#### CAMBRIDGESHIRE PENSION FUND BOARD



Date:Wednesday, 21 October 2015

**15** Democratic and Members' Services Quentin Baker LGSS Director: Law, Propertyand Governance Shire Hall Castle Hill Cambridge CB3 0AP

#### <u>14:00hr</u>

#### Shire Hall, Castle Hill, Cambridge, CB3 0AP

#### AGENDA

#### **Open to Public and Press**

1	Apologies and Declarations of Interest	
	Guidance for Councillors on declaring interests is available at <u>http://tinyurl.com/ccc-dec-of-interests</u>	
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#### 8 151021 - 2b

#### 297 - 302

#### 9 151021 - 2a

#### 10 Exclusion of Press and Public

That the press and public be excluded from the meeting during the consideration of the following report on the grounds that it is likely to involve the disclosure of exempt information under paragraph 5 of Part 1 Schedule 12 A of the Local Government Act 1972 and that it would not be in the public interest for the information to be disclosed (information in relating to the financial or business affairs of any particular person (including the authority holding that information))

#### 11 151021 - 10

303 - 316

The Cambridgeshire Pension Fund Board comprises the following members:

Mr Barry O'Sullivan (Chairman)

Mr David Brooks Mr Denis Payne and Mr John Stokes Councillor Simon King and Councillor Ian Manning

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

Clerk Name: Ruth Yule

Clerk Telephone: 01223 699184

Clerk Email: ruth.yule@cambridgeshire.gov.uk

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Council and political Group Leaders which can be accessed via the following link or made available on request: http://tinyurl.com/ccc-film-record.

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 http://tinyurl.com/cambs-constitution.

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#### <u>Notes</u>

Items shown in bold have or will be considered by the Pension Committee.

Draft reports are due with the Democratic Services Officer by 10.00 a.m. seven clear working days before the meeting. The agenda dispatch date is five clear working days before the meeting.

Committee date	Agenda item	Lead officer	Deadline for draft reports	Agenda despatch date
20/01/16 2.00p.m.	1. Minutes – 21/10/15	D Snowdon	08/01/16	12/01/16
	2. Administration Report <i>(includes Employers, Admissions and Cessations Report, Business Plan Update and Governance and Legislation Report)</i>	J Walton		
	3. Risk Strategy	J Walton		
	4. Training Policy	J Walton		
	5. Statement of Investment Principles	J Walton		
	5. Breaches Procedure	J Walton		
	6. Regulator's Code of Practice	J Walton		
28/04/16 2.00p.m.	1. Minutes – 20/01/16	D Snowdon	18/04/16	20/04/16

Committee date	Agenda item	Lead officer	Deadline for draft reports	Agenda despatch date
	2. Administration Report (includes Employers, Admissions and Cessations Report, Business Plan Update and Governance and Legislation Report)	J Walton		
	1. Minutes – 28/04/16	D Snowdon		
	2. Administration Report (includes Employers, Admissions and Cessations Report, Business Plan Update and Governance and Legislation Report)	J Walton		

#### CAMBRIDGESHIRE PENSION FUND



#### Local Pension Board

Date: 21 October 2015

**Report by:** Deputy Head of Pensions

Subject: Knowledge Management Policy for Cambridgeshire Fund Board Members.	
Purpose of the	To present the Knowledge Management Policy for
Report	Cambridgeshire Pension Fund Board members to the Board.
Recommendations	The Board are asked to approve the attached Knowledge Management Policy for Cambridgeshire Pension Fund Board Members located in the appendix to this report.
Enquiries to:	Name – Joanne Walton – LGSS Pensions Governance and Regulations Manager Tel – 01604 367030 E-mail – jwalton@northamptonshire.gov.uk

#### 1. Background

- 1.1 The Knowledge Management Policy is established to assist the Pension Fund Board in performing and developing their individual role in accordance with the Terms of Reference with the ultimate aim of ensuring that Cambridgeshire Pension Fund is managed and assisted by individuals who have the appropriate level of knowledge and skills as required by the Pensions Act 2004 also enforced by the Pensions Regulator.
- 1.2 The Knowledge Management Policy for Cambridgeshire Pension Fund Board Members is attached in Appendix 1.

#### 2. CIPFA Local Pension Board – Technical Knowledge and Skills Framework

- 2.1 The CIPFA framework covers eight areas of knowledge identified as the core requirements for effective management of a public sector pension fund. These are:
  - pensions legislation;
  - pensions governance;
  - pensions administration;
  - pension accounting and auditing standards;
  - financial services procurement and relationship development;
  - investment performance and risk management;
  - financial markets and products knowledge; and
  - actuarial methods, standards and practice.

2.2 The framework is designed to improve knowledge and skills in all relevant areas of activity of a Pension Fund Board and assist Board members in achieving a degree of knowledge appropriate for the purpose on enabling individuals to properly exercise the functions of a member of a pension board.

#### 3. The Pension Regulator's Code of Practice

3.1 The Pension Regulator's Code of Practice requires all members of the Pension Fund Board to maintain the necessary skills and knowledge to undertake their role effectively. Pension Fund members need to; be conversant with the rules of the scheme and any document recording policy about the administration of the scheme; and to have knowledge and understanding of the law relating to pensions and any other matters which are prescribed in regulations.

#### 4. Knowledge Management Policy for Pension Fund Board Members

- 4.1 The Knowledge Management Policy incorporates both the best practice as identified by the CIPFA Technical Knowledge and Skills Framework and the requirements of the Pensions Regulator.
- 4.2 The Knowledge Management Policy also recognises the requirement that skills and knowledge in the remit of a local pension board must be on an individual not collective basis. As such self assessments will identify individual training needs following which appropriate training will be arranged.
- 4.3 The Policy sets out the methods by which the members of the Pension Fund Board will achieve and maintain the required knowledge and understanding and how this will be measured on an ongoing basis.
- 4.4 It is a statutory requirement to include details of a the training undertaken by members of the Pension Fund Board in the Fund's Annual Report . In addition, this information may be required by other agencies such as the Pensions Regulator from time to time. The LGSS Pensions Service will therefore keep detailed records to provide this information.

#### 5. Relevant Pension Fund Objectives

Perspective	Outcome
Funding and Investment	• To ensure that the Fund is able to meet its liabilities for pensions and other benefits with the minimum, stable level of employer contributions.
	<ul> <li>To ensure that sufficient resources are available to meet all liabilities as they fall due.</li> </ul>
	To maximise the returns from its investments within reasonable risk parameters.

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

#### 6. Finance & Resources Implications

6.1 Consideration will be given to various training resources available in delivering required training to Members of the Pension Fund Board and in the most efficient manner

#### 7. Risk Implications

a) Risk(s) associated with the proposal

Risk	Mitigation	Residual Risk
Insufficient resources being available to deliver or arrange the required training		Amber
The quality of advice or training provided is not to an acceptable standard	Officers of the Fund will monitor these risks and will act accordingly in the best interest of	Amber
Changes in Pension Board membership potentially diminishing knowledge and understanding	the Fund in conjunction with the Chairman of the Cambridgeshire Pension Board or Full Council where appropriate.	Amber
Poor attendance at training and/or formal meetings resulting in poor standard of knowledge accrual and maintenance of knowledge		Amber

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

Risk	Risk Rating
If the policy is not approved or enacted non compliance with the	Red
Pension Regulator's Code of Practice and Section 248A of The	
Pensions Act 2004 (not acquiring and maintaining the necessary	
skills and knowledge to perform the duties required of members of a	
Pension Fund Board) may result.	

#### 8. Communication Implications

Website	The Knowledge Management Policy will be published on the	
	LGSS Pensions Service website.	

#### 9. Legal Implications

9.1 Not applicable

#### 10 Consultation with Key Advisers

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

#### 11. Alternative Options Considered

11.1 Not applicable

#### 12. Background Papers

12.1 Not applicable

#### 13. Appendices

13.1 Appendix 1 – Knowledge Management Policy for Cambridgeshire Pension Fund Board Members.

13.2 Appendix 2 - CIPFA Local Pension Board – Technical Knowledge and Skills Framework

13.3 Appendix 3 – CIPFA Code of Practice on Public Sector Pensions – Finance Knowledge and Skills Framework

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?	Not applicable		
Has this report been cleared by Deputy Head of Pensions?	Mark Whitby – 18/09/2015		
Has this report been cleared by Legal Services?	Not applicable		

Cambridgeshire Pension Fund

## Knowledge Management Policy for Cambridgeshire Pension Fund Board Members

2015



Cambridgeshire Pension Fund

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#### 1. Introduction

1.1 This is the Knowledge Management Policy for the Pension Fund Board of Cambridgeshire Pension Fund which is managed by Cambridgeshire County Council (the Administering Authority).

It sets out the policy agreed by members of the Pension Fund Board concerning their training and development.

The Knowledge Management Policy is established to aid the Pension Fund Board in performing and developing their individual role in accordance with the Terms of Reference with the ultimate aim of ensuring that Cambridgeshire Pension Fund is managed and assisted by individuals who have the appropriate level of knowledge and skills as required by the Pensions Act 2004 enforced by the Pensions Regulator.

#### 2. Policy Objectives

- 2.1 The Fund's objectives relating to knowledge and skills are:
  - The Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise, and that the knowledge and expertise is maintained in a changing environment;
  - Those persons responsible for governing the Fund has sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage conflicts of interest; and
  - The Pension Fund and its stakeholders are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund.
- 2.2 To assist in achieving these objectives, the Pension Fund Board will adhere to the CIPFA Local Pension Board Technical Knowledge and Skills Framework and the Pension Regulator's Code of Practice.

#### 3. Purpose of the policy

- 3.1 The purpose of the policy is to -
  - equip people with necessary skills, knowledge and training;
  - meet the required needs in relation to the Fund's objectives; and
  - invest time and resource into individual's personal development to enhance potential in performing their role.

#### 4. Effective date

4.1 This policy was approved by the Pension Fund Board on XX and is effective from XX.

1.

#### 5. Review

- Cambridgeshire Pension Fund
- 5.1 This Knowledge Management Policy is expected to be appropriate for the long-term but it will be reviewed annually, and if necessary, more frequently to ensure it remains accurate and relevant.

#### 6. Scope

6.1 The policy applies to Pension Fund Board Members.

#### 7. CIPFA and the Pensions Regulator Skills Requirements

7.1 In July 2015 CIPFA launched technical guidance on the knowledge and skills requirements for representatives on Local Pension Boards. The guidance sets out a framework that will improve knowledge and skills in all relevant areas of activity of a Pension Fund Board and assist Board members in achieving a degree of knowledge appropriate for the purposes on enabling individuals to properly exercise the functions of a member of a pension board.

The Framework covers eight areas of knowledge identified as the core requirements:

- Pensions legislation;
- Pensions governance;
- Pensions administration;
- Pension accounting and auditing standards;
- Financial services procurement and relationship development;
- Investment performance and risk management;
- Financial markets and products knowledge; and
- Actuarial methods, standards and practice.
- 7.2 In addition CIPFA's Code of Practice on public sector pensions finance knowledge and skills recommends (amongst other things) that LGPS administering authorities:
  - formally adopt the CIPFA Local Pension Board Knowledge and Skills Framework (or an alternative training programme);
  - ensure the appropriate policies and procedures are put in place to meet the requirements of the Framework (or an alternative training programme); and
  - publicly report how these arrangements have been put into practice each year.
- 7.3 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 Pension Fund Board to maintain the 2.



necessary skills and knowledge to undertake their role effectively. Pension Fund Board members need to:

- be conversant with the rules of the scheme and any document recording policy about the administration of the scheme; and
- have knowledge and understanding of the law relating to pensions and any other matters which are prescribed in regulations.

#### 8. Delivery of Knowledge Management Training

- 8.1 Consideration will be given to various training resources available in delivering required training to Members of the Pension Fund Board and in the most efficient manner. These include but are not restricted to:
  - In house training delivered by officers of, or advisors to the Fund (internally developed training days and pre/post Board meeting sessions);
  - Attending courses, seminars and external events;
  - Shared training with the Cambridgeshire Pension Fund Committee, other Pension Funds and Frameworks;
  - Regular updates from officers and advisers (including information communicated through Committee reports); and
  - Compulsory completion of the Pension Regulator's Public Service Toolkit.
- 8.2 On appointment to the Pension Fund Board members will be provided with the following documentation to provide a basic understanding of the Local Government Pension Scheme and how the Fund operates. This will include:
  - The members' guide to the Local Government Pension Scheme (LGPS);
  - The latest Actuarial Valuation report ;
  - The latest Annual Reports and Statement of Accounts;
  - The Funding Strategy Statement;
  - The Governance Policy and Compliance Statement;
  - The Statement of Investment;
  - The Communications Policy;
  - The Administration Strategy; and
  - The Overpayments Policy.

The above documents are accessible from the LGSS Pensions website and are updated with any changes as soon as viable.

8.3 A log of internal and external events will be maintained by the LGSS Pensions Service. After attendance at an event, all attendees will be requested to complete a Feedback Questionnaire (Appendix A) which asks for views on the following point: 3.



- Value of the event and the merit, if any, of attendance;
- A summary of the key learning points gained from attending the event; and
- Recommendations of any subject matters at the event in relation to which training would be beneficial for all Pension Fund Board members.

#### 9. Measurement and assessment

- 9.1 In order to identify whether skills and knowledge objectives are being met, the Fund will;
  - Issue annually an individual training needs analysis. This is a self assessment to identify the need for training and refresher training on key elements for each individual member of the Pension Fund Board. Officers of the Fund will then source access to appropriate training either on an individual or collective basis dependent upon needs; and
  - Provide members of the Pension Fund Board with current information concerning the LGPS and other information that will ultimately affect the LGPS from sources such as the Scheme Advisory Board, the Pensions Regulator, HMRC and DCLG. This will be delivered by email or verbal updates at formal meetings or through Board reports.

#### 10. Reporting

10.1 It is a statutory requirement to produce a statement for the Fund's Annual Report on the training received by Cambridgeshire Pension Fund Board members during the year. This information may also be required by other agencies such as the Pensions Regulator.

#### 11. Costs

11.1 All training costs related to this Knowledge Management Policy are met directly by the Pension Fund.



4.

### Appendix A – Internal/External Training Feedback Questionnaire

The aim of this questionnaire is to highlight the key points learnt from the event attended. Please take some time to answer the questions below and help promote the value gained from these events.

Your Name		Date	
Job Role		Duration	
Event Name		Location	
Fund		Committee/Board	
Relevance to	your current role:-		

1. In order to gauge the value of the event and to ensure it is an appropriate training tool, please provide 3 learning points gained from your attendance.

2	
3	

2. Please comment on the structure of the day, ie was there enough time for Q&A sessions, was there sufficient detail in the presentations, were the sessions engaging etc?

	Comment	1 Poor	2 Satisfactory	3 Excellent
1	Was there enough time for Q & A			
2	Was there sufficient detail in the presentations			
3	Were the sessions engaging			
4	Other			



3. As a guide to promoting the event to future attendees, please rate the event from 1-5 below:

1	2	3	4	5	
Poor	Not very Useful	Satisfactory	Very Useful	Excellent	
If you feel there is any additional information to quantify your rating then please add it below:-					

4. Is this an event that you would recommend to others? Please explain the reasons behind your answer.

YES		
NO		

5. Any other comments you feel would be useful to add?



6.



## \local pension \boards

A Technical Knowledge and Skills Framework



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A Technical Knowledge and Skills Framework



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77 Mansell Street, London E1 8AN

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## Acknowledgements

This framework has been developed by Nigel Keogh (CIPFA Pensions Technical Manager) with guidance, direction and support from the CIPFA Pensions Panel.

The current members of the Pensions Panel are:

Bob Summers (Chairman) – Independent Consultant

Paul Dale – London Borough of Merton

Geoff Dobson – Suffolk County Council

Geik Drever – West Midlands Pension Fund

Jeff Houston – Local Government Employers Pensions Committee

John Hattersley – South Yorkshire Pensions Authority

Nicola Mark – Norfolk Pension Fund

Susan Martin – London Pensions Fund Authority

Paul Mayers – National Audit Office

Richard McIndoe – Glasgow Council

Chris Megainey – Department for Communities and Local Government

Graeme Russell (Vice Chairman) – Torfaen Borough Council

Trevor Salmon – Northern Ireland Local Government Officers' Superannuation Committee

Mark Taylor – Audit Scotland

Chris West - Coventry City Council

John Wright – Hymans Robertson

The Panel would like to thank Annemarie Allen at Barnett Waddingham for her contributions to the guidance.

The Panel would also like to acknowledge the role of the publication's sponsor, Barnett Waddingham, in helping to ensure that this key piece of guidance is available across the Local Government Pension Scheme.

