove problematic. The new risks are:</p> <ul style="list-style-type: none"> • Delays in HMRC responding to queries on the contracting-out reconciliation before the service closes on 31 December 2018. • Proposed changes to legislation regarding exit payments that will increase the complexity of administration processes. • Additional communication burden of the national pension dashboard. 	

Appendix 1 – Business Plan 2018/19 to 2020/21

Service delivery

Reference	Key action/task	2018/19				Medium term	
		Q1	Q2	Q3	Q4	2019/20	2020/21
SD1	Increase staff retention		✓				
SD2	Obtain full Customer Service Excellence standard accreditation		✓			✓	
SD3	Implement additional posts		✓				

SD1 - Staff recruitment/retention

Keep under review our ability to recruit and retain staff, ensuring any financial or reputational issues with a partner organisation do not impact the governance and administration of the Fund, taking remedial action where necessary. Continue to multi-skill staff within administration teams through development and rotation. Implement other actions arising from LGSS Employee survey within internal Service Plan.

Timescale: All actions Throughout 2018/19

Resources and budget required: To be led by the Head of Pensions. All internal costs will be met by the existing administration budget.

SD2 – Evidence continued customer excellence

Achieve interim Customer Service Excellence (CSE) Standard accreditation and develop and implement Action Plan from feedback received. Undertake full CSE assessment and develop further Action Plan.

Timescale:	CSE interim assessment	Q2 2018-19
	Develop and implement Action Plan from CSE recommendations	Q3 2018-19
	CSE full assessment	Q2 2019-20
	Develop and implement Action Plan from CSE recommendations	Q3 2019-20

Resources and budget required: To be led by the Operations Manager. All internal costs will be met by the existing administration budget.

SD3 – Implement additional posts to structure

Integrate four new posts into the LGSS Pensions structure to support combined LGPS administration to the Cambridgeshire and Northamptonshire Funds. The Fund share of these posts is reflected in the Staff Expenses section of the budget above.

- 1) Data Quality Analyst – to have responsibility for ensuring the data quality of the Fund and to oversee large scale data projects, including reconciliations/rectification exercises
- 2) Pensions Officer – to undertake payroll and contracting out rectification casework that would otherwise require outsourcing
- 3) Communications Officer – dedicated post to be responsible for all Fund communications
- 4) Senior Accounting Technician – to backfill Investments activity due to ACCESS project and due to increasing local investment demands

Timescale: ASAP 2018/19

Resources and budget required: Full annual costs of each post, including on costs, are as follows:

Data Quality Analyst: £41,726

Pensions Officer: £30,956

Communications Officer: £41,726

Senior Accounting Technician: £36,499

Costs would be expected to be split between the Funds on the basis of membership size (broadly CPF 55%/NPF 45%) unless activity is being disproportionately delivered to a single Fund.

Governance and compliance

Reference	Key action/task	2018/19				Medium term	
		Q1	Q2	Q3	Q4	2019/20	2020/21
GC1	Legal services procurement		✓				
GC2	Mortality screening / member tracing services procurement			✓			
GC3	Soft market testing for administration and payroll system procurement						✓
GC4	Review Additional Voluntary Contribution fund range				✓		
GC5	The General Data Protection Regulation compliance	✓					
GC6	Data improvement plan			✓			
GC7	Liability reduction exercises					✓	
GC8	Guaranteed Minimum Pension reconciliation / rectification			✓			
GC9	Pensioner administration v pensioner payroll records rectification		✓			✓	

GC1 – Legal services procurement

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. This will save time and expense as the necessary OJEU procurement processes have been completed and only the best quality and value for money suppliers are awarded a place on the Framework. 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.

Timescale:	Register for access to the Framework:	Q2 2018/19
	Conduct tender:	Q2/Q3 2018/19
	Contract to commence:	Q3/Q4 2018/19

Resources and budget required: To be led by the Governance Manager, assisted by colleagues that will be using the service. All internal costs will be met by the existing administration budget.

GC2 - Mortality screening and member tracing service procurement

The Fund needs to procure a mortality screening and member tracing service to ensure scheme member records are accurate and up to date to comply with prevailing legislation on data quality. Having the ability to access up to date information on members of the scheme who pass away and move address via these services will significantly improve the quality of the data held. As with the procurement of legal services, it is intended that the procurement of these services will be conducted on a joint basis with Northamptonshire Pension Fund via the National LGPS Frameworks.

Timescale:	Register for access to the Framework:	Q2 2018/19
	Conduct tender:	Q2/Q3 2018/19
	Contract to commence:	Q3/Q4 2018/19

Resources and budget required: To be led by the Governance Manager, assisted by colleagues that will be using the service. All internal costs will be met by the existing administration budget.

GC3 - Soft market testing for administration and payroll system procurement

The Fund currently uses Aquila Heywood's Altair as its pensions administration and pensions payroll platform. The contract is due to expire on 30 September 2021 and as such it is deemed prudent to commence soft market testing in 2020/21 with a view to procuring a new contract on a joint basis with Northamptonshire Pension Fund. There is currently no framework for acquiring these services so a fully compliant OJEU process will need to be undertaken.

Timescale:	Soft market testing:	Q1 2020/21
	Conduct tender:	Q3 2020/21
	Contract to commence:	1 October 2021

Resources and budget required: To be led by the Governance and Systems Manager. All internal costs will be met by the existing administration budget.

GC4 - Review Additional Voluntary Contribution (AVC) fund ranges

The Fund has a responsibility to ensure that the range of investment choices offered by their AVC providers remain suitably diverse and appropriate in terms of annual charges and risk profiles. As such the Fund will appoint an external adviser to review and report on the fund ranges offered by the Fund's AVC providers Prudential and Equitable Life and appropriate changes will be implemented accordingly.

Timescale:	Appoint adviser to conduct review	Q4 2018/19
	Report results of review to Pension Fund Committee	Q1 2019/20
	Instruct changes to be made:	Q1/Q2 2019/20

Resources and budget required: To be led by the Governance Manager. All internal costs will be met by the existing administration budget. External adviser costs will be met by the administration budget.

GC5 – The General Data Protection Regulation (GDPR) compliance

The administering authority must demonstrate compliance with the GDPR by 25 May 2018 when the regulation becomes enforceable after a two year transition period. The principles of the GDPR are similar to those in the Data Protection Act 1998 but with a new accountability requirement that requires organisations to demonstrate compliance with appropriate documentation.

Significant work to achieve compliance with the GDPR was undertaken during 2017/18 and will continue into Q1 of 2018/19 taking into account any further guidance issued.

Timescale:	Complete and publish documentation:	Q1 2018/19
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Resources and budget required: To be led by the Governance Manager, assisted by the administering authority's Information Governance Team. All internal costs will be met by the existing administration budget. The cost of legal advice will be met by the administration budget.