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## 1. Purpose, Scope and Status of this Guidance

#### PURPOSE

- 1.1 A great deal of work has been done in recent years to address the provision of training to those who are involved in the administration of public service pension schemes. However in the absence of any detailed definition of what knowledge and skills are actually required to carry out a particular role, it is difficult to ascertain whether training is truly effective.
- 1.2 In an attempt to ensure that training can be delivered efficiently and effectively by identifying and focusing on the key knowledge areas, in recent years CIPFA has developed, with the assistance of expert practitioners, frameworks covering the knowledge and skills requirements for officers and elected members/non-executives involved in the administration of public service pension schemes.
- **1.3** The proposals in this publication are intended to further promote good governance in public service pension schemes' pension boards by extending these frameworks to cover the training and development of their board members. The objective is to improve knowledge and skills in all the relevant areas of activity of a pension board and assist board members in achieving the degree of knowledge appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the pension board as required under Section 248a of the *Pensions Act 2004*<sup>1</sup>, as amended by the *Public Service Pensions Act 2013*.
- 1. Section 248a of the *Pensions Act 2004* sets out the following:

Requirement for knowledge and understanding: pension boards of public service pension schemes

- (1) This section applies to every individual who is a member of the pension board of a public service pension scheme.
- (2) An individual to whom this section applies must be conversant with—.
  - (a) the rules of the scheme, and
  - (b) any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme.
- (3) An individual to whom this section applies must have knowledge and understanding of—.
  - (a) the law relating to pensions, and
  - (b) such other matters as may be prescribed.
- (4) The degree of knowledge and understanding required by subsection (3) is that appropriate for the purposes of enabling the individual properly to exercise the functions of a member of the pension board.

1.4 This guidance is intended to complement the Pensions Regulator's *Code of Practice No* 14: Governance and Administration of Public Service Pension Schemes (2015)<sup>2</sup>. The *Code* of *Practice No* 14 sets out the fact that the law requires, amongst other things, that local pension board members be conversant with the rules of the scheme and documents relating to its administration. Additionally, in the context of the Local Government Pension Scheme (LGPS) in particular, this will bring board members into contact with matters relating to investments, actuarial valuations, third party provision, scheme assurance, accounting and auditing<sup>3</sup>. This guidance therefore focusses on those areas by expanding on the specifics of the knowledge and skills requirements associated with public service pension schemes in general and the LGPS in particular, and assisting both scheme managers and pension board members in discharging their responsibilities as set out in the Pensions Regulator's *Code of Practice No* 14 insofar as they apply to knowledge and skills (a summary of the respective responsibilities of board members and the scheme manager can be found at Annex A).

#### SCOPE

- **1.5** The guidance is set in the context of LGPS pension boards in England and Wales but pension boards in other sectors and jurisdictions may find the frameworks of use in determining their own training programmes for pension board members.
- 2. www.thepensionsregulator.gov.uk/docs/code-14-public-service.pdf
- 3. The Pensions Regulator's *Code of Practice 14: Governance and Administration of Public Service Pension Schemes* states in paragraphs 42 to 44:

For pension board members of funded pension schemes, documents which record policy about the administration of the scheme will include those relating to funding and investment matters. For example, where relevant they must be conversant with the statement of investment principles and the funding strategy statement.

Pension board members must also be conversant with any other documented policies relating to the administration of the scheme. For example, where applicable, they must be conversant with policies relating to:

- the contribution rate or amount (or the range/variability where there is no one single rate or amount) payable by employers participating in the scheme
- statements of assurance (for example, assurance reports from administrators)
- third party contracts and service level agreements
- stewardship reports from outsourced service providers (for example, those performing outsourced activities such as scheme administration), including about compliance issues
- scheme annual reports and accounts
- accounting requirements relevant to the scheme
- audit reports, including from outsourced service providers, and
- other scheme-specific governance documents.'

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- 1.6 The framework is intended to have two primary uses:
  - as a tool for scheme managers in meeting the Pensions Regulator's *Code of Practice No 14* which states that scheme managers should '*establish and maintain policies and arrangements for acquiring and retaining knowledge and understanding to support their pension board members*'
  - as an assessment tool for individuals to measure their progress and plan their development in order to ensure that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of a pension board.
- 1.7 The framework is intended to apply to all pension board members. However, it has been designed so that organisations and individuals can tailor it to their own particular circumstances.
- **1.8** In addition, in recognition of the more onerous roles of chairs, the framework also includes a specimen role specification for the chair of a pension board (see the example at Annex B).

#### **STATUS**

- **1.9** In 2013, CIPFA issued a *Code of Practice on Public Sector Pensions Finance Knowledge and Skills*.
- **1.10** The *Code of Practice on Public Sector Pensions Finance Knowledge and Skills* is underpinned by five key principles:
  - 1. Organisations responsible for the financial administration of public sector pension schemes recognise that effective financial management, decision-making, governance and other aspects of the financial administration of public sector pension schemes can only be achieved where those involved have the requisite knowledge and skills.
  - 2. Organisations have the necessary resources in place to acquire and retain the necessary public sector pension scheme finance knowledge and skills.
  - 3. Organisations have in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration, scheme governance and decision-making.
  - 4. The associated policies and practices are guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the *CIPFA Pensions Finance Knowledge and Skills Frameworks*.
  - 5. The organisation has designated a named individual<sup>4</sup> to be responsible for ensuring that policies are implemented.
- **1.11** In setting out the *Code of Practice on Public Sector Pensions Finance Knowledge and Skills,* the Institute stated that 'this Code of Practice applies to all individuals that take on a

<sup>4.</sup> The officer in question should be the senior officer responsible for the financial administration of the pension scheme. In the case of the LGPS, this would usually be the chief financial officer; in the NHS, for example, it would be the accounting officer.

decision-making, scrutiny or oversight role. This includes (where relevant to the governance structures employed in the management of the LGPS):

- officers of the administering authority
- elected members of the administering authority
- employer representatives
- member-nominated representatives
- pensioner representatives
- co-opted members
- independent advisors
- internal auditors and audit committee members
- any other individuals involved in a decision-making, scrutiny or oversight role.

The requirements will also apply to the members of local pension boards as set out in section 5 of the Public Service Pensions Bill, as and when such boards are established.'

- 1.12 It is therefore the professional responsibility of the named individual referred to under principle 5 above to establish and maintain policies and arrangements for acquiring and retaining knowledge and skills to support their pension board members. This professional requirement is in line with the Pensions Regulator's *Code of Practice No 14* as set out in paragraph 38 of that Code<sup>5</sup>.
- **1.13** This guidance is offered as good practice in line with the previous *CIPFA Pensions Finance Knowledge and Skills Frameworks*, and is intended to assist practitioners in meeting their responsibilities under CIPFA's *Code of Practice on Public Sector Pensions Finance Knowledge and Skills* (2013), particularly principle 4.

5. Paragraph 38 of the Pensions Regulator's Code of Practice No 14 states: 'Schemes should establish and maintain policies and arrangements for acquiring and retaining knowledge and understanding to support their pension board members. Schemes should designate a person to take responsibility for ensuring that a framework is developed and implemented.'

## 2. Policy and Legislative Background

- 2.1 On 1 April 2015, the governance structure of the LGPS fundamentally changed as a result of new governance requirements introduced by *The Local Government Pension Scheme* (Amendment) (Governance) Regulations 2015.
- 2.2 These changes have their origins in the final recommendations of the Independent Public Service Pensions Commission (IPSPC) chaired by Lord Hutton of Furness. In June 2010 the IPSPC was formed to undertake a fundamental structural review of public service pension provision and to make recommendations to the chancellor and chief secretary on future pension arrangements. The IPSPC produced an interim report in October 2010 and a final report in March 2011<sup>6</sup>.
- **2.3** In the final report, the Commission concluded that (page 126):

'scheme members in all the public services should be able to nominate persons to pension boards and committees along similar lines to the rights of members in the private sector to nominate persons to sit on boards of trustees. Pension boards should therefore include independent professionals and scheme members in similar proportions as apply in the private sector to boards of trustees. It is also very important that as well as the "lay persons" there are also independent members, usually professionally trained and with experience of the pensions environment.'

2.4 The Commission went on to make the following recommendation:

'Every public service pension scheme (and individual LGPS fund) should have a properly constituted, trained and competent pension board, with member nominees, responsible for meeting good standards of governance, including effective and efficient administration (recommendation 17a).'

- **2.5** The Commission's recommendation was taken forward in the drafting of the *Public Service Pensions Bill* (subsequently the *Public Service Pensions Act 2013*).
- **2.6** Under Regulation 5 of the *Public Service Pensions Act 2013*, the responsible authority<sup>7</sup> for each public service pension scheme established under the 2013 Act is required to make

<sup>6.</sup> www.gov.uk/government/uploads/system/uploads/attachment\_data/file/207720/hutton\_ final\_100311.pdf

<sup>7.</sup> The "responsible authority" for each public service pension scheme is defined in Regulation 2 of the *Public Service Pensions Act 2013* as 'the person who may make scheme regulations.' For local government in England and Wales, this is set out in Schedule 2 of the Act as the secretary of state (DCLG).

provision in scheme regulations that requires each pension scheme manager<sup>8</sup> to establish a pension board to assist the scheme manager in relation to the following:

- '(a) securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme that is connected with it;
- (b) securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator;
- (c) such other matters as the scheme regulations may specify."
- **2.7** Regulation 5 further directs that the scheme manager must include within its own scheme regulations provisions that require the scheme manager:
  - *(i)* to be satisfied that a person to be appointed as a member of the board does not have a conflict of interest, and
  - (ii) to be satisfied from time to time that none of the members of the board has a conflict of interest;
  - (iii) ensure that a member of the board, or a person proposed to be appointed as a member of the board, be able to provide the scheme manager with such information as the scheme manager reasonably requires for the purposes of provision under the above;
  - *(iv)* ensure that the board include employer representatives and scheme member representatives in equal numbers.'
- 2.8 As required under Regulation 5, the Department for Communities and Local Government (DCLG) laid an amendment to the *Local Government Pension Scheme Regulations 2013* on 28 January 2015, setting out the arrangements for establishing pension boards in the LGPS<sup>9</sup>. The relevant Regulations (Regulations 105 to 109 of the *Local Government Pension Scheme Regulations 2013* (as amended) are reproduced in full at Annex C for ease of reference.
- 2.9 A working group of the Shadow LGPS Scheme Advisory Board Governance and Standards Subcommittee has produced detailed guidance to scheme managers (administering authorities) to assist them in establishing local pension boards. This guidance can be found at www. lgpsboard.org/index.php/about-the-board/board-guidance

- 8. Regulation 4 of the *Public Service Pensions Act 2013* requires that public service pension schemes established under this Act (such as the LGPS from 1 April 2014) set out in scheme regulations who will be responsible for managing or administering the scheme. In the case of the LGPS, Regulation 53 of the Local Government Pension Scheme Regulations 2013 sets out that each administering authority is designated the "scheme manager" for their fund.
- 9. The Local Government Pension Scheme (Amendment) (Governance) Regulations 2015. Page 34 of 316

## 3. Key Skills

3.1 The CIPFA Pensions Panel, with input from technical specialists covering each element of the skills matrix, has identified the key skills that lie at the core of successful public sector pension scheme administration.

#### **SCOPE OF THE FRAMEWORK**

- 3.2 Due to the complexity of pensions administration, these skill sets extend across several disciplines from accountancy and audit into areas of investment and actuarial finance, as well as knowledge of the legislative and governance environment. In total there are eight areas of knowledge and skills that have been identified as the core technical requirements for those working in public sector pensions finance. They are:
  - pensions legislation
  - public sector pensions governance
  - pensions administration
  - pensions accounting and auditing standards
  - financial services procurement and relationship management
  - investment performance and risk management
  - financial markets and product knowledge
  - actuarial methods, standards and practices.

These are expanded upon below.

3.3 The Institute recognises that there will of course be other technical (non-pensions related) and "softer" skills required in order to be competent in the role of a pension board member and Regulation 107 of the *Local Government Pension Scheme Regulations 2013* (as amended) makes specific reference to board appointees having the "capacity" to undertake the role. Whilst the Regulations do not define "capacity" in this context, the guidance referred to at paragraph 2.9 takes this to mean that board members should have '*time to commit to attend meetings, undertake training and effectively represent employers and (scheme) members* (*as appropriate*).' The "soft" skills implied here are considered to be outside the scope of this framework but should also be considered when determining the ability of pension board members to effectively discharge their duties.

#### **PENSIONS LEGISLATION**

3.4 The pensions landscape is characterised by a complex legislative framework. In addition to the legislation of individual schemes, there are industry-wide statutes that apply in whole or in part to public sector schemes, including the way in which schemes interact with state pensions, the tax system, the Pensions Regulator etc.

**3.5** A knowledge of this framework and the way in which it impacts upon the operations of individual schemes is key to understanding the context within which public sector pension schemes operate and the statutory obligations they are required to discharge.

#### **PUBLIC SECTOR PENSIONS GOVERNANCE**

- 3.6 On 1 April 2015, the governance structure that surrounds public sector pension schemes changed significantly. The *Public Service Pensions Act 2013* has introduced new bodies and relationships into what, in the LGPS in particular, was an already complex governance network.
- 3.7 Understanding how the pension board interacts with the other elements of this governance structure the administering authority, the Scheme Advisory Board, the responsible authority (eg DCLG), the Pensions Regulator etc and the various roles and responsibilities of those bodies is critical to the success of the board.
- 3.8 Also of key importance is a knowledge of the governance frameworks that apply within the wider pensions industry (such as the Myners principles and the *UK Stewardship Code* (FRC, 2010)); within individual schemes (such as the LGPS governance statement requirements); and within the organisations that administer the schemes (for example *Delivering Good Governance in Local Government: Framework* (CIPFA, 2007)).

#### **PENSIONS ADMINISTRATION**

- 3.9 Pensions administration is perhaps the most highly regulated area of the LGPS. Administering scheme benefits, contributions and other transactions is highly complex and is governed by extensive scheme regulations, as well as industry-wide requirements on disclosure, record-keeping, data maintenance, dispute resolution etc.
- **3.10** Understanding these requirements and assisting the administering authority to ensure compliance with the various regulations, standards and codes is a key role of the pensions board, which makes pensions administration a key strand of the knowledge and skills framework.

#### PENSIONS ACCOUNTING AND AUDITING STANDARDS

- 3.11 The way in which pension schemes are accounted for, both as a scheme and by the sponsoring employer(s), plays a significant part in the knowledge and skills framework. The accounting requirements and associated disclosures are complex and involve a large actuarial element. Consequently this demands an understanding of the regime in order to comply with the requirements and to communicate the requirements and their implications both internally and externally.
- 3.12 In addition, both internal and external auditors play a significant role in assuring that the administering authority complies with statutory requirements. Understanding the scope of their role, and the roles played by providers of third party assurance on outsourced services, is key for local pension board members.

### PENSIONS SERVICES PROCUREMENT AND RELATIONSHIP MANAGEMENT

- **3.13** Such are the scale, diversity and technical requirements of pensions operations, the use of outsourcing is commonplace. Whether it is the use of actuaries, fund managers, pensioner payroll providers or third party administrators, the skills and knowledge required to procure and manage outsourced services are central to scheme management in the public sector.
- 3.14 In some instances organisations will have specialist procurement units who will play a large part in the procurement process. In such cases many of the requirements of the framework may be met by virtue of the pension board member having access to external technical expertise. In these circumstances, users of the framework should adapt the level of detail in this skill set accordingly.

### **INVESTMENT PERFORMANCE AND RISK MANAGEMENT**

- **3.15** In the LGPS and other schemes where contributions are invested and managed to meet future liabilities, understanding investment risk and performance constitutes a major element of the role of pension board members.
- 3.16 Administering authorities are aware of the requirement to apply the same rigour to an assessment of their own performance and the performance of those who work on their behalf. Frameworks and targets must be devised and set, and performance monitored against them and reported to stakeholders. Pension board members should be equipped which a sufficient level of knowledge to enable them to assist the administering authority in ensuring that this is done effectively.

## FINANCIAL MARKETS AND PRODUCT KNOWLEDGE

3.17 In schemes with invested funds, an understanding of financial markets and products is fundamental. The depth of knowledge will depend to some degree upon the particular approach to investment management undertaken by the fund (the investment activities of LGPS funds for example can be split into two groups: those funds that use external managers to manage all of their investment portfolio; and those that undertake some or all of their investment activities using in-house investment managers).

### **ACTUARIAL METHODS, STANDARDS AND PRACTICES**

3.18 The scheme actuary holds a key position in the financial management of a pension scheme. Pension board members will need to understand, in some level of detail, the work of the actuary and the way in which actuarial information is produced and the impact it has on both the finances of the scheme and employers.

### THE KNOWLEDGE AND SKILLS FRAMEWORK

3.19 In the framework which follows, we have identified the key elements of expertise within each of the above areas of technical knowledge as they apply to pension board members. In addition, Annex D provides an example of how the framework can be used as an assessment tool for individuals.

# 4. Local Pension Boards: A Technical Knowledge and Skills Framework

Pensions legislation	A general understanding of the pensions legislative framework in the UK.
	An overall understanding of the legislation and statutory guidance specific to the scheme and the main features relating to benefits, administration and investment.
	An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.
	A regularly updated appreciation of the latest changes to the scheme rules.
Pensions governance	Knowledge of the role of the administering authority in relation to the LGPS.
	An understanding of how the roles and powers of the DCLG, the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.
	Knowledge of the role of the Scheme Advisory Board and how it interacts with other bodies in the governance structure.
	Broad understanding of the role of pension fund committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers.
	Awareness of the role and statutory responsibilities of the treasurer and monitoring officer.
	Knowledge of the Myners principles and associated CIPFA and SOLACE guidance A detailed knowledge of the duties and responsibilities of pension board members.
	Knowledge of the stakeholders of the pension fund and the nature of their interests.
	Knowledge of consultation, communication and involvement options relevant to the stakeholders.
	Knowledge of how pension fund management risk is monitored and managed.
	Understanding of how conflicts of interest are identified and managed.
	Understanding of how breaches in law are reported.

Pensions administration	An understanding of best practice in pensions administration, eg performance and cost measures.
	Understanding of the required and adopted scheme policies and procedures relating to:
	member data maintenance and record-keeping processes
	internal dispute resolution
	contributions collection
	scheme communications and materials.
	Knowledge of how discretionary powers operate.
	Knowledge of the pensions administration strategy and delivery (including, where applicable, the use of third party suppliers, their selection, performance management and assurance processes).
	An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to benefits administration.
	An understanding of what additional voluntary contribution arrangements exist and the principles relating to the operation of those arrangements, the choice of investments to be offered to members, the provider's investment and fund performance report and the payment schedule for such arrangements.
Pensions accounting and auditing standards	Understanding of the Accounts and Audit Regulations and legislative requirements relating to internal controls and proper accounting practice.
	Understanding of the role of both internal and external audit in the governance and assurance process.
	An understanding of the role played by third party assurance providers.
Pensions services procurement and relationship	Understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision makers and organisations.
management	A general understanding of the main public procurement requirements of UK and EU legislation.
	Understanding of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties.
	An understanding of how the pension fund monitors and manages the performance of their outsourced providers.
Investment performance and risk	Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.
management	Awareness of the Myners principles of performance management and the approach adopted by the administering authority.
	Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.

Financial markets and products knowledge	Understanding of the risk and return characteristics of the main asset classes (equities, bonds, property).		
	Understanding of the role of these asset classes in long-term pension fund investing.		
	Understanding of the primary importance of the investment strategy decision.		
	A broad understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks.		
	An understanding of the limits placed by regulation on the investment activities of local government pension funds.		
	An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to investments.		
Actuarial methods,	A general understanding of the role of the fund actuary.		
standards and practices	Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and inter-valuation monitoring.		
	Awareness of the importance of monitoring early and ill health retirement strain costs.		
	A broad understanding of the implications of including new employers into the fund and of the cessation of existing employers.		
	A general understanding of the relevant considerations in relation to outsourcings and bulk transfers.		
	A general understanding of the importance of the employer covenant and the relative strengths of the covenant across the fund employers.		

# 5. Framework Status, Reporting and Compliance

### **DEVELOPMENT AND MAINTENANCE**

- 5.1 This framework has been developed by the CIPFA Pensions Panel with input from technical specialists covering each element of the skills matrix.
- 5.2 As noted in chapter 1, it is the professional responsibility of the section 151 officer (or other named officer as appropriate) to establish and maintain policies and arrangements for acquiring and retaining knowledge and skills to support their pension board members. This professional requirement is in line with the requirement set out in paragraph 38 of the Pensions Regulator's *Code of Practice No 14*. This framework is set down as good practice, in line with the previous CIPFA *Pensions Finance Knowledge and Skills Frameworks*, and is intended to assist practitioners in meeting their responsibilities under the CIPFA *Code of Practice on Public Sector Pensions Finance Knowledge and Skills* (2013), particularly principle 4.
- **5.3** The Pensions Panel is committed to maintaining and developing the framework as knowledge and skills requirements change over time. Any changes to the framework will go through the same process of expert review and user testing.

### **REPORTING AND COMPLIANCE**

- 5.4 Statement 5 of the "statements to be adopted" in the CIPFA *Code of Practice on Public Sector Pensions Finance Knowledge and Skills* requires funds to report annually in their pension scheme annual reports on:
  - how the knowledge and skills framework has been applied
  - what assessment of training needs has been undertaken
  - what training has been delivered against the identified training needs.

5.5 CIPFA recognises that in some cases members could be appointed to pension boards with little or no prior pensions knowledge. The chief officers and the chair should bear in mind the legal requirements as set out in the Pensions Regulator's *Code of Practice No* 14<sup>10</sup> and have in place a plan that includes pre-induction training, leading into a fuller induction programme.

These factors should be reflected in the training needs assessment and the delivery of training statement in the annual report.

5.6 Again, the CIPFA *Code of Practice on Public Sector Pensions Finance Knowledge and Skills* requirements are aligned with the guidance of the Pensions Regulator, whose *Code of Practice No 14* says this on the subject of demonstrating knowledge and understanding:

'Schemes should keep appropriate records of the learning activities of individual pension board members and the board as a whole. This will help pension board members to demonstrate steps they have taken to comply with legal requirements and how they have mitigated risks associated with knowledge gaps. A good external learning programme will maintain records of the learning activities of individuals on the programme or of group activities, if these have taken place.'

5.7 The Pension Regulator's policy and approach to compliance is set out in its *Compliance and Enforcement Policy for Public Service Pension Schemes* (2015)<sup>11</sup>.

Practitioners should familiarise themselves with this policy statement.

10. Paragraphs 34 to 36 of the Pensions Regulator's Code of Practice 14 state that:

'A member of the pension board of a public service pension scheme must be conversant with:

- the rules of the scheme, and
- any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme.

A member of a pension board must have knowledge and understanding of:

- the law relating to pensions, and
- any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the pension board.'

11. www.thepensionsregulator.gov.uk/docs/compliance-policy-public-service-pension.pdf

# 6. Achieving Framework Standards – Training and Support

- **6.1** To achieve the standards set down in the framework, organisations should as a first step consider undertaking a training needs assessment against the framework standards and developing appropriate training programmes.
- **6.2** The varied nature of training and the need to demonstrate continuous improvement in governance, places a high level of priority on forward planning through a business plan and a related training and development plan.
- **6.3** CIPFA working with Barnett Waddingham offer bespoke assessment, training, support and monitoring programmes for local pension boards and their members which are built around the requirements of this framework. This includes the following elements which can be taken as a whole or in part:
  - Assessment and planning
    - Individual local pension board member knowledge, understanding and skills assessment.
    - Training plan/programme development.
  - Training
    - Pre-appointment and induction training.
    - Initial area specific training such as: pensions legislation and guidance; policies, procedures and working arrangements; overriding legislation and interacting statutory organisations; and investments and funding.
    - Ongoing and subject specific training such as regulatory changes and triennial valuations.
    - Annual refresher training and updates.
    - Member requested training.
    - Bespoke and open courses aimed at retention of knowledge and development of best practice.

#### Support and mentoring

- Ongoing local pension board member mentoring, coaching and support.
- BWebstream document access and storage system.
- Training and support materials.
- Monitoring and reporting
  - Ongoing individual local pension board member assessment.

- Monitoring local pension board member training and development, attendance and progress, maintaining records and reporting.
- 6.4 Please contact Annemarie Allen at Barnett Waddingham on 020 7776 3873 or via annemarie.allen@barnett-waddingham.co.uk or Nigel Keogh at CIPFA on 01204 592311 or via nigel.keogh@cipfa.org to discuss your requirements in the first instance.

# 7. Further Reading and Sources of Guidance

## **FROM CIPFA**

Preparing the Annual Report: Guidance for Local Government Pension Scheme Funds (2014)

The Role of the Chief Financial Officer in the Local Government Pension Scheme (2014)

Code of Practice on Public Sector Pensions Finance Knowledge and Skills (2013)

*Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom* (2012)

Preparing and Maintaining a Funding Strategy Statement in the Local Government Pension Scheme (2012)

Managing Risk in the Local Government Pension Scheme (2012)

*Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012* (2012)

Buying Time: A CIPFA Pensions Panel Guide to Procuring Efficiency in Public Sector Pensions Administration (2011)

CIPFA Pensions Panel Guide to Stock Lending by Local Authority Pension Funds (2011)

CIPFA Pensions Panel Guide to Pension Fund Taxation in the United Kingdom (2011)

Narrative Reporting in Public Sector Pension Schemes (2010)

Delivering Good Governance in Local Government Pension Funds: A Guide to the Application of the CIPFA/SOLACE Code of Corporate Governance in Local Authorities to their Management of LGPS Funds (2009)

Guidance for Chief Finance Officers Administering LGPS Actuarial Valuations (2008)

CIPFA Pensions Panel: Weighing Up Risk Against Reward: An Introductory Guide to Asset-Liability Studies for Local Government Pension Funds (2007)

CIPFA Pensions Panel: Freedom of Information Act – Dealing with Requests for Information Relating to Local Authority Pension Funds (2006)

### **OTHER SOURCES**

*Code of Practice No. 14: Governance and Administration of Public Service Pension Schemes* (The Pensions Regulator, 2015)

*Compliance and Enforcement Policy for Public Service Pension Schemes* (The Pensions Regulator, 2015)

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The Pensions Regulator also publishes a range of other helpful materials at www.thepensionsregulator.gov.uk/public-service-schemes.aspx

Local Government Pension Scheme (LGPS) – Guidance on the Creation and Operation of Local Pension Boards in England and Wales (Shadow Scheme Advisory Board, 2015)

### **OTHER TRAINING AND SUPPORT**

The CIPFA Pensions Network provides a range of seminars built around the themes in the *Pensions Finance Knowledge and Skills Frameworks*.

The Pensions Regulator also has an online "Public Service toolkit" available at www.thepensionsregulator.gov.uk/public-service-schemes.aspx

# Annex A – Knowledge and Skills Responsibilities under the Pensions Regulator Code of Practice No 14

Where do knowledge and understanding responsibilities restNature of requirementunder the Code of Practice No 14?					
Pension board member	Scheme manager				
Legal requirements					
Must be conversant with:		Statutory			
the rules of the scheme					
<ul> <li>any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme.</li> </ul>					
Must have knowledge and understanding of:		Statutory			
the law relating to pensions					
<ul> <li>any other matters which are prescribed in regulations.</li> </ul>					
Should ensure that the degree of knowledge and understanding they possess is that appropriate for the purposes of enabling them to properly exercise the functions of a member of the pension board.		Statutory			
Practical guidance					
	Should help pension board members meet their legal obligations.	Code of Practice (paragraph 37)			
	Should establish and maintain policies and arrangements for acquiring and retaining knowledge and understanding to support their pension board members.	Code of Practice (paragraph 38)			

Where do knowledge and understa under the Code of Practice No 14?	Nature of requirement	
Pension board member	Scheme manager	
	Should designate a person to take responsibility for ensuring that a framework for acquiring and retaining knowledge and skills is developed and implemented.	Code of Practice (paragraph 38)
Areas of knowledge and understar	nding required	
	Should prepare and keep an updated list of the documents with which they consider pension board members need to be conversant. This will enable them to effectively carry out their role. They should make sure that both the list and the documents are available in accessible formats.	Code of Practice (paragraph 46)
Degree of knowledge and understa	anding required	
	Clear guidance on the roles, responsibilities and duties of pension boards and the members of those boards should be set out in scheme documentation.	Code of practice (paragraph 47)
	Should assist individual pension board members to determine the degree of knowledge and understanding that is sufficient for them to effectively carry out their role, responsibilities and duties as a pension board member.	Code of Practice (paragraph 48)
Acquiring, reviewing and updating	g knowledge and understanding	
Should invest sufficient time in their learning and development alongside their other responsibilities and duties.	Should provide pension board members with the relevant training and support that they require.	Code of Practice (paragraph 55)
Newly appointed pension board members should be aware that their responsibilities and duties as a pension board member begin from the date they take up their post.	Should offer pre-appointment training or arrange for mentoring by existing pension board members	Code of Practice (paragraph 56)

Where do knowledge and understanding responsibilities rest Nature of requirement under the Code of Practice No 14?					
Pension board member	Scheme manager				
Should undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses.		Code of Practice (paragraph 57)			
Should use a personalised training plan to document training needs.		Code of Practice (paragraph 57)			
Pension board members who take on new responsibilities will need to ensure that they gain appropriate knowledge and understanding relevant to carrying out those new responsibilities.		Code of Practice (paragraph 58)			
	<ul> <li>Learning programmes should:</li> <li>cover the type and degree of knowledge and understanding required</li> <li>reflect the legal requirements</li> </ul>	Code of Practice (paragraph 58)			
	<ul> <li>be delivered within an appropriate timescale.</li> </ul>				
Demonstrating knowledge and ur	nderstanding				
	Should keep appropriate records of the learning activities of individual pension board members and the board as a whole.	Code of Practice (paragraph 59)			

# Annex B – Suggested Job Description and Role Profile for the Chair of a Pensions Board

#### **PURPOSE OF ROLE**

To lead the pensions board in assisting the scheme manager in complying with legislation relating to the governance and administration of the scheme and any requirements imposed by the Pensions Regulator in relation to the scheme; and to ensure the effective and efficient governance and administration of the scheme.

### PRINCIPAL RESPONSIBILITIES

- Ensure the board delivers its purpose as set out in the board's terms of reference.
- Prepare for and attend the local pension board meetings, agree the meeting agendas and approve the minutes.
- Scrutinise local pension board papers, lead discussions and provide advice and guidance to the board.
- Ensure that meetings are productive and effective and that opportunity is provided for the views of all board members to be expressed and considered.
- Seek to reach consensus and ensure decisions are properly put to a vote.
- Liaise with the scheme manager on the requirements of the board, including training requirements, budgeting and meeting dates, and lead on resolving member performance issues.
- Write reports required by the scheme manager on the performance of the board and related matters.
- Act as the principal point of contact with the Pensions Regulator, the Scheme Advisory Board and the responsible authority (eg DCLG) in all matters related to the operation of the board.

### **PERSON SPECIFICATION**

Requirement	Essential	Desirable
1. Educational		Appropriate financial experience and training.
		Knowledge of pension funds and schemes.
		Demonstrable evidence of knowledge kept up-to-date.
2. Work experience	Chairing meetings, achieving effective outcomes.	Previously chaired a board or similar.
	Experience of risk and performance frameworks.	
3. Abilities, intelligence	Chairing skills.	Mathematical/statistical
and special aptitudes	Influencing and consensus building.	literacy.
	Listening skills.	Knowledge of public sector and local government finance.
	Able to assimilate complex information.	
4. Adjustment and social skills	Able to establish good working relationships with board members, councillors, officers and advisors.	Diplomacy and tact.
	Able to direct discussions in politically sensitive environments.	
	Able to command respect and demonstrate strong leadership.	
	Able to achieve consensus when conflicting views arise.	
	Able to challenge in a constructive manner.	
	Assertive in pursuing the correct course of action.	
	Able to work effectively with colleagues who may have different levels of experience and understanding.	
5. Motivation	Enthusiastic, not easily deterred and able to convey enthusiasm to others.	
	Committed to the objectives of the pension scheme and fund(s).	
6. Equal opportunities	Understanding of and commitment to promoting equality of opportunity with an understanding of the pension context.	

# Annex C – LGPS Governance Regulations 2014

#### PART 3

#### Governance

#### Delegation

**105.**—(1) The Secretary of State may delegate any function under these Regulations.

(2) An administering authority may delegate any function under these Regulations including this power to delegate.

#### Local pension boards: establishment

**106.**—(1) Each administering authority shall no later than 1st April 2015 establish a pension board ("a local pension board") responsible for assisting it—

- (a) to secure compliance with—
  - (i) these Regulations,
  - (ii) any other legislation relating to the governance and administration of the Scheme and any connected scheme<sup>(a)</sup>, and
  - *(iii) any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme; and*
- (b) to ensure the effective and efficient governance and administration of the Scheme and any connected scheme.
- (2) Where the Scheme manager is a committee of a local authority the local pension board may be the same committee if approval in writing has been obtained from the Secretary of State.
- (3) Where the administration and management of a Scheme is wholly or mainly shared by two or more administering authorities, those administering authorities may establish a joint local pension board if approval in writing has been obtained from the Secretary of State.
- (4) Approval under paragraphs (2) or (3) may be given subject to such conditions as the Secretary of State thinks fit.
- (5) The Secretary of State may withdraw an approval if any conditions under paragraph (4) are not met or if in the opinion of the Secretary of State it is no longer appropriate for the approval to continue.
- (a) See section 4(6) of the Public Service Pensions Act 2013 for the definition of connected scheme.