GC6 - Data improvement plan

It is a requirement of the Pensions Regulator's code of practice on the governance and administration of public service pension schemes to have in place a data improvement plan. In order to produce this plan the Fund has entered into a strategic partnership with ITM Limited to produce an in-depth data audit report that will fully test and report on the accuracy, presence and integrity of the data that is held. The results of the data

audit report will inform the ongoing data improvement plan. Under the current contract, the data audit will be conducted for a further two years to demonstrate that data quality has improved and is being effectively managed.

Timescale:	Produce data improvement plan:	Q1 2018/19
	Implement data improvements:	Q1/Q2 2018/19
	Re-run data audit:	Q1 2019/20

Resources and budget required: To be led by the Governance Manager, assisted by the Operations and Systems Teams. All internal costs will be met by the existing administration budget. The cost of the data audit will also be met by the administration budget.

GC7 - Liability reduction exercises

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.

Timescale:	Scope exercise:	Q1 2019/20
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Resources and budget required: To be led by the Governance Manager, assisted by the Operations and Systems Teams. All internal costs will be met by the existing administration budget.

GC8 - Guaranteed Minimum Pension reconciliation / rectification

Following the introduction the end of contracting-out on 6 April 2016, it was necessary for all pension schemes to reconcile their scheme members' contracted out liability against that recorded by HMRC. HMRC are currently operating, until 31 December 2018, a reconciliation service in order for schemes to query and amend the data held. 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.

Due to the number of member records in scope a decision was made to out-source the reconciliation of the data to ITM Limited. The reconciliation stage was due to complete by 31 January 2018 but due to delays in HMRC responding to the queries raised a project pause was put in place for a period of three months. It is now expected that the reconciliation stage of this project will come to a conclusion during 2018/19 with no additional fees and within the £150,000 budget as agreed in the 2017/18 Annual Business Plan. The rectification of any under of overpayments of pension identified as a result of the reconciliation will commence thereafter.

Timescale:	Completion of reconciliation stage:	Q2 2018/19
	Commence rectification stage:	Q2 2018/19
	Completion of rectification stage:	2019/20

Resources and budget required: To be led by the Governance Manager. All internal costs will be met by the existing administration budget. The cost of outsourcing the reconciliation stage to ITM is already included in the administration budget. The additional Pensions Officer will be used to support the rectification stage.

GC9 - Pensioner administration v pensioner payroll records rectification

In October 2016, the Fund migrated its pensioner payroll from the County Council's Oracle payroll solution to Altair payroll and in January 2017 the Altair pensioner administration records were merged with the Altair pensioner payroll records. As a result of this significant migration of data a reconciliation was undertaken of the pre-merged pensioner payroll data against the pensioner administration record data. Rectification of the underpayments of pension commenced in February 2018 and the rectification of the overpayments will commence upon approval of the revised Overpayments of Pension and Lump Sum policy to be presented to the Pension Fund Committee at the March 2018 meeting.

Timescale:	Completion of rectification stage:	2019/20
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Resources and budget required: To be led by the Governance Manager. All internal costs will be met by the existing administration budget. The additional Pensions Officer will be used to support the rectification stage.

Communications, Systems and Employer Management

Reference	Key action/task	2018/19				Medium term	
		Q1	Q2	Q3	Q4	2019/20	2020/21
CSEM1	Employer covenant monitoring		✓				
CSEM2	Investigate and prepare for move to electronic communications as standard		✓				
CSEM3	Promotion of member self service		✓				
CSEM4	Monitoring/understanding the member experience	✓					
CSEM5	Review resilience to cyber crime	✓		✓			
CSEM6	In-house hosting by LGSS IT		✓				
CSEM7	Development of employer resources		✓			✓	
CSEM8	Implementation of HEAT	✓					
CSEM9	Implementation of ill health self-insurance/pooling	✓					
CSEM10	Preparation for the 2019 valuation			✓			

CSEM1 – Employer covenant monitoring

At the 2016 whole Fund valuation, a risk based approach to setting the contribution strategy for employers was introduced. This approach used a high level covenant assessment of employers to group them into various categories to determine the contribution strategy that would apply to them. Employer covenant monitoring has so far been based on information readily available to the Fund, e.g. employer type, guarantor.

This approach now needs to be developed further for riskier employers and incorporate wider external factors into the covenant assessment including an employer's financial position, market position and other related factors. This kind of assessment requires specialised skills and knowledge. The Admission Bodies, Scheme Employers and Bulk Transfers Policy will be reviewed to incorporate covenant assessments.

Timescale: Investigate options Q2 2018/19
Implement appropriate solution and amend Admission policy: Q3 2018/19

Resources and budget required: To be led by the Employer Services and Systems Manager. All internal costs will be met by the existing administration budget. External costs dependent on solution.

CSEM2 - Scope move to electronic communications

Since 2015/16 the Fund has been increasing the use of electronic communications with members, such as issuing annual benefit statements to active and deferred members electronically. In addition, the Fund has also begun offering members the option to receive other scheme communications electronically, delivered through member self service. The next stage is to move to a position of electronic communication by default, unless a member has opted out of electronic communications.

Technical and policy requirements/restrictions need to be investigated to allow decisions to be made as to which electronic communications are possible and/or desired. Following this scoping exercise our Communication Strategy will be reviewed with the view to including electronic communications.

Timescale: Investigation of technical and policy requirements/restrictions Q2/Q3 2018/19

Resources and budget required: To be led by the Employer Services and Systems Manager. All internal costs will be met by the existing administration budget.

CSEM3 – Promotion of member self service

Take up of member self service has remained consistent over the last 3 years at approximately 20% of active and deferred members signing up and using this facility. New initiatives to increase use of member self service will be investigated and applied as appropriate.

Timescale: Investigation of and application of appropriate initiatives: Q2/Q3 2018/19

Resources and budget required: To be led by the Employer Services and Systems Manager. All internal costs will be met by the existing administration budget.

CSEM4 – Monitoring/understanding the member experience

During the 4th quarter of 2017/18, the Fund launched a new member survey, issued to all members following contact with officers to measure the level of satisfaction in their experience dealing with the Fund. The results of the survey will be collated and analysed and an action plan developed for improving member experience.

Timescale: Action plan for improvements to member experience: Q2 2018/19

Resources and budget required: To be led by the Employer Services and Systems Manager. All internal costs will be met by the existing administration budget .

CSEM5 - Review resilience to cyber crime

Cybercrime is becoming an increasing threat to pension funds so it is important to review resilience to such attacks via both internally and externally hosted platforms. The Fund needs to understand the different cyber threats that exist to the Fund, members and employers and investigate what action the County Council and Aquila Heywood are taking in relation to cybercrime and what action the Fund must also take to prevent such incidents.