- (6) Subject to paragraph (7), an administering authority may determine the procedures applicable to a local pension board, including as to the establishment of subcommittees, formation of joint committees and payment of expenses.
- (7) Except where a local pension board is a committee approved under paragraph (2), no member of a local pension board shall have a right to vote on any question unless that member is an employer representative or a member representative<sup>(b)</sup>.
- (8) A local pension board shall have the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.
- (9) The expenses of a local pension board are to be regarded as part of the costs of administration of the fund held by the administering authority.

#### Local pension boards: membership

**107.**—(1) Subject to this regulation each administering authority shall determine—

- (a) the membership of the local pension board;
- *(b) the manner in which members of the local pension board may be appointed and removed;*
- (c) the terms of appointment of members of the local pension board.
- (2) An administering authority must appoint to the local pension board an equal number, which is no less than 4 in total, of employer representatives and member representatives and for these purposes the administering authority must be satisfied that—
  - (a) a person to be appointed to the local pension board as an employer representative has the capacity to represent employers; and
  - (b) a person to be appointed to the local pension board as a member representative has the capacity to represent members.
- (3) Except where a local pension board is a committee approved under regulation 106(2) (committee that is a Scheme manager is also local pension board)—
  - (a) no officer or elected member of an administering authority who is responsible for the discharge of any function under these Regulations (apart from any function relating to local pension boards or the Local Government Pension Scheme Advisory Board) may be a member of the local pension board of that authority; and
  - (b) any elected member of the administering authority who is a member of the local pension board must be appointed as either an employer representative or a member representative.
- (4) Where a local pension board is a committee approved under regulation 106(2)

(committee that is a Scheme manager is also local pension board) the administering authority must designate an equal number which is no less than 4 in total of the members of that committee as employer representatives and member representatives and for these purposes the administering authority must be satisfied that—

- (a) a person to be designated as an employer representative has the capacity to represent employers; and
- (b) See section 5(6) of the Public Service Pensions Act 2013 for definitions of these terms.

(b) a person to be designated as a member representative has the capacity to represent members.

#### Local pension boards: conflict of interest

**108.**—(1) Each administering authority must be satisfied that any person to be appointed as a member of a local pension board does not have a conflict of interest<sup>(a)</sup>.

- (2) An administering authority must be satisfied from time to time that none of the members of a local pension board has a conflict of interest.
- (3) A person who is to be appointed as a member of a local pension board by an administering authority must provide that authority with such information as the authority reasonably requires for the purposes of paragraph (1).
- (4) A person who is a member of a local pension board must provide the administering authority which made the appointment with such information as that authority reasonably requires for the purposes of paragraph (2).

#### Local pension boards: guidance

**109.** An administering authority must have regard to guidance issued by the Secretary of State in relation to local pension boards.

Source: The Local Government Pension Scheme (Amendment) (Governance) Regulations 2015

(a) See section 5(5) of the Public Service Pensions Act 2013 for the meaning of "conflict of interest".

# Annex D – Example of Competency Self-assessment Matrix

# Local Pension Boards: A Technical Knowledge and Skills Framework: Learning needs analysis and training requirements

Learning needs analysis		Training requirements and pla	n
Do I possess?	<b>Rate my skills</b> 1 – no knowledge 5 – highly skilled	Training requirements	Training plan (sources and timing)
1 – Pensions legislation			
A general understanding of the pensions legislative framework in the UK.	1 2 3 4 5		
An overall understanding of the legislation and statutory guidance specific to the scheme and the main features relating to benefits, administration and investment.	12345		
An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.	12345		
A regularly updated appreciation of the latest changes to the scheme rules.	1 2 3 4 5		
2 – Pensions governance			
Knowledge of the role of the administering authority in relation to the LGPS.	1 2 3 4 5		
An understanding of how the roles and powers of the DCLG, the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.	1 2 3 4 5		

	Learning needs analysis		Training requirements and plan	
	Do I possess?	<b>Rate my skills</b> 1 – no knowledge 5 – highly skilled	Training requirements	Training plan (sources and timing)
	Knowledge of the role of the Scheme Advisory Board and how it interacts with other bodies in the governance structure.	12345		
	A broad understanding of the role of pension fund committees in relation to the fund, the administering authority, employing authorities, scheme members and taxpayers.	12345		
je 6	An awareness of the role and statutory responsibilities of the treasurer and monitoring officer.	12345		
of 316	Knowledge of the Myners principles and associated CIPFA and SOLACE guidance.	1 2 3 4 5		
_	A detailed knowledge of the duties and responsibilities of pension board members.	1 2 3 4 5		
_	Knowledge of the stakeholders of the pension fund and the nature of their interests.	1 2 3 4 5		
	Knowledge of consultation, communication and involvement options relevant to the stakeholders.	1 2 3 4 5		
	Knowledge of how pension fund management risk is monitored and managed.	1 2 3 4 5		
	An understanding of how conflicts of interest are identified and managed.	1 2 3 4 5		
	An understanding of how breaches in law are reported.	1 2 3 4 5		

	Learning needs analysis		Training requirements and plan	
	Do I possess?	<b>Rate my skills</b> 1 – no knowledge 5 – highly skilled	Training requirements	Training plan (sources and timing)
	3 – Pensions administration			
	An understanding of best practice in pensions administration eg performance and cost measures.	1 2 3 4 5		
	Understanding of the required and adopted scheme policies and procedures relating to:	1 2 3 4 5		
	member data maintenance and record-keeping processes			
Pa	internal dispute resolution			
Page 62	contributions collection			
	scheme communication and materials.			
of 31	Knowledge of how discretionary powers operate.	1 2 3 4 5		
16	Knowledge of the pensions administration strategy and delivery (including, where applicable, the use of third party suppliers, their selection, performance management and assurance processes).	1 2 3 4 5		
	An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to benefits administration.	1 2 3 4 5		

	Learning needs analysis		Training requirements and plan	
	Do I possess?	<b>Rate my skills</b> 1 – no knowledge 5 – highly skilled	Training requirements	Training plan (sources and timing)
	An understanding of what AVC arrangements exist and the principles relating to the operation of those arrangements, the choice of investments to be offered to members, the provider's investment and fund performance report and the payment schedule for such arrangements.	12345		
_	4 – Pensions accounting and auditing standards			
Page 63 of 316	An understanding of the Accounts and Audit Regulations and legislative requirements relating to internal controls and proper accounting practice.	12345		
2	An understanding of the role of both internal and external audit in the governance and assurance process.	12345		
	An understanding of the role played by third party assurance providers.	1 2 3 4 5		
	5 – Pensions services procurement and relations	hip management		
	An understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision-makers and organisations.	12345		

	Learning needs analysis		Training requirements and pl	an
	Do I possess?	<b>Rate my skills</b> 1 – no knowledge 5 – highly skilled	Training requirements	Training plan (sources and timing)
	A general understanding of the main public procurement requirements of UK and EU legislation.	1 2 3 4 5		
	An understanding of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties.	12345		
	An understanding of how the pension fund monitors and manages the performance of their outsourced providers.	1 2 3 4 5		
,	6 – Investment performance and risk manageme	nt		
	An understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.	12345		
	An awareness of the Myners principles of performance management and the approach adopted by the administering authority.	12345		
	Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.	12345		

	Learning needs analysis		Training requirements and plan	
	Do I possess?	<b>Rate my skills</b> 1 – no knowledge 5 – highly skilled	Training requirements	Training plan (sources and timing)
	7 – Financial markets and products knowledge			
Page 65	An understanding of the risk and return characteristics of the main asset classes (equities, bonds, property etc).	12345		
	An understanding of the role of these asset classes in long-term pension fund investing.	1 2 3 4 5		
	An understanding of the primary importance of the fund's statement of investment principles and the investment strategy decision.	12345		
5 of 316	A broad understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks.	12345		
	An understanding of the limits placed by regulation on the investment activities of local government pension funds.	1 2 3 4 5		
	An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to investments.	12345		

Learning needs analysis		Training requirements and plan			
Do I possess?	<b>Rate my skills</b> 1 – no knowledge 5 – highly skilled	Training requirements	Training plan (sources and timing)		
8 – Actuarial methods, standards and practices					
A general understanding of the role of the fund actuary.	1 2 3 4 5				
Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and inter-valuation monitoring.	12345				
An awareness of the importance of monitoring early and ill health retirement strain costs.	1 2 3 4 5				
A broad understanding of the implications of including new employers into the fund and of the cessation of existing employers.	1 2 3 4 5				
A general understanding of the relevant considerations in relation to outsourcings and bulk transfers.	1 2 3 4 5				
A general understanding of the importance of the employer covenant and the relative strengths of the covenant across the fund employers.	1 2 3 4 5				



#### **Registered office:**

77 Mansell Street, London E1 8AM

T: +44 (0)20 7543 5600 F: +44 (0)20 7543 570

www.cipfa.org

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Code of Practice on

# public sector pensions finance knowledge and skills

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**CIPFA**, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

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## Acknowledgements

This Code of Practice has been developed by the CIPFA Pensions Panel, supported by Nigel Keogh (CIPFA pensions technical manager).

The current members of the Pensions Panel are:

Bob Summers (Chairman) – Treasurer, Norfolk Police Authority

Ian Coleman – Wirral Council

Terry Crossley – Department for Communities and Local Government

Paul Dale – London Borough of Bromley

Geoff Dobson – Suffolk County Council

Terry Edwards – Local Government Group/Local Government Pensions Committee

John Hattersley – South Yorkshire Pension Fund

Nicola Mark – Norfolk Pension Fund

Paul Mayers – Audit Commission

Richard McIndoe – Glasgow Council

Graeme Russell – Torfaen County Borough Council

Trevor Salmon – NILGOSC

Peter Tait – Audit Scotland

Mike Taylor – London Pension Funds Authority

John Wright – Hymans Robertson

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### Purpose

All public sector organisations charged with the financial management of pension schemes will be aware of the growing complexity of pension schemes. Pension scheme financial management in the public sector demands appropriate skills, including a knowledge of financial markets and products, financial services procurement, pensions accounting and auditing, actuarial practices, investment performance and risk management, and the implications of legal and regulatory requirements.

Every public sector organisation should secure appropriate training, having assessed the professional competence of both those involved in pension scheme financial management and those with a policy, management and/or oversight role.

Public sector organisations should also ensure that those charged with pension scheme governance, including audit committees and relevant scrutiny groups, have access to the skills and knowledge they require to carry out this role effectively.

CIPFA has produced this Code of Practice to put these requirements into a formal structure for public sector pension schemes.

## Background

The Pensions Finance Knowledge and Skills Framework – Technical Guidance for Pensions Practitioners in the Public Sector, and Technical Guidance for Elected Representatives and Non-executive Members in the Public Sector (the frameworks), published in January 2010, were launched as good practice guidance and were intended to have persuasive rather than mandatory force.

We hoped that organisations would voluntarily adopt the guidance as a useful tool in identifying the knowledge and skills levels and development needs of practitioners and members of their decision-making bodies.

We recommended that, as demonstration of good practice, users of the frameworks make a voluntary disclosure in their pension scheme annual reports that covers:

- how the frameworks have been applied
- what assessment of training needs has been undertaken
- what training has been delivered against the identified training needs.

In response to user requests and as part of the ongoing development of the frameworks, CIPFA prepared an interim compliance statement that all public sector pension schemes were encouraged to include within their annual reports. The statement asked schemes to detail their approach to, and activities in respect of, the acquisition and maintenance of pension finance knowledge and skills of those involved in the financial management and decisionmaking of public sector pension schemes. In this compliance statement, CIPFA set out its intention to work towards formalising the requirements set out in the statement as a Code of Practice.

The launch of this Code of Practice is timely. In the final report of the Independent Public Service Pensions Commission (March 2011), Lord Hutton recommended that "every public service pension scheme (and individual LGPS Fund) should have a properly constituted, trained and competent Pension Board".

Consequently the case for a Code of Practice which embeds the requirements for the acquisition, retention and maintenance of appropriate knowledge and skills has never been stronger.

### Status

In the local government sector, Local Government Pension Scheme (LGPS) fund administering authorities are required to report on a 'comply or explain' basis their adoption of, and compliance with, *Investment Decision-Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles* (2009). The first of these principles, Effective Decision-making, requires LGPS funds to ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation, and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

This Code of Practice represents a key element in complying with this principle and is intended to complement the Myners requirements for knowledge and skills in decisionmakers.

This Code of Practice has also been developed to work in conjunction with other Institute codes and statements, in particular the two key CIPFA statements on the role of the chief financial officer (CFO).

These statements set out several overriding principles which are relevant to this Code of Practice, and which are directed at CFOs. They are that the CFO must:

- lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively
- lead and direct a finance function that is resourced to be fit for purpose (principles 3 and 4 of *The Role of the Chief Financial Officer in Public Service Organisations*)
- support and advise democratically elected representatives
- support and advise officers in their operational roles
- maintain strong financial management underpinned by effective financial controls.

(Extracts from the The Role of the Chief Financial Officer in Local Government.)

Where this Code of Practice sets out particular requirements for chief financial officers, these should be seen in the context of the above principles.

# Support for the Code of Practice

In preparing this Code of Practice, CIPFA regards it as essential that there be broad-based support for its recommendations.

Consequently the Institute has consulted widely with organisations with regulatory, professional and practitioner level responsibilities in the sphere of public sector pensions financial management.

The following organisations have fully endorsed the Code of Practice:

- Local Government Pensions Committee (Local Government Group)
- Society of County Treasurers
- Society of Welsh Treasurers
- South Yorkshire Pensions Authority
- Merseyside Pension Fund.

The CIPFA Pensions Panel is also grateful to the Department for Communities and Local Government for their support for this Code of Practice.

The Code applies to all organisations that have adopted it as part of their standing orders, financial regulations or other formal policy documents appropriate to their circumstances.

CIPFA recognises that some organisations may not find the proposed form of wording to be precisely suitable to their circumstances. In such cases, organisations may, where justified, make alterations to the recommended wording without adversely affecting their stated adoption of the statement, provided that, when taken as a whole, any such changes do not materially deviate from the key aims and principles of the Code of Practice.

Nothing in this Code of Practice overrides or should be taken as overriding any statutory provision or requirement. Nor does the Code make intra vires anything that is otherwise ultra vires.

# **Key principles**

The Code of Practice is underpinned by four key principles:

- 1 Organisations responsible for the financial administration of public sector pension schemes recognise that effective financial management, decision-making and other aspects of the financial administration of public sector pension schemes can only be achieved where those involved have the requisite knowledge and skills.
- 2 Organisations have in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision-making.
- 3 The associated policies and practices are guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.
- 4 The organisation has designated a named individual to be responsible for ensuring that policies are implemented.

CIPFA acknowledges that no two organisations in the public sector are likely to interpret these principles in precisely the same way. Therefore, in framing the principles, CIPFA does not seek to be prescriptive about how they might be implemented in practice.

## Statements to be adopted

CIPFA recommends that all organisations responsible for the financial management of public sector pension schemes adopt, as part of their standing orders, financial regulations or other formal policy documents appropriate to their circumstances, the following statement:

- <sup>1</sup> This organisation adopts the key recommendations of *the Code of Practice on Public* Sector Pensions Finance Knowledge and Skills.
- 2 This organisation recognises that effective financial administration and decisionmaking<sup>1</sup> can only be achieved where those involved have the requisite knowledge and skills.
- 3 Accordingly this organisation will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision-making.
- 4 These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.
- 5 This organisation will report on an annual basis how these policies have been put into practice throughout the financial year.
- 6 This organisation has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to [*insert position of officer*<sup>2</sup>], who will act in accordance with the organisation's policy statement, and, where he/she is a CIPFA member, with *CIPFA Standards of Professional Practice* (where relevant).'

<sup>1.</sup> In this context, decision-makers are those with executive authority serving on governing bodies: boards, pensions committees, investment committees, etc.

<sup>2.</sup> The officer in question should be the senior officer responsible for the financial administration of the pension scheme. In the case of the LGPS, this would usually be the chief financial officer; in the NHS (for example) it would be the accounting officer.

# The knowledge and skills policy statement to be adopted

CIPFA recommends that an organisation's knowledge and skills policy statement (referred to in paragraph 3, page 11) adopt the following form of words (or similar):

- '1 This organisation recognises the importance of ensuring that all staff and members charged with the financial administration and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.
- 2 It therefore seeks to utilise individuals who are both capable and experienced and it will provide/arrange training for staff and members of the pensions decision-making bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.'

# **Application guidance**

This Code of Practice is intended to be used in conjunction with the Pensions Finance Knowledge and Skills Framework – Technical Guidance for Elected Representatives and Non-executive Members in the Public Sector and the Pensions Finance Knowledge and Skills Framework – Technical Guidance for Pensions Practitioners in the Public Sector, the first versions of which were published by CIPFA in January 2010 and which will be updated from time to time as required.

These frameworks attempt to determine what constitutes the right skill set for those in the organisation responsible for pension scheme financial administration and decision-making.

The frameworks are intended to have two primary uses:

- as a tool for organisations to determine whether they have the right skill mix to meet their pension scheme financial management needs
- as an assessment tool for individuals to measure their progress and plan their development.

Not all schemes will demand that their financial managers and decision-makers possess the full range of technical skills and knowledge outlined in the frameworks. However the frameworks are designed so that organisations and individuals can tailor them to their own particular circumstances. Users are therefore strongly encouraged to adapt the frameworks as necessary to meet their own requirements.

In applying the frameworks, there are a range of training courses and materials available to practitioners, such as the *CIPFA/Hymans Robertson Knowledge and Skills Framework Toolkit* (www.knowledgeandskillstoolkit.com), the Local Government Group's LGPS Fundamentals courses and the CIPFA Pensions Network, as well as a range of other training events.

# Further reading and sources of guidance

#### PUBLICATIONS

Pensions Finance Knowledge and Skills Framework – Technical Guidance for Elected Representatives and Non-executive Members in the Public Sector (CIPFA, 2010)

Pensions Finance Knowledge and Skills Framework – Technical Guidance for Pensions Practitioners in the Public Sector (CIPFA, 2010)

Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles (CIPFA, 2009)

Delivering Good Governance in Local Government Pension Funds: A Guide to the Application of the CIPFA/SOLACE Code of Corporate Governance in Local Authorities to their Management of LGPS Funds (CIPFA, 2009)

All of the above are available to purchase from the CIPFA online shop at www.cipfa.org.uk/shop

The following are available as free downloads from the CIPFA website:

*CIPFA Statement on the Role of the Chief Financial Officer in Local Government* (2010) at www.cipfa.org.uk/panels/corporate\_governance

*CIPFA Statement on the Role of the Chief Financial Officer in Public Service Organisations* (2010) at www.cipfa.org.uk/panels/finance\_director

CIPFA Standards of Professional Practice (SoPPs) (2002) at www.cipfa.org.uk/conduct

The CIPFA Statement of Expertise at www.cipfa.org.uk/members

#### **ONLINE RESOURCES**

To support the implementation of the Knowledge and Skills Frameworks, CIPFA, in partnership with Hymans Robertson, has developed an online toolkit which includes:

- Training needs analysis (TNA) to measure skills and knowledge across the full range of CIPFA competencies. There are two versions of the TNA: one for practitioners and one for elected representatives. Sample questions can be viewed at www.knowledgeandskillstoolkit.com/documents/tna%20sample.pdf
- A knowledge library, which provides a valuable one-stop resource for elected representatives and practitioners, for pension funds who would like cost-effective, easy access to relevant and up-to-date material. Sample content of the knowledge library can be viewed at www.knowledgeandskillstoolkit.com/documents/library%20sample.pdf

The toolkit is a subscription service. More information can be found at www.knowledgeandskillstoolkit.com

#### TRAINING AND SUPPORT

The CIPFA Pensions Network (www.cipfanetworks.net/pensions) provides a range of seminars built around the themes in the Knowledge and Skills Frameworks, as well as tailored training for organisations.

The Local Government Pensions Committee runs training events for pension practitioners, elected members and employing authorities. Further details can be found at www.lge.gov.uk/lge/core/page.do?pageId=119624.



#### CAMBRIDGESHIRE PENSION FUND



#### **Pension Fund Board**

Date: 21 October 2015

#### **Report by:** Deputy Head of Pensions

Subject:	Reporting Breaches of the Law to the Pensions Regulator Policy	
Purpose of the	To present the Reporting Breaches of the Law to the Pensions	
Report	Regulator Policy to the Pension Fund Board.	
Recommendations	The Board are asked to review the attached Reporting Breaches of the Law to the Pensions Regulator Policy provided in the appendix to this report.	
Enquiries to:	Name – Joanne Walton – LGSS Pensions Governance and Regulations Manager Tel – 01604 367030 E-mail – jwalton@northamptonshire.gov.uk	

#### 1. Background

- 1.1 In line with the Pensions Regulator's Code of Practice number 14 (Governance and administration of public service pension schemes); the Fund has developed a policy that sets out the mechanism for reporting breaches of the law.
- 1.2 The policy ensures that those with a responsibility to report breaches of the law are able to meet their legal obligations, by analysing situations effectively in order to make an informed decision on whether a breach has been made.
- 1.3 As the Pension Fund Board does not have decision making powers the Board is not able to approve this policy. The Pension Committee will be approving this Policy at their meeting on 22 October 2015. The Pension Fund Board can make recommendations for improvement to this Policy which will be fed back to the Pension Committee for consideration.

#### 2. The Pensions Regulator Code of Practice

- 2.1 The Code of Practice identifies those individuals responsible for reporting breaches of the law and the associated legal requirements
- 2.2 The policy provides the process to report a breach to the Regulator and details surrounding timescales and urgency of cases.
- 2.3 The policy also identifies the need to record breaches that are not significant to the Regulator in order that processes can be improved to avoid repeated occurrences.

2.4 Examples of breaches of significance and non significance are documented in the appendix of the report, the purpose is to put into context the policy and when it may need to be enforced. Individuals will need to apply the principles of the policy when acting on reasonable cause to report a breach.

#### 3. Relevant Pension Fund Objectives

Perspective	Outcome
Communications	<ul> <li>Promote the Scheme as a valuable benefit.</li> <li>Deliver a clear and consistent message; that is simple, relevant and impactful, uses plain English throughout and engages all levels of stakeholders' understanding.</li> <li>Provide clear information about the Scheme, including changes to the Scheme, and educate and engage with members so that they can make informed decisions about their benefits.</li> </ul>
	<ul> <li>Seek and review regular feedback from all stakeholders about communication and shape future communications appropriately.</li> </ul>
	<ul> <li>Look for efficiencies in delivering communications including through greater use of technology and partnership working.</li> </ul>
Administration	<ul> <li>Provide a high quality, friendly and informative administration service to the Funds' stakeholders.</li> </ul>
	<ul> <li>Administer the Funds in a cost effective and efficient manner utilising technology.</li> </ul>
	<ul> <li>Ensure the Funds and its stakeholders are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Funds.</li> </ul>
	<ul> <li>Put in place standards for the Fund and its employers and ensure these standards are monitored and developed as necessary.</li> </ul>
	<ul> <li>Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount.</li> </ul>
	<ul> <li>Maintain accurate records and ensure data is protected and has authorised use only.</li> </ul>
	<ul> <li>Understand the issues affecting scheme employers and the LGPS in the local and national context and adapt strategy and practice in response to this.</li> </ul>

Funding and Investment	•	To ensure that the Fund is able to meet its liabilities for pensions and other benefits with the minimum, stable level of employer contributions.
	•	To ensure that sufficient resources are available to meet all liabilities as they fall due.
	•	To maximise the returns from its investments within reasonable risk parameters.
Governance	•	To have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.
	•	Ensure the Fund and its stakeholders have the appropriate skills and receive training to ensure those skills are maintained in a changing environment.

#### 4. Finance & Resources Implications

4.1 Resources will need to be prioritised if a breach occurs to ensure compliance with the policy.

#### 5. Risk Implications

a) Risk(s) associated with the proposal

Risk	Mitigation	Residual Risk
There are no risks associated with approving and enforcing the policy as the policy demonstrates our acknowledgement and understanding of the need to report breaches of the law to the Pensions Regulator.		Green

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

Risk	Risk Rating
If the policy is not enforced incidences of breaches of the law may go unreported to the Pensions Regulator. It is better to self report breaches of the law than for other parties such as advisors to the Fund to report identified breaches.	Red

#### 6. Communication Implications

Direct Communications	All individuals who are involved in the administration of the Fund will be advised of their obligations to report breaches of the law and the associated procedure as detailed in the policy.
Website	The policy will be published on the LGSS Pensions Service website.

#### 7. Legal Implications

7.1 Failure to adhere to the policy and to implement effective controls to prevent breaches of the law may result in fines and imprisonment of those charged with responsibility of the Fund.

#### 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 – Reporting Breaches of the Law to the Pensions Regulator 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?	Not applicable		
Has this report been cleared by Deputy Head of Pensions?	Mark Whitby – 18/9/2015		
Has this report been cleared by Legal Services?	Not applicable		

# Reporting Breaches of the Law to the Pensions Regulator Policy 2015



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#### 1. Introduction

- 1.1 This is the Reporting Breaches of the Law to the Pension Regulator Policy of Cambridgeshire Pension Fund and Northamptonshire Pension Fund managed by Cambridgeshire County Council and Northamptonshire County Council respectively (the Administering Authorities).
- 1.2 There are many and various laws relating to the Local Government Pension Scheme, with many and various people having a statutory duty to report material breaches of the law to the Regulator. To assist, the Code states that a procedure should be established to ensure that those with a responsibility to make reports are able to meet their legal obligations. This document is that procedure, which relates to all of the Fund's areas of operation.
- 1.3 In April 2015 the Pensions Regulator (the Regulator) published its Code of Practice no 14 (the Code) Governance and administration of public service pension schemes. The code refers both to statutory duty as well as advisory and practitioners have a duty to follow the code in reporting breaches of the law.

#### 2. Policy Objectives

2.1 The Funds' objectives related to this policy are as follows:

To have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies; and

Ensure the Fund and its stakeholders have the appropriate skills and receive training to ensure those skills are maintained in a changing environment.

#### 3. Purpose of the policy

#### 3.1 The purpose of the policy is to –

Ensure individuals have the correct understanding and necessary skills to be able to identify and report breaches as they arise;

Ensure that stakeholders of the Funds' are given appropriate information in order to understand the consequences of a breach; and

Ensure adequate procedures are in place to fully comply with the Code of Practice.

#### 4. Effective date

4.1 This policy was approved by the Pensions Committee on XX and effective from XX.

#### 5. Review

5.1 This Policy on Reporting Breaches of the law to the Pensions Regulator is expected to be appropriate for the long-term but it will be reviewed annually to ensure it remains accurate and relevant.

#### 6. Scope

- 6.1 The policy applies to:
  - officers of the Funds';
  - members of the Pension Committees';
  - members of the Pension Boards';
  - employers of the Funds'; and
  - professional advisors.

#### 7. Legal Requirements

- 7.1 Individuals (as identified in paragraph 6) are required to report breaches of the law to the Regulator where they have reasonable cause to believe that:
  - a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with; and
  - the failure to comply is likely to be of material significance to the Regulator in the exercise of any of its functions.

#### 8. Reasonable Cause

- 8.1 Having 'reasonable cause' to believe that a breach has occurred means more than merely having a suspicion that cannot be substantiated.
- 8.2 Checks need to be made in order to ensure a breach has occurred and that the report is not made on suspicion alone. If a reporter does not feel they can be 100% certain of a breach it would be prudent to discuss the case with a senior colleague or advisor to the Fund, however if the suspicion is around theft, fraud or other serious offences where discussions may alert the those implicated or impede the actions of

the police or a regulatory authority, the reporter should go to the Regulator directly and at the earliest opportunity.

- 8.3 In establishing whether there is reasonable cause to believe that a breach has occurred, it is not necessary for a reporter to gather all the evidence which the Regulator may require before taking legal action. A delay in reporting may exacerbate or increase the risk of the breach.
- 8.4 If the reporter is unclear about the relevant legal provision, they should clarify their understanding of the law to the extent necessary to form a view.

#### 9. Material Significance

- 9.1 In deciding whether a breach is likely to be of material significance to the Regulator, it would be advisable for the reporter to consider the:
  - cause of the breach;
  - effect of the breach;
  - reaction to the breach; and
  - the wider implications of the breach.
- 9.2 When deciding whether to report, those responsible should consider these points together. Reporters should take into account expert or professional advice, where appropriate, when deciding whether the breach is likely to be of material significance to the Regulator.
- 9.3 When deciding whether a breach is of material significance, those responsible should consider other reported and unreported breaches of which they are aware. However, historical information should be considered with care, particularly if changes have been made to address previously identified problems.
- 9.4 The breach is likely to be of material significance to the Regulator where it was caused by:
  - dishonesty;
  - poor governance or administration;
  - slow or inappropriate decision making practices;
  - incomplete or inaccurate advice; or
  - acting (or failing to act) in deliberate contravention of the law.

- 9.5 Reporters need to consider the effects of any breach, but with the Regulator's role in relation to public service pension schemes and its statutory objectives in mind, the following matters in particular should be considered likely to be of material significance to the Regulator:
  - Pension Committee and Pension Board members not having the appropriate degree of knowledge and understanding, which may result in the Committee/Board not fulfilling its role, the Fund not being properly governed and administered;
  - Pension Committee and Pension Board members having a conflict of interest, which may result in them being prejudiced in the way that they carry out their role;
  - adequate internal controls not being established and operated, which may lead to the Fund not being run in accordance with the Scheme's Regulations and other legal requirements, risks not being properly identified and managed and/or the right money not being paid to or by the Fund at the right time;
  - accurate information about benefits and Scheme administration not being provided to Scheme members and others, which may result in members not being able to effectively plan or make decisions about their retirement;
  - appropriate records not being maintained, which may result in member benefits being calculated incorrectly and/or not being paid to the right person at the right time;
  - anyone involved with the administration or management of the Fund misappropriating any of its assets, or being likely to do so, which may result in assets not being safeguarded; and
  - any other breach which may result in the Fund being poorly governed, managed or administered.
- 9.6 Reporters need to take care to consider the effects of the breach, including any other breaches occurring as a result of the initial breach and the effects of those resulting breaches.
- 9.7 Where prompt and effective action is taken to investigate and correct the breach and its causes and, where appropriate, notify any affected members, the Regulator will not normally consider this to be materially significant.

4.

- 9.8 A breach is likely to be of concern and material significance to the Regulator where a breach has been identified and those involved:
  - do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence;
  - are not pursuing corrective action to a proper conclusion; and
  - fail to notify affected scheme members where it would have been appropriate to do so.
- 9.9 Reporters should consider the wider implications of a breach when they assess which breaches are likely to be materially significant to the Regulator. For example, a breach is likely to be of material significance where the fact that the breach has occurred makes it appear more likely that other breaches will emerge in the future. This may be due to the scheme manager or Pension Committee/Board members having a lack of appropriate knowledge and understanding to fulfil their responsibilities or where other pension schemes may be affected. For instance, public service pension schemes administered by the same organisation may be detrimentally affected where a system failure has caused the breach to occur.

#### 10. Guidance on Reporting a breach to the Regulator

- 10.1 The guidance from the Pension Regulator on reporting breaches is as detailed below –
- 10.1.1 Before submitting a report responsible officers should obtain clarification of the law around the suspected breach via an appropriate method. A judgement needs to be made on whether the Regulator would regard the breach as being material
- 10.1.2 Some matters could be urgent, if for example a fraud is imminent, whilst others will be less so. Non-urgent but material breaches should be reported to the Regulator within 30 working days of them being confirmed, and in the same time breaches that are not material should be recorded.
- 10.1.3 Some breaches could be so serious that they must always be reported, for example a theft of funds by anyone involved with the administration or management of the Fund. It is difficult to be definitive about what constitutes a breach that must always be reported, as a rule of thumb if a breach may lead to criminal prosecution or a serious loss in public confidence it is deemed that this type of breach that must always be reported.

- 10.1.4 Any report that is made (which must be in writing and made as soon as reasonable practicable) should be dated and include as a minimum:
  - full name of the Fund;
  - description of the breach or breaches;
  - any relevant dates;
  - name of the employer or scheme manager (where known)
  - name, position and contact details of the reporter; and
  - role of the reporter in relation to the Fund.

Additional information that would assist the Regulator would include, the reason the breach is thought to be of material significance to the Regulator; the address of the Fund; the pension scheme's registry number; and whether the concern has been reported before.

- 10.1.5 Reporters should mark urgent reports as such and draw attention to matters they consider particularly serious. They can precede a written report with a telephone call, if appropriate.
- 10.1.6 Reporters should ensure they receive an acknowledgement for any report they send to the Regulator. Only when they receive an acknowledgement can the reporter be confident that the Regulator has received their report.
- 10.1.7 The Regulator will acknowledge all reports within five working days of receipt, however it will not generally keep a reporter informed of the steps taken in response to a report of a breach as there are restrictions on the information it can disclose. The reporter should provide further information or reports of further breaches if this may help the Regulator to exercise its functions. The Regulator may make contact to request further information.
- 10.1.8 Breaches should be reported as soon as reasonably practicable, which will depend on the circumstances. In particular, the time taken should reflect the seriousness of the suspected breach.
- 10.1.9 In cases of immediate risk to the Fund, for instance, where there is any indication of dishonesty, the Regulator does not expect reporters to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary. The more serious the potential breach and its consequences, the more urgently reporters should make these necessary checks. In cases of potential dishonesty the reporter should avoid, where possible, checks which might alert those implicated. In serious cases, reporters should use the quickest means possible to alert the Regulator to the breach.