Timescale:	Commence initial investigations to inform action plan:	Q1 2018/19
	Produce action plan:	Q3 2018/19

Resources and budget required: To be led by the Employer Services and Systems Manager. All internal costs will be met by the existing administration budget.

CSEM6 - In-house hosting by LGSS IT

In-house hosting of pensions server from Aquila Heywood to LGSS

Timescale:	Subject to LGSS IT Project Plan	By Q4 2018/19
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Resources and budget required: To be led by the Employer Services and Systems Manager. All internal costs will be met by the existing administration budget.
All migration costs to be funded by LGSS

CSEM7 – Development of employer resources

The Fund will continue to investigate and implement appropriate improvements to the resources available to employers for providing accurate and timely information, including expanding the monthly collection of data via i-Connect.

Timescale:	Investigation and implementation of solutions	Throughout 2018/19
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Resources and budget required: To be led by the Employer Services and Systems Manager. All internal costs will be met by the existing administration budget

CSEM8 – Investigation into use of Hymans Robertson Employer Asset Tracker (HEAT)

HEAT is a unitised approach to tracking employer assets, developed by Hymans Robertson, the Fund's actuary. This approach allows the Fund to track individual employer assets on a monthly basis leading to more accurate and transparent valuations for individual employers. HEAT also provides the ability to set a range of flexible investments strategies to meet the funding needs of different employer types.

There are a number of benefits from implementing HEAT but it is not yet fully understood what resources would be required to implement and manage this process on a monthly basis. The Fund will meet with Hymans Robertson to discuss the costs, implementation requirements and process for managing the provision of the needed data on a monthly basis and report back to the Committee with a recommendation.

Timescale: Report to the Committee with a recommendation Q1 2018/19

Resources and budget required: To be led by the Employer Services and Systems Manager. All internal costs will be met by the existing administration budget. Cost subject to separate commercial agreement.

CSEM9 – Implementation of ill health self-insurance/pooling

The Fund will work with the actuary to develop and implement new processes for pooling ill health risk and administering the self-insurance arrangements, including oversight of employer decisions to ensure appropriate decisions are being made. Following this a communication plan will be developed to inform employers of the new processes and requirements.

Timescale: Design and communicate new processes to employers: Q1 2018/19

Resources and budget required: To be led by the Employer Services and Systems Manager. All internal costs will be met by the existing administration budget.

CSEM10 – Preparation for the 2019 valuation

The Fund will work with the actuary to make preparations for the 2019 whole Fund valuation. This will include agreement of requirements and timescales for:

- engagement and training for officers and members of the Pension Committee and Local Pension Board
- communication and engagement with employers
- pre-valuation activities
- key activities and deliverables during the valuation
- actuarial assumptions
- disaggregation of employer pools

Timescale: Completion of preparations for 2019 valuation: Q4 2018/19

Resources and budget required: To be led by the Employer Services and Systems Manager. All internal costs will be met by the existing administration budget.

Operations

Reference	Key action/task	2018/19				Medium term	
		Q1	Q2	Q3	Q4	2019/20	2020/21
Ops1	Processing of undecided leavers			✓			
Ops2	Establish ESCROW account for 'out of scheme' payments	✓	✓				

Ops1 – Processing of undecided leavers

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.

The number of potential undecided leaver records that the Fund has, excluding business as usual cases recently received, is 7,950; we have received employer leaver notifications for approximately 4,600. Of this latter number, approximately 2,000 have actions that currently rest with the member (refunds) or scheme employer. Not all potential cases will ultimately prove to be actual leavers but all require investigation. As soon as the Fund receives a leaver notification from a scheme employer, a formal award notification is issued to the member.

A number of actions have already been taken to address the late notification of leavers by scheme employers, which causes a spike in work flow volumes which cannot always be supported. Actions include:

- Increased monthly processing via I-Connect and increased use of employer self-service.
- Delivery of employer training to raise awareness of scheme employer responsibilities
- A strengthened Administration Strategy with increased ability to charge poor performing scheme employers
- Increased focus on aggregating periods of membership within the scope of the Regulations.

The next steps are an in-depth analysis of the unprocessed or partially processed records and an action plan to be formed to deal with each category. This may include employer engagement, process re-engineering and resourcing the processing of casework.

Timescale:

Analysis and development of solutions:
Implementation of action plans

Q1/Q2 2018/19
2018/19 to 2019/20

Resources and budget required: To be led by the Head of Pensions. All internal costs will be met by the existing administration budget. Any external costs will be subject to the agreement of the Pension Fund Committee.

Ops2 – Establish ESCROW account for ‘out of scheme’ payments

The Fund requires a non-interest bearing ESCROW account belonging to the administering authority to hold specific pension scheme benefits that if not paid to the appropriate recipients within a specific period of time, then become an unauthorised payment subject to tax charges on both the scheme member or beneficiary and the scheme. Such benefits are refund entitlements in respect of post 2014 membership that are not claimed by the member within five years of date of leaving, retirement benefits not claimed before age 75 and death grants that cannot be paid within the two years from the notification of the death of the scheme member. When these benefits are able to be paid to the recipient they will be paid from the ESCROW account and so the payment will not be considered as unauthorised by HMRC.

Timescale:	Open ESCROW account:	Q1 2018/19
	Begin movement of appropriate benefits into	Q2 2018/19
	ESCROW account and review monthly thereafter:	Q2 2018/19

Resources and budget required: To be led by the Operations Manager. All internal costs will be met by the existing administration budget.

Investments, accountancy and cash flow management

Reference	Key action/task	2018/19				Medium term	
		Q1	Q2	Q3	Q4	2019/20	2020/21
IA1	Investment consultancy services re-tender						✓
IA2	Global custody services re-tender					✓	
IA3	Direct investment (Cambridgeshire Pension Fund only)			✓			
IA4	Responsible investment			✓			
IA5	Asset pooling						
IA6	Strategic Asset Allocation review			✓			

IA1 – Investment consultancy services re-tender

Mercer Ltd are the current supplier, with the contract being extended in late 2017 to 30 September 2020. Intention is to undertake a joint procurement in 2020/21 using the renewed National Framework for Investment Consultancy Services.

Timescale: Soft market testing 2019/20
 Conduct tender: 2020/21
 Contract to commence: 1 October 2020

Resources and budget required: To be led by the Investments and Fund Accounting Manager. All internal costs will be met by the existing administration budget.

IA2 – Global custody services re-tender

The Northern Trust Company are the current supplier of global custody services. Contract commenced on 1 October 2014 for a period of 5 years ending 30 September 2019 with the ability to extend for two further years to 30 September 2021. Intention is to undertake a joint procurement in 2019/20 using the National Framework once it has been renewed.