10.1.10 Breaches that are found not to be material to the Regulator must still be recorded. This is so that if similar breaches continue, then they become material. Recording all breaches also highlights where improvements are required, to try and prevent similar breaches.

11. Process for reporting and recording material and non material breaches within Cambridgeshire and Northamptonshire Pension Funds

11.1 The following table details the process for reporting material and non material breaches –

Type of Breach	Timescale for reporting	Internal actions	Further actions
Urgent and Material	Responsible officer informs head of pensions and governance team, the breach is reported immediately to the Pensions Regulator.	Governance team to keep record of breach and investigate options to prevent further occurrence.	Report urgent and material breaches to Section 151 officer, Chairman and Vice Chairman of Committee and Local Pension Board, full report to be submitted at the next available meeting.
Non urgent and material	Responsible officer informs head of pensions and governance team, the breach is reported within 30 days to the Pensions Regulator.	Governance team to keep record of breach and investigate options to prevent further occurrence.	Report non urgent and material breach at next Pensions Committee/Pension Board meeting.
Immaterial	Responsible officer informs head of pensions and governance team within 30 days.	Governance team to keep record of breach and investigate options to prevent further occurrence.	Report immaterial breach at next Pensions Committee/Pension Board meeting.

#### 12. Whistle blowing protection and confidentiality

- 12.1 The Pensions Act 2004 makes clear that the statutory duty to report overrides any other duties a reporter may have such as confidentiality and that any such duty is not breached by making a report. The Regulator understands the potential impact of a report on relationships, for example, between an employee and their employer.
- 12.2 The statutory duty to report does not, however, override legal privilege. This means that oral and written communications between a professional legal adviser and their client, or a person representing that client, while obtaining legal advice, do not have to be disclosed. Where appropriate a legal adviser will be able to provide further information on this.
- 12.3 The Regulator will do its best to protect a reporter's identity (if desired) and will not disclose the information except where lawfully required to do so. It will take all reasonable steps to maintain confidentiality, but it cannot give any categorical assurances as the circumstances may mean that disclosure of the reporter's identity becomes unavoidable in law. This includes circumstances where the regulator is ordered by a court to disclose it.
- 12.4 The Employment Rights Act 1996 (ERA) provides protection for employees making a whistle blowing disclosure to the regulator. Consequently, where individuals employed by firms or another organisation having a statutory duty to report disagree with a decision not to report to the regulator, they may have protection under the ERA if they make an individual report in good faith. The Regulator expects such individual reports to be rare and confined to the most serious cases.

#### Appendix 1

#### Examples of breaches, but not limited to -

#### Example 1

An employer is late in paying over employee and employer contributions, and so late that it is in breach of the statutory period for making such payments. It is contacted by officers from the administering authority, it immediately pays the moneys that are overdue, and it improves its procedures so that in future contributions are paid over on time. In this instance there has been a breach but members have not been adversely affected and the employer has put its house in order regarding future payments. The breach is therefore not material to the Regulator and need not be reported.

#### Example 2

An employer is late in paying over employee and employer contributions, and so late that it is in breach of the statutory period for making such payments. It is also late in paying AVCs to the Prudential. It is contacted by officers from the administering authority, and it eventually pays the moneys that are overdue, including AVCs to the Prudential. This has happened before, with there being no evidence that the employer is putting its house in order. In this instance there has been a breach that *is* relevant to the Regulator, in part because of the employer's repeated failures, and also because those members paying AVCs will typically be adversely affected by the delay in the investing of their AVCs.

#### Example 3

An employer is late in submitting its statutory year-end return of pay and contributions in respect of each of its active members and as such it is in breach. Despite repeated reminders it still does not supply its year-end return. Because the administering authority does not have the year-end data it is unable to supply, by 31 August, annual benefit statements to the employer's members. In this instance there has been a breach which *is* relevant to the Regulator, in part because of the employer's failures, in part because of the enforced breach by the administering authority, and also because members are being denied their annual benefits statements.

#### Example 4

A member of the Pension Committee owns a property; a report is made about a possible investment by the Fund, in the same area in which the member's property is situated. The member supports the investment but does not declare an interest and is later found to have materially benefitted when the Fund's investment proceeds. In this case a material breach has arisen, not because of the conflict of interest, but rather because the conflict was not reported.

#### Example 5

A pension overpayment is discovered and thus the administering authority has failed to pay the right amounts to the right person at the right time. A breach has therefore occurred. The overpayment is however for a modest amount and the pensioner could not have known that (s)he was being overpaid. The overpayment is therefore waived. In this case there is no need to report the breach as it is not material.

#### Example 6

Several overpayments are discovered and thus the administering authority has failed to pay the right amounts to the individuals concerned due to a process failure. The administering authority has failed to put a process in place to avoid reoccurrence and the combined amount is significant. In this instance there has been a breach which *is* relevant to the Regulator, in part because of the authority's failure to implement a new/improved process and in part because of the enforced breach by the administering authority.

### CAMBRIDGESHIRE PENSION FUND



#### Local Pension Board

Date: 21 October 2015

**Report by:** Deputy Head of Pensions

Subject:	Cambridgeshire Pension Fund Annual Report and Statement of Accounts 2014-15
Purpose of the	To present the Cambridgeshire Pension Fund Annual Report and
Report	Statement of Accounts 2014-15 to the Local Pension Board.
Recommendations	That the Local Pension Board notes the Cambridgeshire Pension Fund Annual Report and Statement of Accounts 2014-15
Enquiries to:	Joanne Walton – LGSS Pensions Governance and Regulations Manager Tel – 01604 367030 E-mail – jwalton@northamptonshire.gov.uk

#### 1. Introduction

- 1.1 The Pension Fund's Statement of Accounts (SOA) form part of the County Council's Statement of Accounts and is covered by PWC's audit opinion on those accounts.
- 1.2 The annual accounts are the financial representation of every activity that the Fund has been directly or indirectly involved with over the course of the 2014-15 financial year.
- 1.3 They are based on actual transactions accounted for within the Fund's financial ledger, information received from Fund Managers and the Fund's Custodian, and assumptions and estimations utilising the professional judgement of officers in order to give a true and fair statement of the Fund's financial position.
- 1.4 The publication of the Accounts is an essential feature of public accountability and stewardship as it provides information on how the Fund has used the members' funds for which it is responsible.
- 1.5 The Annual Report and Statement of Accounts 2014-15 will be published on the LGSS Pensions Website by the statutory deadline of 30 November 2015.

### 2. Relevant Pension Fund Objectives

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

### 3. Finance & Resources Implications

#### 3.1 Not applicable

#### 4. **Risk Implications**

4.1 Not applicable

#### 5. Communication Implications

Website	The Annual Report and Statement of Accounts 2014-15 will be published on the LGSS Pensions Service website by 30
	November 2015.

#### 6. Legal Implications

6.1 Not applicable

#### 7. Consultation with Key Advisers

7.1 Not applicable

#### 8. Alternative Options Considered

8.1 Not applicable

#### 9. Background Papers

- 9.1 Not applicable
- 10. Appendices
- 10.1 Appendix 1 Annual Report and Statement of Accounts 2014-15

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?	Not applicable		
Has this report been cleared by Deputy Head of Pensions?	Mark Whitby –		
Has this report been cleared by Legal Services?	Not applicable		



# Annual Report and Statement of Accounts 2014-15

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# Introduction

This Annual Report and Statement of Accounts sets out the arrangements by which the Local Government Pension Scheme operates, reports changes which have taken place and reviews the investment activity and performance of the Cambridgeshire County Council Pension Fund ("Fund") during the year.

The Statement of Accounts has been prepared in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom 2014/15.

The accounts summarise the transactions of the Scheme and deal with the net assets at the disposal of the Pension Fund Committee members. The accounts do not take account of the obligation to pay future benefits which fall due after year end. The actuarial position of the Fund which takes into account these obligations is available on the Cambridgeshire Fund's County Council website, <u>http://cambridgeshire.gov.uk</u>.

Mr C Malyon

Chief Finance Officer (Section 151 Officer)

Dated

2015

# Statement of Responsibilities

#### The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Chief Finance Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

#### The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for the preparation of the Council's statement of accounts in accordance with proper practices as set out in the *CIPFA/LASAAC Code* of *Practice on Local Authority Accounting in the United Kingdom (the Code)*.

In preparing this statement of accounts, the Chief Finance Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that were reasonable and prudent; and
- complied with the Local Authority Code.

The Chief Finance Officer has also:

- kept proper accounting records which are up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Certificate of Accounts**

I certify that this Statement of Accounts presents a true and fair view of the financial position of the Pension Fund at 31 March 2015 and of its income and expenditure for the year 2014-15, and authorise the accounts for issue.

Mr C Malyon

Chief Finance Officer (Section 151 Officer)

Dated

2015

# Chairman's Foreword

It is my pleasure, as Chairman of the Pension Fund Committee to introduce the Cambridgeshire County Council Pension Fund Annual Report and Statement of Accounts for 2014-15.

There has been a steady growth of members in the Fund. Active membership has increased from 24,854 in 2014 to 25,345 in 2015, deferred membership has increased from 25,793 in 2014 to 28,255 and pensioners have increased from 15,091 in 2014 to 15,658 in 2015. The total Fund membership at 31 March 2015 was 69,258; this demonstrates a total Fund increase of 5%. There has also been a steady increase in the number of employers in the Fund. As at 31 March 2015 the Cambridgeshire Pension Fund had 219 active employers, an increase of 22 in the reporting period.

At 31 March 2015 the Fund was valued at £2.28bn. This is an increase in Fund value of £226m from March 2014, which equates to a 11.0% increase.

The Fund delivered a return of 12.2% for the year, under performing the Fund's benchmark return (13.5%) and the average Local Authority Pension Fund (13.2%). *(Source WM Universe)*.

The Fund's investment strategy remains focused on growth assets which are expected to earn more attractive returns over the longer term than lower risk investments.

Over the year, the funding level for the Fund has decreased from 78% to 72%. This is principally due to the value of liabilities increasing faster than the increase in the value of assets. The Fund obtains regular quarterly updates on the funding level with a formal valuation of the Fund carried out triennially, the last being 31 March 2013.

Since 2010, Cambridgeshire County Council and Northamptonshire County Council have operated under a joint partnership, LGSS, to provide pensions administration. This has and continues to deliver savings to both Funds through efficient converged processes, sharing of resources and economies of scale.

The new Local Government Pension Scheme 2014 (LGPS) has been successfully implemented and continues to be embedded within the Cambridgeshire Pension Fund. This has been a challenging year due to these changes but has been a success due to the hard work invested by the members of the Pension Fund Committee and Investment Sub Committee, the Chief Finance Officer, the Head of Pensions and all staff involved in the administration and investment management of the Fund.

I am confident that this dedication will continue into 2015-16 where we are faced with challenges regarding the governance arrangements as well as to maintain the high standards of the administration of the Fund.

Councillor Steve Count Chairman of Cambridgeshire County Council Pension Fund Committee

# Scheme Framework

The Local Government Pension Scheme is a statutory funded pension scheme. It is "contracted-out" of the state scheme and is termed a defined benefit scheme. The operation of the Cambridgeshire County Council Pension Fund is principally governed by the Local Government Pension Scheme Regulations 2013 [as amended] and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 [as amended] which have been made within the context of the Primary legislation of the Public Service Pensions Act 2013. The scheme covers eligible employees of the County Council, the Police Authority, Police and Crime Commissioner, Unitary, District and Borough Councils and Academies within the county area other than teaching staff, police officers and fire-fighters for whom separate statutory arrangements exist. A number of other bodies are also members of the Scheme.

Employers' contribution rates are set by the Fund's Actuary every three years following the valuation of the Fund, in order to maintain the solvency of the Fund. The last valuation took place as at 31 March 2013. The results of the valuation resulted in a funding level of 72.4% and an average employer contribution rate of 30.5%. The next valuation will be produced as at 31 March 2016.

On 1 April 2014, the new Local Government Pension Scheme 2014 came into effect, allowing more flexibility around paying into the Scheme and when benefits may be drawn. Normal pension age is linked to the state pension age but benefits can be drawn earlier or later, between age 55 and 75. The normal retirement age is the age a member can access their pension in full; if it is claimed before that date it will usually be reduced and if claimed later it will increase. All service built up to 31 March 2014 in the LGPS is fully protected and will continue to be based on a member's final year's pay when the individual leaves the LGPS.

Benefits built up before April 2014 also retain their protected Normal Pension Age which for most members is 65, although certain members have a retirement age of 60 for all or part of their membership. There is an additional protection known as the 'underpin' for members who were active on 31 March 2012 and were within ten years of their Protected Normal Pension Age on 1 April 2012. These members will get a pension at least equal to the pension they would have received in the LGPS had it not changed on 1 April 2014, subject to meeting certain criteria.

The new scheme changes have been widely publicised with all stakeholders of the Fund via a range of communication methods including, e-mails, bulletins, seminars, presentations, forums and workshops. The Fund has assisted members and employers through the transition and provided information and guidance where required.

The below table compares the 2008 and 2014 Schemes.

	LGPS 2008	LGPS 2014	
Basis of Pension	Final Salary	Career Average Revaluated Earnings (CARE)	
Accrual Rate	1/60th	1/49th	
Revaluation Rate	Based on Final Salary	Consumer Prices Index (CPI)	
Pensionable Pay	Pay excluding non contractual overtime and non pensionable additional hours	Pay including non-contractual overtime and additional hours	
Employee Contribution rates	Between 5.5% and 7.5%	Between 5.5% and 12.5%	
Contribution Flexibility	No	Option to pay 50% contributions for 50% of pension benefit	
Normal Pension Age	65	Equal to individuals state pension age	
Lump Sum Trade Off	Trade £1 of pension for £12 lump sum	Trade £1 of pension for £12 lump sum	
Death in Service Lump Sum	3 x Pensionable Pay	3 x Pensionable Pay	
Death in Service Survivor Benefits	1/160 <sup>th</sup> accrual based on Tier 1 ill health pension enhancement	1/160 <sup>th</sup> accrual based on Tier 1 ill health pension enhancement	
III Health Provision	<ul> <li>Tier 1 – Immediate payment with service enhanced to Normal Pension Age (65)</li> <li>Tier 2 – Immediate payment with 25% service enhancement to Normal Pension Age (65)</li> <li>Tier 3 – Temporary payment of pension for up to 3 years</li> </ul>	Tier 1 – Immediate payment with service enhanced to Normal Pension Age Tier 2 – Immediate payment with 25% service enhancement to Normal Pension Age Tier 3 – Temporary payment of pension for up to 3 years	
Indexation of Pension in Payment	CPI (RPI for pre-2011 increases) CPI		
Vesting Period	3 months	2 years	

#### Active Employers (219)

#### **Scheduled Bodies**

Abbey College Active Learning Trust Alderman Jacobs School Academy Trust All Saints Inter Church Academy Arthur Mellows Village College Bassingbourn Village College **Bishop Creighton Academy** Bottisham Village College Bourn Church of England Primary Buckden Church of England Primary Burrowmoor Primary Academy Bury CE Primary School Cambourne Village Academy Cambridge City Council Cambridge Meridian Academies Trust Cambridge Regional College Cambridgeshire County Council Cambridgeshire Fire Authority Chesterton Community College Academy **Chesterton Primary Academy** Cambridgeshire Constabulary City of Peterborough Academy City of Peterborough Academy Special School Comberton Village College Combeton Academy Trust (HQ) Cottenham Village College Cromwell Academy Cromwell Community College Crosshall Infant School Academy Trust Crosshall Junior School Ltd **Dogsthorpe Academy** East Cambridgeshire District Council Ely College Ernulf Academy Fenland District Council Fulbridge Primary School Godmanchester CP School Academy

Great Staughton Primary Academy Greater Peterborough UTC Hampton College Hatton Park School **Highlees Primary Academy** Hills Road 6th Form College Hinchingbrooke School Histon and Impington Infants Academy Histon and Impington Junior Academy Huntingdonshire College Huntingdonshire District Council Impington Village College Isle of Ely Primary School Kennet Community School Kimbolton Primary Academy Kingsfield Primary School Leverington Primary Academy Linton Village College Long Road 6th Form College Longsands Academy Meadow Primary Academy Melbourn Village College Mepal & Witcham CofE Primary Middlefield CP School Murrow Primary School Neale Wade Academy Nene Infants Academy Nene Park Academy New Road Primary School Newark Hill Primary Academy North Cambridge Academy **Ormiston Bushfield Academy** Ormiston Meadows Academy Park Lane Primary and Nursey School