Timescale: Decide whether to take up extension 2019/20
 Conduct tender (if extension not taken up) 2019/20
 Conduct tender (if extension taken up) outside Medium Term Strategy (2021/22)

Resources and budget required: To be led by the Investments and Fund Accounting Manager. All internal costs will be met by the existing administration budget.

IA3 – Local Direct investment

Appoint a manager to create a bespoke local investment fund for the Cambridgeshire Fund, capable of investing in a range of asset classes and to investment parameters agreed by the Pension Fund Committee. Appoint a consultant under Lot 2 of the investment consultancy National Framework to assist with the development of a procurement specification and to support an OJEU compliant manager procurement process.

Timescale:	Call off Lot 2 of National Framework	Q1 2018/19
	Development of specification	Q2 2018/19
	Procurement of manager	Q3 2018/19
	Design and implementation of solution	Q3/Q4 2018/19

Resources and budget required: To be led by the Investments and Fund Accounting Manager. All internal costs will be met by the existing administration budget. Budget for the investment consultancy component could be circa £100k. Remuneration/fees for the fund manager will be determined by the procurement exercise

IA4 – Responsible investment

Implement full actions arising from Responsible Investment Information Day; to include signing up to UK Stewardship Code, increasing the Fund oversight of ESG integration into investment manager decisions, and monitoring and reporting of investment manager voting. Alignment of activity with ACCESS pool funds where appropriate.

Timescale:	Throughout 2018/19
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Resources and budget required: To be led by the Investments and Fund Accounting Manager. All internal costs will be met by the existing administration budget.

IA5 – Asset pooling

Progression of ACCESS asset pooling project in accordance with the ACCESS project plan to deliver scale benefits, reduced costs and improved governance, meeting the Government asset pooling agenda.

Key Milestones:	Transition of Phase 1 liquid assets	By Q4 2018/19
	Transition of Phase 2 liquid assets	2019/20
	Transition of illiquid assets	2020/21 onwards
	ACCESS Support Unit (ASU) in place	Q3 2018/19
	Direct property discussions	2018/19

Resources and budget required: To be led by the Investments and Fund Accounting Manager. All internal costs will be met by the existing administration budget. ACCESS external costs in line with ACCESS budget

IA6 – Strategic Asset Allocation review

Undertake a full review of the strategic asset allocation of the Fund to ensure the Fund has an appropriate allocation between asset classes in light of its liabilities and funding level. Review to include the different role each asset class plays in the portfolio construction and an investigation into different solutions available for the Fund to invest in.

Timescale:	Review by ISC	Throughout 2018/19
	Recommendation to Pension Fund Committee	March 2019
	Implementation of agreed Strategy	2019-20 onwards

Resources and budget required: To be led by the Investments and Fund Accounting Manager. All internal costs will be met by the existing administration budget.

CAMBRIDGESHIRE PENSION FUND



PENSION FUND COMMITTEE

Date: 29 March 2018

Report by: HEAD OF PENSIONS

Subject	Investment Strategy Statement
Purpose of the Report	To present the revised Investment Strategy Statement for the Committee's approval.
Recommendations	That the Pension Fund Committee: <ol style="list-style-type: none"> Note the contents of the report; Approve the revised Investment Strategy Statement for publication on the Fund's web site.
Enquiries to	Name: Richard Perry, Pension Services Financial Manager Tel: 07717 360604 Email: RPerry@Northamptonshire.gov.uk

1. Purpose of the report

- 2.1. The purpose of this report is to present to the Pension Fund Committee ("Committee") changes to the Investment Strategy Statement (ISS) for approval.

2. Background

- 2.1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations") came into force on 1 November 2016.
- 2.2. The Regulations set out the requirement for the preparation and publication of the Fund's Investment Strategy Statement by no later than 1 April 2017.
- 2.3. The Committee approved the ISS at its meeting on 23 March 2017, however, it was recognised that the time available for consultation was limited due to the delay in the DCLG issuing guidance. Detailed aspects of the ISS have subsequently been reviewed at a series of Investment Information Days (IIDs).
- 2.4. The Fund has participated with fellow ACCESS funds in the joint procurement for passive investment to appoint a new manager in place of the Fund's current provider, State Street. The successful manager, UBS, offers a wide range of passive funds and the

opportunity has been taken to re-assess which funds Cambridgeshire should adopt under the new arrangements.

- 2.5. The changes to the ISS result from the output of the Investment Information Days held during 2017/18 and from changes to the regional equity exposures arising from the new passive arrangements with UBS.
- 2.6. The draft changes to the ISS were reviewed by the Investment Sub Committee ("ISC") at its meeting on 15 February 2018 and it was agreed that the amended document be put forward for approval of the Committee at the 29 March 2018 meeting.

3. Investment Information Days

- 3.1. A series of Investment Information Days (IIDs) have been held during 2017/18 covering all aspects of the Fund's policies detailed in the ISS with presentations from the Fund's Investment Consultants (Mercer), the Fund's Actuary (Hymans) and external fund managers.
- 3.2. The topics of the four days have been-
 - 3.2.1. Investment objectives and beliefs,
 - 3.2.2. Passive or active investing,
 - 3.2.3. Sustainable Responsible investment,
 - 3.2.4. Strategic asset allocation review.
- 3.3. The key outputs and conclusions from the IIDs impacting the ISS are covered in the following sections.

4. Changes to the Strategic Asset Allocation

- 4.1. The IID held in October 2017 focussed on the features of active and passive investing from two perspectives:
 - 4.1.1. Confirming the investment beliefs No 9 and 10:-

9. The Committee favours active management, where there are opportunities for active managers to add value, increasing overall expected return net of fees.

10. Passive strategies provide low cost access to market returns"
 - 4.1.2. Considering how to allocate the Fund's passive investments under the new arrangements with UBS following the joint procurement under the LGPS National Frameworks with fellow ACCESS funds.
- 4.2. The outcome of the day was to confirm that the investment beliefs remain valid and to inform recommendations on passive investment allocation to be formally considered at the November ISC meeting for approval.
- 4.3. At the November meeting, the ISC agreed a new allocation of the Fund's passive equities allocation (23.0%) to a range of equity funds offered by UBS under the new passive arrangements.
- 4.4. The revised allocation includes a division of the passive allocation one-third in smart beta funds and two-thirds in traditional market capitalisation passive funds, the latter with an equal regional split between North America, Europe and Asia. This has resulted in a reduction of the specific UK allocation from 21.0% to 12.0% of the total fund assets, and an increase in the allocation to global funds from 44.0% to 53.0%, primarily because of the new allocation to smart beta funds which are global in nature. A detailed analysis of the new equity allocation is shown in Appendix A.