Parkside Federation Peckover Primary Academy Peterborough City Council Peterborough Regional College Police & Crime Commissioner Ramnoth Primary Academy Round House CP School Sawston Village College Sawtry Academy Shade Primary Academy Sir Harry Smith Community College Soham Village College South Cambridgeshire District Council St Andrew's CofE Primary School St Bedes Inter Church School St Ivo School St John's Academy St Mary's CofE Junior School St Peter's CofE Junior School St Peter's School Huntingdon Stanground Academy Stanground St John's Academy Swavesey Village College The Centre School The Kings Academy Thomas Clarkson CC Academy Thomas Deacon Academy UTC Cambridge Voyager Academy Welland Primary School West Town Primary Academy William de Yaxley CofE Junior School William Law Cof E Primary Winhill Primary Academy Witchford Village College

#### **Designated Bodies**

**Bretton Parish Council** Burnt Fen Internal Drainage Board **Burwell Parish Council** Cambourne Parish Council Chatteris Town Council **Cheveley Parish Council** City Of Ely Council Eye Parish Council Farcet Parish Council Feldale Internal Drainage Board Gamlingay Parish Council Haddenham Level Drainage Commissioners Haddenham Parish Council Histon and Impington Parish Council Holmewood & District Internal Drainage Board Huntingdon Town Council Kimbolton & Stoneley Parish Council Linton Parish Council Little Downham Parish Council Little Paxton Parish Council Littleport & Downham Internal Drainage Board Middle Fen & Mere Internal Drainage Board Middle Level Commissioners Newborough Parish Council North Level Commissioners IDB Old West Internal Drainage Board Orton Waterville Parish Council Sawston Parish Council Soham Town Council St Ives Town Council St Neots Town Council Sutton Parish Council Swaffham Internal Drainage Board Swavesey Parish Council **Thorney Parish Council** Tydd St Giles Parish Council Waterbeach Level Internal Drainage Board Waterbeach Parish Council Whittlesey & District Internal Drainage Board Whittlesey Town Council Wimblington Parish Council Wisbech Town Council

Witcham Parish Council Yaxley Parish Council

#### **Admission Bodies**

ABM Catering Ltd (Jeavons Primary) ABM Catering Ltd (Morley Memorial Primary) Action For Children ADEC Advanced Cleaning Services (Watheralls) Advanced Cleaning Services (Burwell & Netherall) Aspens Services (Ltd) Fen Drayton Primary) Aspens Services Ltd (Mayfield School) Aspens Services Ltd (Swavesey Primary) Avocet Cleaning Services Ltd **Balfour Beatty Plc** Cambridge Primary Education Trust Cambridgeshire Community Services Trust Cambridgeshire & Peterborough CCG Care Quality Commission Cater Link Limited Circle Anglia Limited Collections Trust **Compass Contract Services** Conservators of River Cam Coram Adoption Services Cross Keys Homes Limited Cucina Restaurants Dell (Neale Wade) Dell (Cromwell) Dell (Harry Smith) Drinksense East of England Local Government Association Easy Clean (Fenstanton) Easy Clean (St Peters) Ecovert FM Limited Edmund Trust (Mencap) Elior UK Enterprise Management Excelcare Etheldred House **Friends Therapeutic** Greenwich Leisure Home Close Limited

Inclusion Indigo Spa Management Ltd Innovate Services Limited Kelsey Kerridge Sports Hall Kimbolton School Luminus Group Limited Lunchtime UK Ltd M & B Caterers Limited Mears Group PLC Mears Limited Mitie PFI Limited Oxford Archaeology (East) Pabulum Limited (Swavesey) Pabulum Limited (Cottenham) Peterborough Primary Care Trust Radis Community Care Roddens Housing Association Sanctuary Housing Serco Limited (Peterborough) Serco Limited (IT Skanska Spurgeons Stephen Perse Foundation Taylor Shaw Limited **TSG Building Services** Thorokleen Trading Limited Vivacity Culture & Leisure Wisbech & Fenland Museum Wisbech Grammar School

Homerton College

### Scheme Management and Advisers

Registered Pension Scheme Number: 00329261RX

Administering Authority	Cambridgeshire County Council
	Shire Hall
	Castle Hill
	Cambridgeshire
	CB3 0AP

Administrator Mr C Maylon Chief Finance Officer S151 Officer Cambridgeshire County Council, LGSS

#### Pension Fund Committee and Investment Sub-Committee:

#### **County Council Members**

Cllr Steve Count (Chairman) Cllr Roger Hickford (Vice Chairman) Cllr Maurice Leeke Cllr Ashley Walsh – Resigned June 2014 Cllr John Reynolds – Deceased November 2014 Cllr Peter Ashcroft Cllr Michael Shellens – from July 2014 Cllr Mac McGuire – from November 2014

All other Local Authorities, Police and Fire (Unitary Representative) Cllr David Seaton (Peterborough City Council)

All other Local Authorities, Police and Fire (Borough and District Representatives)

Cllr Nick Guyatt – Resigned June 2014 Cllr Andrew Fraser – from November 2014

Other Employers' Representatives David Brooks – Resigned June 2014 Tim Woods – from September 2014

#### **Member Representatives**

John Walker Matthew Pink

Key Officers supporting the Fund

**Head of Pensions** 

Mark Whitby

Investment & Fund Accounting Manager	Paul Tysoe
Operations Manager	Akhtar Pepper
Fund Financial Managers	Anthony Olaniyi (Investment) Ben Barlow (Fund)
Governance & Regulations Manager	Joanne Walton
Investment Advisers	Hymans Robertson LLP 20 Waterloo Street Glasgow, G2 6DB (To 30 September 2014)
	Mercer Investment Consulting Belvedere, 12 Booth Street Manchester M2 4AW (From 1 October 2014)
Investment Managers	Schroders Investment Management Ltd 31 Gresham Street London EC2V 7QA
	Amundi Limited 41 Lothbury London EC2R 7HF
	Newton Investment Management Ltd Mellon Financial Centre 160 Queen Victoria Street London EC4V 4LA
	M & G Group Governor's House Laurence Pountney Hill London EC4R 0HH
	Adams Street Partners 4th Floor 75 Davies Street London W1K 5JN
	Harbourvest Partners (UK) Ltd 8th Floor Berkeley Square House Berkeley Square London W1J 6DB

	Equitix 10-11 Charterhouse Squaret London EC1M 6EH
	Skagen Funds Albemarle House 1 Albemarle Street London W1S 4HA
	Partners Group (UK) Ltd 14th Floor Heron Tower 110 Bishopsgate London EC2N 4AY
	UBS Global Asset Management (UK) Ltd 4th Floor 21 Lombard Street London EC3V 9AH
Custodian	BNY Mellon One Canada Square London E14 5AL (To 30 September 2014)
	Northern Trust 50 Bank Street Canary Wharf London E14 5NT (From 1 October 2014)
AVC Provider	Prudential Assurance Co Ltd Laurence Pountney Hill London EC4R 0HH
	Equitable Life PO Box 177 Walton Street Aylesbury, Bucks HP21 7YH
Fund Actuary	Hymans Robertson LLP 20 Waterloo Street Glasgow G2 6DB

Auditor	PricewaterhouseCoopers LLP 10 Bricket Road St Albans Hertfordshire, AL1 3JX
Legal Advisor	LGSS Law Limited Shire Hall Castle Hill Cambridge CB3 0AP
Performance reporting	The World Markets Company plc 525 Ferry Road Edinburgh EH5 2AW
Banker	Barclays Bank Plc 1 Churchill Place Canary Wharf London E14 5HP

Further information regarding the accounts and investments can be obtained from:

Paul Tysoe, Investment and Fund Accounting Manager phtysoe@northamptonshire.gov.uk 01604 368671

#### Enquiries relating to benefits and administration should be directed to:

Mark Whitby, Head of Pensions, LGSS MWhitby@northamptonshire.gov.uk 01604 368502

### **Risk Management**

Cambridgeshire County Council, the Administering Authority to the Cambridgeshire Pension Fund, has a process in place to identify, evaluate, mitigate and monitor risks associated with the activities that the Fund carries out. The arrangements in place which provide for the management of risk are described below. A full review of the Fund's risks, how they are managed and reported will be undertaken during 2015-16.

#### Managing decision making

Cambridgeshire County Council has established a Pension Fund Committee and Investment Sub-Committee having strategic and operational investment decision making powers, respectively.

Membership of both bodies consist of elected, non-elected and scheme member representatives. All members of the Investment Sub-Committee sit on the Pension Fund Committee.

The Pension Fund Committee's business covers all Fund matters with the exception of non-strategic investment issues, which are delegated to the Investment Sub-Committee. Officers across the administration, investment, accounting and governance functions support the Pension Fund Committee and Investment Sub-Committee meetings as required. All meetings of the Pension Fund Committee and Investment Sub-Committee are duly minuted.

Pension Fund Committee members and Investment Sub-Committee members are required to attain a desired level of training and knowledge, to ensure decisions being made on behalf of Cambridgeshire County Council Pension Fund are made with full understanding of the impact and therefore mitigating the risk of unfounded decisions.

The Board must at all times be conscious of its accountability to stakeholders. It is responsible for determining the nature and extent of any significant risks taken on by the Administering Authority in the pursuit of its strategic objectives. Risk management should be dynamic and comprehensive, considering operational, reputational and environmental, social and governance (ESG) risks in addition to financial risks.

With effect from 1 April 2015, there has been an additional layer of governance for the Fund in the form of a local pension board. The local pension board will be non-decision making but will have the responsibility of assisting the Administering Authority to:

- secure compliance with the Local Government Pension Scheme (LGPS) regulations and other legislation relating to the governance and administration of the Fund and also the requirements imposed by the Pensions Regulator in relation to the Fund; and
- ensure the effective and efficient governance and administration of the LGPS.

The local pension board will provide an annual report of its activities to Council at the end of each year.

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#### Managing investment and funding risks

The Cambridgeshire Pension Fund has billions of pounds of assets under management as well as even larger long-term liabilities. It is essential to ensure that the Fund's assets are managed appropriately to ensure the Fund can meet the payment of its current and future liabilities.

The Fund currently has eleven investment mandates with eleven fund managers. The Fund is also joint owner of Cambridge and Counties Bank.

An Investment Management Agreement is in place for each fund manager, setting out the relevant benchmark, performance target, asset allocation ranges and any statutory restrictions or other restrictions determined by the Pension Fund Committee and/or Investment Sub-Committee as appropriate.

Fund managers are also instructed to comply with the investment restrictions as set out in the LGPS (Management and Investment of Funds) Regulations 2009.

The constant monitoring of performance relative to a performance target constrains fund managers from deviating significantly from the intended approach, whilst permitting flexibility to manage mandates in such a way as to enhance returns. The appointment of more than one fund manager introduces a level of diversification of manager risk. Fund managers are instructed to diversify between investment types and within each mandate so that the prospects of potential losses are reduced.

Fund managers will bias their portfolios towards stocks which are expected to outperform in rising or falling markets, but not take such contrarian positions that major under-performance occurs if they are incorrect in their strategies. They are required to operate in such a way that the possibility of underperformance against the target is kept within an acceptable limit.

The Fund's investment performance is reviewed quarterly by the Investment Sub-Committee and should remedial action be required the Sub-Committee will determine the action to be taken and, where necessary, recommend this action to the Pension Fund Committee for approval.

An alternative review of performance is undertaken annually upon receipt of data from The World Markets Company plc ("WM"), which provides the perspective of other LGPS funds' performance. The Fund's Custodian will be reviewed annually by an independent monitoring service. The aim of this is to receive feedback on the quality and efficiency of services of the existing provider. The review also allows for provisions of transparency and openness with regard to the investment operations of the Fund.

The Fund uses third party providers for investment management and custodian services. The risk of misstatement or error in the processes operated by the third parties is mitigated by reviewing the ISAE3402 service auditors' assurance reports provided by the investment managers (where available) and the Custodian.

The overall risk for any pension scheme is that its assets will be insufficient to meet its liabilities.

In terms of specific investment risk, the Cambridgeshire Pension Fund is managed in a way that is designed to control and mitigate against this. Further Asset Liability Studies will be undertaken to help the Pension Fund Committee and Investment Sub-Committee determine, from time to time, appropriate asset allocation ranges. The aim of these is to ensure that the Fund's assets are prudently spread across different asset types and markets. As the Fund's liabilities are based in sterling, the majority of the Fund's assets are sterling denominated. The asset allocation will be formally reviewed following the triennial valuation, and at other times as required.

Over the long term, the Fund's investments should provide a hedge against inflation and grow in line with the underlying economy. To minimise the risks a broadly based portfolio of stocks is held, spread across different countries and different industrial sectors.

The Fund is subject to actuarial review every three years. The Fund's actuary calculates the contributions required from employing authorities to ensure the solvency of the Fund. The Fund's position is based on the market values of the assets at the time of the review and various other assumptions such as longevity.

At present the Fund has a positive cash flow and is forecast to remain in this position for a number of years. However the Fund is acutely aware of significant potential pressures arising from members opting out of the Scheme, financial pressures on employers, and the general economic climate. The Fund is actively monitoring the situation to ensure it can act quickly should the need arise. It does, however, sell investments from time to time as part of normal investment management activities.

#### Managing Scheme employer related risks

There are 263 scheme employers in the Cambridgeshire Pension Fund all of which have different risks associated with their financial positions. Therefore it is important that close monitoring processes are in place to ensure the Fund and its stakeholders are protected from these risks.

The Fund is aware that it is possible for an increase in the employer contribution rate to become unaffordable for both existing scheme employers and to potential admissions of new employers to the Scheme. In these instances the Fund would seek feedback and evidence from employers on their scope to absorb short-term contribution rises. It is also possible to mitigate the impact through deficit spreading and phasing in of contribution increases where this is possible and where this does not negatively impact the Fund. Another possible option is the "smoothing" of contribution increases over a number of valuation periods. Whichever option is considered, it is essential to ensure that decisions are well informed through actuarial advice and account for current and future asset and liability expectations.

It is essential for the Fund to actively manage those employers that cease to exist particularly those with insufficient funding or bonds in place to meet the liabilities that they leave behind. In some cases the liabilities will pass back to the ceding employer or where this is not an option, the liabilities will be spread across the remaining employers within the Fund. The Fund has in place a comprehensive Admissions Policy which clearly sets out where a guarantee or bond is required in order for a new employer to secure admission to the Fund,

Scheme employers can also present the Fund with risks in the form of the provision of poor quality data. Inaccurate data can lead to the miscalculation of pension benefits which can lead to the misstatement of the benefits the member is actually due. If this occurs on a consistent basis for medium to large employers or even just once for a small employer, it could have a detrimental effect on the size of the employer's liabilities which may result in a higher and potentially unaffordable employer contribution rate at the next valuation. The Fund has and will continue to actively engage with the scheme employers to ensure that they provide accurate data and provide them with the training and tools to do so. The Fund also monitors employer performance in the form of key performance indicators which are regularly fed back to the employers.

#### Managing demographic risks

The increasing life expectancy of Scheme members over the years has increased the value of the Fund's liabilities which has resulted in a decrease in the funding position. In order to ensure that the funding position doesn't continue to deteriorate it has proved necessary for the employer contribution rates to be increased at each triennial valuation. The Fund also participates in an extra level of analysis of changing life expectancy trends which feed into the Fund's valuation process to ensure that employer contribution rates are calculated based on the most accurate data available.

# Financial Performance

The following tables provide details regarding the management of the Fund's income and expenditure.

#### Three year forecast of income and expenditure

Contributions. Transfers in from other pension funds:	<b>2014-15</b> <b>Estimated</b> <b>Outturn</b> <b>£000</b> 105,100 4,100	<b>2014-15</b> <b>Final</b> <b>Outturn</b> <b>£000</b> 109,103 2,866	<b>2015-16</b> Forecast £000 111,000 5,700	<b>2016-17</b> <b>Forecast</b> <b>£000</b> 115,400 5,700	2017-18 Forecast £000 120,100 5,700
TOTAL INCOME	109,200	111,969	116,700	121,100	125,800
Benefits payable. Payments to and on account of leavers.	(93,800) (36,680)	(91,901) (36,845)	(97,800) (5,700)	(102,300) (5,700)	(107,200) (5,700)
	(130,480)	(128,746)	(103,500)	(108,000)	(112,900)
Management Expenses TOTAL EXPENDITURE.	(7,226) <b>(28,506)</b>	(9,898) <b>(26,675)</b>	(7,285) <b>5,915</b>	(7,566) <b>5,534</b>	(7,827) <b>5,073</b>
Investment Income Taxes on income Profit and losses on disposal of investments and changes in the market value of investment <b>Net return on investments</b>	34,000 0 120,000 <b>154,000</b>	35,712 (1,177) 218,316 <b>252,851</b>	37,000 0 130,000 <b>167,000</b>	40,000 0 139,000 <b>179,000</b>	43,000 0 150,000 <b>193,000</b>
Net (increase)/decrease in the net assets available for benefits during the year	125,494	232,851	172,915	184,534	198,073

#### Performance against budget – net operational expenses

The following table shows the Fund's forecast for total administration and investment expenses for 2014-15 compared with the outturn.