4.5. The changes to strategic asset allocation table in the ISS are as follows:

Asset class	Target allocation % PREVIOUS	Target allocation % REVISED	Tolerances% UNCHANGED
UK equities	21.0%	12.0%	
Overseas equities	44.0%	53.0%	
Equities	65.0%	65.0%	60.0% - 70.0%
Government Bonds	5.0%	5.0%	
Non-Government Bonds	7.0%	7.0%	
Fixed Income	12.0%	12.0%	9% -15%
Property	10.0%	10.0%	
Private Equity	5.0%	5.0%	
Infrastructure	5.0%	5.0%	
Loans	3.0%	3.0%	
Alternatives	23.0%	23.0%	18.0% - 28.0%
Total target Allocation	100.0%	100.0%	

5. Socially Responsible Investment

5.1. The IID held in November 2017 focussed on Sustainable Responsible Investment with the objectives of:-

5.1.1. Confirming the investment belief No 11:-

11. Responsible Investment including Environmental, Social and Governance are important factors for the sustainability of longer-term investment returns.

5.1.2. Confirming that the detailed statements in the ISS headed:

5.1.2.1. ESG Risks,

5.1.2.2. Environmental, Social and Governance policy

5.1.2.3. Voting rights

5.2. The attendees on the day agreed that the ISS remained appropriate subject to the following additions:

5.2.1. Recognising climate change as specific risk;

5.2.2. Acknowledging that Fund Managers have the resources, research and ability to evaluate stock suitability in regard Responsible Investment. Feedback supported the principle of engagement in preference to disinvestment and that Fund Managers should retain decision making on stocks. However, Fund Managers will be required to improve their Responsible Investment reporting to the ISC. It is proposed that a specific report is received in the July Pension Fund Committee meeting in respect of Fund Managers' Responsible Investment activity.

5.2.3. Whilst the Fund informally adopts the principles of the Stewardship Code, it has not formally signed up to the Code. There was a clear consensus of opinion that the Fund should sign up.

5.2.4. Clarifying how the Fund will interact with the ACCESS pool to implement its engagement and voting policies by inserting the following paragraphs:

Sustainable Responsible Investment Policy (Environmental, Social and Governance)

The Fund is committed to working with the ACCESS Pool Operator and fellow funds in ACCESS to ensure that the Investment Managers appointed to the pool adopt the Fund's SRI policies.

Voting

The Fund is committed to working with the Pool Operator and fellow funds in ACCESS to ensure that the Investment Managers appointed to the pool adopt the Fund's voting policy.

6. Other drafting changes

6.1. The Objectives of the Fund and Investment Beliefs have been linked with a reference to the Funding Strategy Statement.

6.2. Other minor changes have been made to the ISS to update it to the February 2018 position regarding Asset Pooling:-

6.2.1. In the following sentence, "2018" has replaced "2017":-

"The first investments to be pooled in 2018 will be passively managed investments."

6.3. A new graph has been provided to illustrate the linkage of the asset allocation to the key investment risk factors.

6.4. The following sentence updated to reflect the investment in The Cambridge Building Society:-

"Cambridgeshire will not be pooling an allocation to local alternatives currently comprising interests in the Cambridge & Counties Bank and The Cambridge Building Society".

6.5. Consistent use of the terminology Sustainable Responsible Investment that encompasses Environmental, Social and Governance issues.

6.6. A copy of the revised ISS is attached as Appendix B.

7. Future revisions to the Investment Strategy Statement

7.1. The IID that took place on 7 February 2018 provided background for the forthcoming review of the Fund's strategic asset allocation. This effectively covers the remaining investment beliefs in the ISS not covered in the earlier IIDs.

7.2. The review of the strategic asset allocation by the ISC will continue during 2018 and when finalised will be presented to the Committee for approval and the ISS will then be updated accordingly.

8. Relevant Pension Fund Objectives

<i>Objective 1</i> Have robust governance arrangements in place, to facilitate informed decision-making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance.
<i>Objective 3</i> Ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment.
<i>Objective 5</i> Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.
<i>Objective 18</i> Put in place a Strategic Asset Allocation ensuring it is appropriately maintained taking into account the Funding Strategy.

9. Finance & Resources Implications

9.1. There are no incremental costs associated the recommendations.

10. Risk Implications

10.1. Risk(s) associated with the proposal:

Risk	Mitigation	Residual Risk
The Fund does not have appropriate policies that comply with the Investment Regulations.	The Fund's Investment Consultant has provided advice.	Amber

10.2. Risk(s) associated with not undertaking the proposal:

Risk	Risk Rating
The Fund may not maintain its published Investment Strategy Statement in line with the Regulations.	Amber

11. Communication Implications

11.1. Policy documents will be updated as appropriate and published on the Fund's website.

12. Legal Implications

12.1. Legal advice will be sought as required.

13. Consultation with Key Advisers

13.1. This paper has been produced in conjunction with the Fund's Investment Consultants, Mercer.

14. Alternative Options Considered

14.1. Included in the paper.

15. Background Papers

15.1. ISC papers on Investment Information Days – September 2017, November 2017 and February 2018. ISC paper on Passive investments – November 2017.

16. Appendices

16.1. Appendix A – Revised Strategic Asset Allocation.

16.2. Appendix B – Revised Investment Strategy Statement.

Checklist of Key Approvals	
Is this decision included in the Business Plan?	Not applicable.
Will further decisions be required? If so, please outline the timetable here	No.
Is this report proposing an amendment to the budget and/or policy framework?	No.
Has this report been cleared by Section 151 Officer?	Sarah Heywood – 8 March 2018
Has this report been cleared by Head of Pensions?	Mark Whitby – 26 February 2018
Has the Chairman of the Pension Fund Committee been consulted?	Councillor Rogers – 14 March 2018
Has this report been cleared by Legal Services?	Quentin Baker – 14 March 2018

Revised equity allocation following transfer to UBS:

Smart beta

Global	RAFI Developed 1000	2.556%
Global	MSCi World Quality	2.556%
Global	Min Vol	2.556%

Market cap

Global	FTSE North America	5.111%
UK	FTSE UK	2.044%
Global	FTSE Europe less UK	3.067%
Global	FTSE Asia excl Japan	3.067%
Global	FTSE Japan	2.044%

<u>Total "passive" holdings/allocation</u>	<u>23.000%</u>
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Equity active allocation

UK	Schroders UK	10.000%
Global	JO Hambro Global Select	19.500%
Global	Dodge & Cox Global Equity	12.500%

<u>Total equity active allocation</u>	<u>42.000%</u>
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<u>Total equity allocation</u>	<u>65.000%</u>
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Total

UK	12.044%
Total Global	<u>52.955%</u>
	<u>65.000%</u>

Investment Strategy Statement (Published X March 2018 ~~April 2017~~)

Introduction and background

This is the Investment Strategy Statement ("ISS") of the Cambridgeshire County Council Pension Fund ("the Fund"), which is administered by Cambridgeshire County Council, ("the Administering Authority"). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations") and supersedes all previously published Statement of Investment Principles.

The ISS has been prepared by the Pension Fund Committee ("the Committee") having consulted on the contents of the Fund's investment strategy with such persons it considers appropriate. The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Pension Committee on 23-29 March 2017/2018, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement which can be found at <http://pensions.northamptonshire.gov.uk/wp-content/uploads/2016/12/CambridgeshireFundingStrategyStatement2016.pdf>.

Objectives of the Fund

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. Pensions and benefits will be met by contributions, asset returns and income.

The Pension Fund Committee works to endeavour that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing.

The Fund is subject to an actuarial review every three years, in preparation for which the Fund, in conjunction with the Fund's Actuary and taking investment advice, prepares a Funding Strategy Statement (FSS) that sets out the strategy to ensure the long-term solvency of the Fund whilst recognising the need for a minimum (where possible and subject to a level of prudence) and, stable level of employer contributions.

The Administering Authority runs the Cambridgeshire Fund, in effect the LGPS for the Cambridgeshire area, to make sure it:

- Invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth.

Investment Beliefs

The strategy adopted by the Fund reflects the FSS requirements to invest surplus contributions appropriately with the aim that the Fund's assets grow over time with investment income and capital growth by applying ~~is based upon~~ the following investment beliefs:

1. The strategic asset allocation is the key factor in determining the risk and return profile of the Fund's investments and recognises that the Fund is a long-term, open scheme that has an obligation to pay benefits that are linked to inflation. The Committee also takes into account the covenant associated with the Fund's employers in deciding how much risk is appropriate.
2. Asset allocation and specifically the headline amounts invested in equities, fixed income and alternatives, will drive risk and return levels.
3. Investing over the long-term provides opportunities to improve returns.
 - a. Asset classes that return over a reasonably long duration are suitable for this Fund.
 - b. The Fund has a policy of holding managers over the longer-term to reduce the impact of transitions and believes in the benefits of compounded returns.
4. Equities are expected to generate returns above the growth of liabilities over the long-term and have an indirect link to inflation.
 - a. The Fund predominately holds equities due to the belief that they will provide returns above liabilities over the long-term and this helps to ensure that contributions remain affordable.
5. Inflation linked UK Government bonds provide a high degree of liability matching and a direct link to inflation.
 - a. Investments in government bonds are not held for return purposes but are held in order to mitigate the risk that contribution rates need to increase significantly should yields fall.
6. Non-Government bonds are expected to provide a return above governments bonds and can provide some interest rate protection relative to the liabilities.
7. Alternative assets are expected to generate returns above liabilities over the long-term, can have an inflation link, as well as providing diversification benefits.
8. Diversification across asset classes can help to mitigate against adverse market conditions and assist the Fund to produce a smoother return profile due to returns coming from a range of different sources.
9. The Committee favours active management, where there are opportunities for active managers to add value, increasing overall expected return net of fees.
10. Passive strategies ~~provide~~ low cost access to market returns.
11. Responsible Investment including Environmental, Social and Governance are important factors for the sustainability of longer term investment returns.
12. Value for money is defined as recognising net return over absolute cost.

Selecting a suitable strategy

The Pension Fund Committee is responsible for the Fund's asset allocation which is determined via a triennial strategy review as part of the valuation process, but is kept under regular review; noting that strategic changes are an evolutionary process.

The triennial review looks at both qualitative and quantitative analysis, covering the following, which are expanded upon later in this statement:

- The required level of return that will mean the Fund can meet its future benefit obligations as they fall due
- The level of risk that the Fund can tolerate in absolute terms, and in relation to its funding level and deficit
- An analysis of the magnitude of the various risks facing the Fund is established in order that a priority for mitigation can be determined

The desire for diversification across asset class, region, sector, and type of security

The Committee utilises a wide range of professional support such as an investment consultant and the Fund's Actuary.

As noted above, the Fund's objective is to pay benefits as they fall due and this requires the build-up of sufficient reserves in advance. The Fund is currently assessed to have a deficit in terms of the reserves needed and so the asset strategy is focused on achieving returns in excess of inflation, without taking undue risk. Having a thorough understanding of the risks facing the Fund is crucial and these are covered later in this statement.

The Fund's current investment strategy is set out below reflecting agreed changes made in the 2017/18 financial year with particular emphasis around the ACCESS pool's passive investment mandate. ~~It should be noted that the Fund is currently undergoing an investment strategy review will continue into the 2018/19 financial year with adopted changes being reported as appropriate. and although an agreement in principle has been made to increase the allocation to illiquid alternatives, the review has not yet been completed.~~ Set out below therefore is the current position that will likely evolve as part of the forthcoming review.

Asset class	Target allocation %	Tolerances%
UK equities	24.12.0%	
Overseas equities	53.44.0%	
Equities	65.0%	60.0% - 70.0%
Government Bonds	5.0%	
Non-Government Bonds	7.0%	
Fixed Income	12.0%	9%-15%
Property	10.0%	
Private Equity	5.0%	
Infrastructure	5.0%	

Loans	3.0%	
Alternatives	23.0%	18.0% - 28.0%
Total target Allocation	100.0%	

The tolerance ranges allow for the long-term natural deviation from the strategic percentage allocation due to differential relative performance of each investment type. Exceeded tolerances will be reported in the quarterly performance report to the Investment Sub Committee.

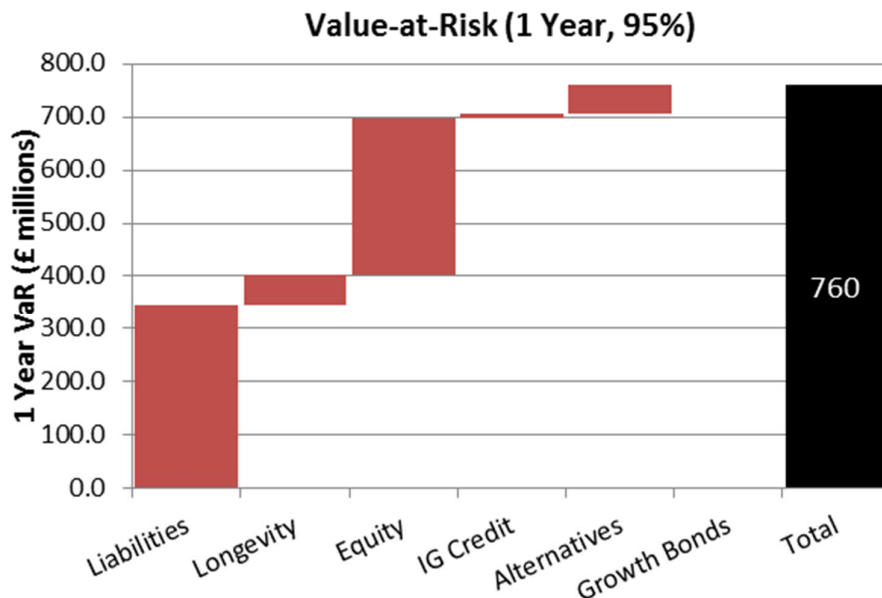
At 31 March 2016, the expected return of this portfolio was 4% per annum equivalent to the discount rate calculated upon the return on long-dated gilts of 2.2% p.a. plus an asset out performance assumption of 1.8% p.a. Further details on the Fund's risks, including the approach to mitigating risks, is provided in the following section.

Risks

The Committee assesses risks both qualitatively and quantitatively, with the starting point being the triennial strategy review. Risks are considered, understood and then prioritised accordingly.

Investment Risks

The Committee uses Risk Attribution Analysis to determine the order of magnitude of the main investment risks the Fund is facing. The chart below shows the VaR (Value at Risk, essentially the losses that would occur in a 1-in-20 event) facing the Fund, split into major risk categories.



As an additional illustration of risk, the table below shows how a range of events could impact the Fund:

Event	Event movement	Impact on Deficit
Fall in equity markets	20% fall in equities	£376m

Active Manager underperformance	3% underperformance from all active managers	£61m
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As shown in both the Value-at-Risk attribution chart and the table above, the most significant risk that the Fund is running is in relation to interest rates and inflation. It is important to stress that whilst not immaterial, the risks being run by the use of active management is far smaller.

Liabilities (interest rate and inflation) – The largest risk that the Fund faces is in relation to interest rates and inflation. The investment strategy recognises this and looks to increase the allocation to assets that provide protection against falling rates and rising inflation expectations when affordable to do so, which is considered appropriate in the context of the Fund's position as a long-term investor.

Equities – Should equity market conditions deteriorate significantly this will have a negative impact on the funding level. The Fund holds equities in order to provide the necessary returns to ensure that the Fund remains affordable. The Committee believes that the extra returns that are expected to be generated by equities compensates the level of risk equities bring to the Fund, but does believe in diversification, and looks to mitigate equity risk by investing significantly in bonds and alternatives.

Alternatives – The Fund has a significant amount of assets allocated to a range of alternatives, with allocations to property and private equity, amongst others. The risks that these investments bring at an individual level is not insignificant however the Committee believe that over the long-term alternatives will provide returns that compensate for the risks being run. Additionally the level of diversification the assets provide helps to reduce the Funds reliance on returns from equities. Illiquid assets such as property and private equity are also a valuable source of income.

The Fund's portfolio is well diversified across asset classes, geography and asset managers. As different asset classes have varying correlations with other asset classes, the Fund by investing in a range of different investments can minimise the level of risk run to a degree.

Passive Manager Risk – This is the simplest style of investment which places monies purely to track indices with the associated risks of following the full effects of both positive and negative market movements benefiting from the most economic of fee rates. This contrasts to active management which is applied to smooth volatility and improve market returns albeit at higher fee rates, the assumption being that the net return after fees is greater than pure passive management.

Active Manager Risk – Active Investment Managers are appointed to manage the Fund's investments on its behalf in the expectation that they will outperform the market but also recognising that their mandates may underperform passive managers. This risk is small relative to other risks; however the Fund still addresses this risk. Extensive due diligence takes place before managers are appointed. The investment managers are also monitored regularly by the Investment Sub Committee, Officers and by the Fund's Advisors. There is a risk is that net performance underperforms a passive arrangement over the long-term.

Liquidity risk – It is recognised that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long-term investment horizon, the Committee believes that a

degree of liquidity risk is acceptable, given the potential for accessing higher returns. The majority of the Fund's assets are realisable at short notice.

Exchange rate risk – This risk arises from unhedged investment overseas. The Committee believes that a long-term investor can tolerate short term fluctuations in currency movements but this policy will be reviewed at the next investment strategy review; particularly with reference to the Fund's equity portfolio.

Demographic Risk

The Fund is subject to a range of demographic risks, but with particular reference to investment strategy, the Committee is aware of the potential for the Fund to mature over time as the pensioner liability increases. A mature pension fund is likely to take less investment risk over time and this is considered at each strategy review. The more mature a pension fund, the more likely it is that investments would need to be realised in order to pay benefits. The Fund is not in that situation at present as cash inflows from contributions and investments are greater than benefit payments. However, this situation is monitored regularly and formally as part of the actuarial valuation and strategy review.

Cashflow Management Risks

The Fund is gradually becoming more mature and although it is cashflow positive after taking investment income, managing cashflow will become an increasingly important consideration in setting the investment strategy.

Governance Risks

The Fund believes that there is a benefit to the Fund to be gained from good governance in the form of either or both of an increased return and/or decreased risk. Poor governance can lead to opportunities and risks to be missed, and have a detrimental effect on the funding level and deficit.

Details of the Fund's governance structure can be found in the [Governance Compliance Statement](#).

Sustainable Responsible Investment ESG-Risks

The Fund recognises that effective management of [Environmental, Social and Governance \("ESG"\)](#) issues, [captured under the phrase "Sustainable Responsible Investment" \("SRI"\)](#), can enhance long-term financial performance of investments, and therefore ESG factors should be a feature of investment analysis and management. This aligns with the best interests of the Fund's beneficiaries and is consistent with fiduciary duty.

The Committee believes that engagement is key in relation to strong corporate governance, which in turn will enhance returns. Details of the Fund's policies can be found later in this statement.

Investment of money in a wide variety of investments

The Fund will invest in a range of investments, diversified by type, class, geographical location and market exposure.

Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including:

- Equities,

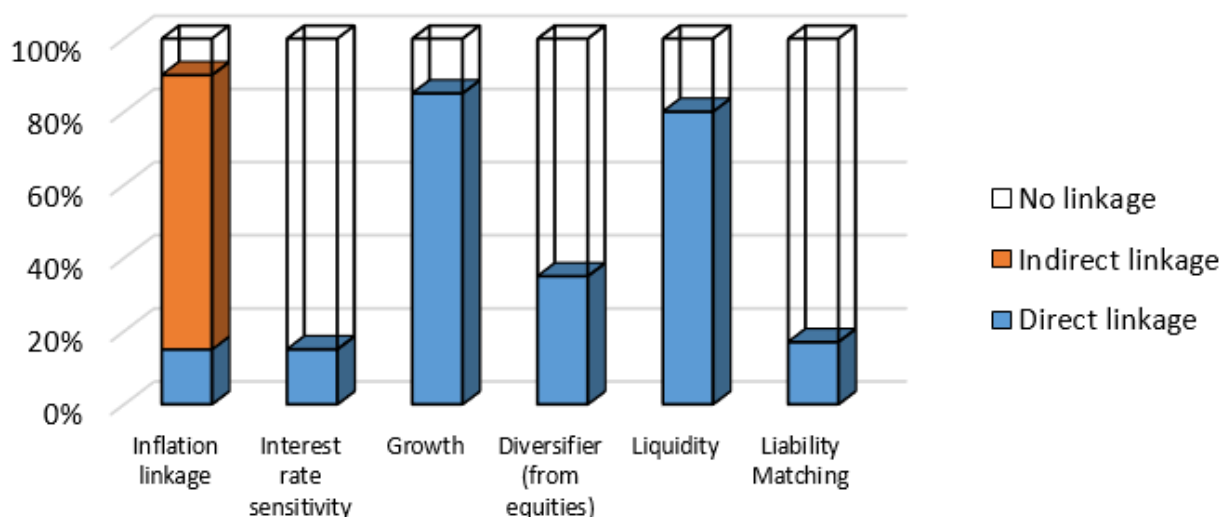
- Fixed interest and index linked bonds,
- Cash,
- Property and commodities, either directly or through pooled funds,
- Private Equity,
- Infrastructure,
- Debt,
- Insurance Instruments,
- Contracts for differences and other derivatives either directly or in pooled funds.

The Fund's target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of ~~fund~~Fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007".

Factor	Allocation	Inflation linkage	Interest rate sensitivity	Growth	Diversifier (from equities)	Liquidity	Liability Matching
Role	%	Liability management	Liability management	Deficit reduction & affordability	Risk mitigation	Cash flow management	Liability management
UK equities	1224.0	Indirect link to inflation over the long-term	N	Y	N	Y	N
Global Equities	5344.0	Indirect link to inflation over the long-term	N	Y	N	Y	N
Index Linked Gov't bonds	5.0	Y	Y	N	Y	Y	Y
Non-Gov't Bonds	7.0	N	Y	N	Y	Y	Y
Property	10.0	Indirect link to inflation over the long-term	N	Y	Y	N	N
Private Equity	5.0	Y	N	Y	Y	N	N
Infrastructure	5.0	Y	N	Y	Y	N	Y
Loans	3.0	N	Y	N	Y	Y	N
TOTAL	100.0						
Illiquidity Budget							
Inflation Sensitivity							

The graph below illustrates the linkage of the asset allocation to the key investment risk factors shown in the table above. The ongoing Investment Strategy Review will review the adequacy of the strategy against these factor risks.

Linkage of strategic asset allocation to each investment risk factor



Asset Pooling

Cambridgeshire is a member of the ACCESS pool along with the following 10 other pension funds:

East Sussex
 Essex
 Hampshire
 Hertfordshire
 Isle of Wight
 Kent
 Norfolk
 Northamptonshire
 Suffolk
 West Sussex

All eleven funds are committed to collaboratively working together to meet the criteria for pooling and have signed a Memorandum of Understanding to underpin their partnership (will be updated for IAA). ACCESS is working to a project plan in order to create the appropriate means to pool investments. The first investments to be pooled in 2017-2018 will be passively managed investments.

The ACCESS Funds have set out how they meet the pooling criteria, the pool's structure, governance arrangements and services to be shared in the submission made to the Government in July 2016, which is available on ACCESS's website <http://www.accesspool.org/>

All 11 ACCESS funds are working in the expectation that, over time, all investments will be pooled apart from a minority of investments where there is a no value for money benefit to pooling a specific investment as identified and agreed by an individual fund.

Investment pooling is intended to provide the scale that will enable LGPS funds to access lower investment Manager fees and to deliver cost savings, mindful of the Fund's Value for Money objective which is defined as recognising net return over absolute cost. In the pooled investment structure individual funds will remain responsible for their own investment strategy and asset allocation decisions. The pool will be responsible for selecting a suitable number of Investment Managers in order to meet the requirements of all of the funds' investment strategies.

Cambridgeshire will not be pooling an allocation to local alternatives currently consisting of comprising interests in the Cambridge & Counties Bank and The Cambridge Building Society. In addition the Fund is exploring local economic development opportunities.

In addition Cambridgeshire will not pool cash held for the efficient administration of the scheme, which is needed to manage cash flow to meet statutory liabilities including monthly pension payroll payments.

Sustainable Responsible Investment Policy (Environmental, Social and Governance policy)

The Committee considers the financial impact arising from Environmental, Social and Governance ("ESG") risks to be a fiduciary responsibility and an integral part of the risk assessment of any investment, captured under the phrase "Sustainable – Responsible Investment" ("SRI"). The Committee recognises that effective management of SESG-RI issues can enhance long-term financial performance of investments and seeks to promote this through two key areas:

- **Sustainable investment / ESGSRI factors** – considering the financial impact of environmental, social and governance (ESG) factors on the long-term prospects of investments, with awareness of the growing concerns around climate change.
- **Stewardship and governance** – Good governance can enhance the long-term performance of companies, and this is encouraged by the Fund through considered voting of shares, and engaging with investee company management as part of the investment process.

The Committee has directed investment managers to consider the effects of SRI ~~social, environmental and ethical~~ issues on the performance of a company when considering the acquisition, retention or realisation of investments for the Fund.

The Fund recognises the benefits of working in collaboration with other investors to achieve its aims. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which is an initiative that enables the Fund to work with other investors to understand the impacts of ESG-SRI considerations on financial performance.

The Fund is committed to working with the ACCESS Pool Operator and fellow funds in ACCESS to ensure that the Investment Managers appointed to the pool adopt the Fund's SRI policies.

The Fund does not exclude investments in order to pursue boycotts, divestment or sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

Voting rights

The Fund believes that good stewardship can enhance long-term portfolio performance, and is in the best interests of the Fund's beneficiaries and aligned with fiduciary duty. The Fund supports the principles of the UK Stewardship Code (the "Code") and is working with the Fund's advisers with the intention to sign up to the Code.

The Committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long-term shareholder value. Accordingly, the Fund's investment managers have produced written guidelines of their process and practice in this regard, which is considered as part of the appointment of an investment manager process.

The Fund is committed to working with the Pool Operator and fellow funds in ACCESS to ensure that the Investment Managers appointed to the pool adopt the Fund's voting policy.

For and on behalf of Cambridgeshire County Council Pension Fund Committee