	2014-15 Forecast £'000	2014-15 Outturn £'000	Variance £'000
Administration Expenses	2,375	2,292	(83)
Investment Management Expenses	4,458	7,198	2,740
Oversight and Governance	393	408	15
Total Management Expenses	7,226	9,898	2,672

Investment Management Expenses outturn include performance related fees.

#### Timeliness of contributions

The following table shows the amount of regular monthly employee and employer contributions paid during 2014-15 and the value and percentage of which were paid both on time and after the deadline of the 19<sup>th</sup> day of the month following deduction.

	Total Paid in 2014-15	Total Paid On Time	% Paid On Time	Total Paid Late	% Paid Late
Employer Contributions	£71,310,094	£70,295,817	98.58	£1,014,277	1.42
Employee Contributions	£20,489,905	£20,204,656	98.61	£285,248	1.39
Total	£91,800,000	£90,500,473	98.60	£1,299,525	1.42

No interest was charged on any of the late payments.

#### Movement in assets & liabilities

The table below shows the forecast against the outturn on the Fund's cash flows and asset values in respect of 2014-15.

	2014-15	2014-15
	Estimated	Final
	Outturn	Outturn
	£'000	£'000
Cash flows		
Fund surplus / (deficit) cash from	(21,280)	(16,906)
dealings with members		
Management expenses *	(7,226)	(9,898)
Returns on investments **	160,000	252,851
Net increase in the net assets	131,494	226,177
available for benefits during the year		
Assets held		
Equities – directly held	803,972	843,577
Pooled investments	1,029,711	1,044,265
Pooled property investments	157,565	162,593
Private equity/infrastructure	149,100	165,436
Cash deposits	50,945	48,731
Other	483	3,156
Net investment assets	2,191,776	2,267,758

\* Higher performance related manager fees have been paid in 2014-15 arising from recent strong asset performance.

\*\* Investments performed more strongly than forecast in 2014-15.

#### Recovery of overpayments of pension

The following tables show the analysis of pension overpayments that occurred during 2014-15.

Type of Overpayment	Action Taken	Number of Cases	Amount
			£
Retirement	Recovered	0	0
	Requested	0	6,365
	Written off	68	771
Total		68	7,136
Death	Recovered	27	14,749
	Requested	26	13,310
	Written off	194	12,802
Total			40,861
National Fraud Initiative	Recovered		384
	Requested		6,069
	Written off		2,024
Total			8,477
Total Overpayments			56,474

The National Fraud Initiative (NFI) matches electronic data within and between public and private sector bodies to prevent and detect fraud. There are 35 NFI cases currently under investigation.

Annual Pensioner Payroll (excluding additional pension awarded by the employer)	£69,694,639
Total write off amount	£15,597
Write offs as a % of payroll	0.022
Number of cases written off	188
Number of cases in the process of recovery	40
Number of cases recovered	25
Number of cases currently being investigated	35

Cambridgeshire Pension Fund has an automatic write off process of any amount less than £250; the average write off amount per individual is £82.97.

# Administrative management performance

#### Key administration performance indicators

The below table shows the number and trend of the top 10 types of scheme administration cases.

Case Type	Target (working days)	Number Received	Number within target	Target	% within target
Confirm transfer-in payment and service credited to scheme member	10	197	181	90%	92%
Provide employer with requested estimate of benefits	10	835	794	90%	94%
Provide a maximum of one estimate to employees per request per year	10	1,535	1,325	90%	87%
Provide a maximum of one cash equivalent transfer to employees per year on request	10	550	504	90%	92%
Notify employees retiring from active membership of benefit award	5	1,119	1,035	95%	92%
Acknowledge death of active/deferred/pensioner member	5	862	851	100%	99%
Change of address	2	2,083	1,889	100%	91%
Expression of Wish form received	2	1,867	1,845	100%	99%
Opt out form received	2	1,444	1,393	100%	96%
Personal change update	2	451	445	100%	98%

The Fund has developed a number of KPIs to monitor service delivery, these KPIs are reviewed internally on a monthly basis to monitor and inform where delivery is met or

remedial action is required. The Pension Fund Committee receives quarterly performance updates within the Business Plan update.

Performance is a partnership between the administration team and the constituent employers of the Fund and the targets shown are well in excess of statutory guidance therefore representing stretch targets. Where there is material shortfall on the stretch targets we are working with scheme employers to improve timeliness and quality of data received to improve delivery.

An employer satisfaction survey was undertaken in March 2015 inviting responses from all of the employers in the Scheme. The response was overall very positive with some key results below:

Question	Result
On average, how efficient were we when	91.56% of responses were of satisfactory
responding to your query?	level and above
On average, how would you rate the quality of the responses that you received?	91.83% of responses were of satisfactory level and above
Overall how engaging were the bulletins	98.44% of responses were of satisfactory
we sent?	level and above

In November 2014, a survey was sent to all customers of LGSS to assess the level of satisfaction with the services provided. LGSS Pensions achieved an 86% rating of satisfactory and above.

During 2014-15, 21,130 cases were completed, from which only 10 complaints were received, this equates to 0.05%.

Administrative costs per member excluding investment management expenses were £22.62 compared to a benchmark cost for other LGPS funds of £20.75 (source: CIPFA Benchmarking Club 2014 Final Report). Please see below table for breakdown.

	Cambridgeshire Pension Fund	Benchmark	
Unit costs per member excluding investment management expenses	£22.62 (2013-14)*	£20.75 CIPFA Benchmarking average 2013-14(49 LGPS Funds)	
Unit costs per member including investment manager expenses	£9,898,000 / 65,738 = £150.56 per scheme member (2013-14)	N/A	
	* Results from the 2014-15 CIPFA Benchmarking exercise will be published on the LGSS Pensions website once released by CIPFA.		

#### Key staffing indicators

In 2014-15, the average staff to member ratio was one full time member of staff to 3,527 members and the number of cases per full time member of staff was 1,015.

	2011	2012	2013	2014	2015
Active Members	22,707	22,730	22,844	24,854	25,345
Deferred Beneficiaries	19,233	20,805	22,910	25,793	28,255
Pensions in Payment	12,670	13,408	14,288	15,091	15,658
Total	54,610	56,943	60,042	65,738	69,258

### 5 Year analysis of Fund membership as at year ending 31 March

### Age Profile of Fund membership at 31 March 2015

	Member Type				
Age Band	Actives	Deferred	Pensioners*	Total	
Years					
<20	207	49	93	349	
20 - 24	1,093	670	26	1,789	
25 - 29	1,643	1,941	2	3,586	
30 - 34	2,110	2,695	9	4,814	
35 - 39	2,692	2,992	11	5,695	
40 - 44	3,907	4,108	27	8,042	
45 - 49	4,530	5,102	75	9,707	
50 - 54	4,123	5,073	133	9,329	
55 - 59	3,095	4,014	605	7,714	
60 - 64	1,539	1,441	3,095	6,075	
65 -69	348	127	4,493	4,968	
70 - 74	52	38	2,860	2,950	
75 - 79	6	5	1,907	1,918	
80 - 84			1,293	1,293	
85 - 89			690	690	
90 - 94			296	296	
95 - 99			40	40	
100 - 104			3	3	

(\* Includes surviving dependants).

### Employee and employer contributions 2014-15

The following table shows the contributions paid by the active employers in the Fund during 2014-15.

	Employee(£000)	Employer(£000)	Total(£000)
Abbey College Academy	66	206	272
Abbey Meadows Academy	10	35	45
Abbey Meadows Primary School	29	102	130
* Action for Children	23	0	23
Active Learning Trust HQ	16	36	52
ADEC	3	13	16
Advance Cleaning Services	1	4	5
Alderman Jacobs School Academy	25	92	117
All Saints Inter Church VA Primary School (Academy)	10	36	46
Apollo Property Services Group Limited	20	90	111
Aspens Services Ltd (CPF)	0	2	2
Authur Mellows Village College Academy	75	265	340
Avocet Cleaning Services Ltd	1	2	3
Balfour Beatty	3	28	31
Bassingbourn Village College Academy	27	98	125
Bishop Creighton Academy	11	45	56
Bottisham Village Academy	63	159	222
Bourn Primary School Academy	9	32	42
Bretton Parish Council	2	9	11
Buckden CE School Academy	13	53	66
Burnt Fen IDB	1	7	8
Burrowmoor Primary Academy	35	130	165
Burwell Parish Council	1	7	8
Bury CE School	5	20	26
Caldecot Parish Council	0	2	2
Cambourne Parish Council	7	33	40
Cambourne Village College Academy	12	36	47
Cambridge Meridian Academy	20	51	72
Cambridge Regional College	362	1649	2011
Cambridgeshire County Council	7,367	27,278	34,645
Cambridgeshire Community Services Trust	76	312	388
Cambs & Ptboro Clinical Commissioning Group	3	15	18
Cambs Chief Constable	1,718	4,542	6,260
Cambs Coun On Alcohol	3	10	13
Cambs Fire Authority	365	1,019	1,385

	Employee(£000)	Employer(£000)	Total(£000)
Cambs and P'boro PCT Deficit	0	8,000	8,000
Cambs Soc M H Children	4	15	18
Cater Link Ltd	6	22	29
Chatteris Town Council	2	8	10
Chesterton Community College Academy	46	138	184
Chesterton Community Sports Centre	9	28	37
Chesterton Primary Academy	2	8	10
Cheveley Parish Council	1	5	6
Circle Anglia Limited	7	23	29
City Of Cambridge	1,548	4,956	6,504
City Of Ely Council	7	33	39
City of Peterborough Academy	4	17	21
City of Peterborough Special School (Academy)	19	77	95
Colville Primary	19	67	86
Comberton Academy Trust HQ	12	36	48
Comberton Village College Academy	101	361	462
Compass Contract Services	3	16	19
Conservators R Cam	7	29	36
Coram Cambridge Adoption Ltd	16	57	73
Cottenham Village College Academy	51	167	217
Cromwell Community College (Academy)	59	211	271
Cromwell Primary Academy	1	5	6
Cross Keys Housing Association	181	582	763
Crosshall Infant School Academy Trust	110	113	222
Crosshall Junior School Academy Trust	21	82	103
Cucina Ltd	1	3	4
Dell Corporation Ltd	6	21	27
Dogsthorpe Academy	20	72	93
E&Ess&Herts Prov Cls	25	296	321
East Cambs District	511	883	1,394
Easy Clean Contractors Ltd	0	1	1
EasyClean (St Peter's)	0	1	1
ECOVERT	8	33	41
Elior UK	1	2	3
Ely College	64	231	295
Enterprise Management Services Limited	233	970	1,203
Ernulf Academy	44	144	189
Etheldred House	1	7	8
Eye Parish Council	0	2	3

	Employee(£000)	Employer(£000)	Total(£000)
Farcet Parish Council	1	4	4
Fenland District	1,219	1,743	2,962
Friends Therapeutic Community	77	264	341
Fulbridge Academy	71	252	323
Gamlingay Parish Council	4	19	22
Godmanchester Primary School (Academy)	15	56	71
Greenwich Leisure	12	48	60
Gt Staughton Academy	4	14	18
Haddenham IDB	2	8	9
Haddenham Parish Council	1	6	7
Hampton College Academy	15	50	64
Hampton Vale Primary School	4	15	19
Hatton Park (MAT)	8	31	39
Health Authority	19	-5	14
Hemingford Grey Parish Council	1	5	6
Hemingford Grey Primary	9	33	42
Highfield School	55	190	245
Highlees Primary Academy	157	68	224
Hills Road 6th Form College	179	332	510
Hinchingbrooke School Academy	159	289	448
Histon & Impington Infant School (MAT)	13	48	61
Histon & Impington Junior School (MAT)	14	53	67
Histon & Impington PC	5	26	32
Holmewood IDB	0	1	1
Home Close	2	73	75
Homerton College Cambridge	221	412	633
Huntingdon & Godmanchester	47	104	151
Huntingdon District	1,630	3,456	5,086
Huntingdon Inf Sch	4	14	17
Huntingdon Nursery School	4	14	17
Huntingdon Primary (CCC)	11	37	48
Huntingdonshire College	247	442	689
Impington Village College	96	303	398
Inclusion	1	4	5
Indigo Spa Management	0	1	1
Innovate Services Ltd	0	2	2
Isle of Ely Academy	1	0	1
Kelsey Kerridge	151	82	233
Ken Stimpson (PCC)	51	126	176
Kennett Primary School (Academy)	3	11	14

	Employee(£000)	Employer(£000)	Total(£000)
Kimbolton Primary Academy	4	16	21
Kimbolton School	58	229	287
Kings Hedges Pension	25	85	110
Kings School Academy	61	226	287
Kingsfield Primary Academy	19	70	89
Leverington Primary Academy	19	72	91
Linton Parish Council	1	7	8
Linton Village College Academy	55	189	243
Little Downham Parish Council	2	8	10
Little Paxton Parish Council	2	11	14
Littleport & Downham IDB	5	24	29
Long Road 6th Form College	31	218	249
Longsands College Academy	59	205	264
Luminus Group	125	595	720
Lunchtime UK Ltd	5	19	24
Matley Primary Academy	28	104	132
Mears Group	46	19	66
Mears Ltd (SCDC)	27	69	96
Melbourn Village College Academy	20	84	104
Mepal & Witcham C of E Primary Academy	2	6	8
Middle Fen & Mere IDB	15	59	74
Middle Level Commissioners	83	303	386
Middlefield Primary School (Academy)	12	46	59
MITIE Facilities Management	2	10	11
Museum Doc Assn	7	22	29
NCSC	8	39	47
Neale Wade Community College	83	270	353
Nene Infants Academy	31	97	127
Nene Park Academy	36	126	162
New Road Primary Academy	6	22	27
Newark Hill Primary Academy	26	97	123
Newborough Parish Council	1	4	5
North Cambridge Academy	32	114	146
North Level Commissioners	32	140	172
Northborough Primary School	1	2	3
Old West IDB	1	6	7
Ormiston Bushfield Academy	81	280	361
Orton Waterville Parish Council	1	4	4
Oxford Archaeology(East)	51	112	163
Pabulum Catering Ltd (Cottenham)	1	4	5

	Employee(£000)	Employer(£000)	Total(£000)
Pabulum Limited	4	21	25
Park Lane Primary Academy & Nursery	21	87	107
Parkside Federation Academy	74	257	331
Peckover Primary School (Academy)	24	75	99
Perse Schl For Girls	32	104	136
Peterborough College of Adult Education	91	280	371
Peterborough Cultural and Leisure Trust	81	250	330
Peterborough District	4,507	9,860	14,367
Peterborough Regional College	297	1324	1621
Peterborough Womens Aid	1	7	9
Police & Crime Commissioners	46	106	152
Probation Ctte	93	189	282
Radis Community Care	41	191	232
Ramnoth Junior Academy	16	59	75
Roddons Housing Association	52	183	236
Round House Primary School	14	52	66
Sanctuary Housing	68	377	446
Sawston Parish Council	2	14	17
Sawston Village College Academy	65	228	294
Sawtry Community College Academy	37	151	188
Sawtry Parish Council	3	15	18
Serco	321	683	1,004
Serco Limited	36	-24	12
Shade Primary School	5	17	22
Sir Harry Smith Comm College (Academy)	46	169	215
Skanska PCC (Highways)	30	92	121
Soham Parish Council	2	10	12
Soham Village College Academy	58	211	270
South Cambs District	879	2,362	3,242
Spurgeons	21	1	22
St Andrews C of E Primary Academy	11	41	52
St Bedes School (Academy)	35	126	161
St Columba Centre	3	14	17
St Ives Town Council	13	61	74
St Ivo School Academy	79	285	365
St John Fisher School	51	162	214
St John's Academy (Stanground)	10	31	41
St Neots Town Council	8	56	64
St Peters C of E Junior Academy	7	26	33
St Peters School	1	21	22

	Employee(£000)	Employer(£000)	Total(£000)
St Peters School Academy	46	160	206
Stanground Academy	72	255	327
Sutton Parish Council	2	8	10
Swaffham IDB	2	8	10
Swavesey Parish Council	1	5	6
Swavesey Village College Academy	64	226	290
Taylor Shaw Ltd	2	8	10
The Centre School Academy	1	4	5
The Spinney Primary School (CCC)	9	32	41
The Voyager Academy	72	319	391
Thomas Clarkson Comm College Academy	85	232	317
Thomas Deacon Academy	146	500	646
Thorney Parish Council	2	10	12
Thorokleen Trading Limited	1	2	3
TSG Building Services	12	41	53
Tydd St Giles P C	0	1	1
University Technical College Academy	5	15	19
Waterbeach Level IDB	2	8	10
Waterbeach Parish Council	3	12	15
Welland Primary Academy	27	99	127
West Town Primary Academy	15	55	70
Whittlesey I D B	2	9	11
Whittlesey Town Council	1	3	3
William de Yaxley C of E Junior Academy	4	19	23
William Law Primary Academy	9	33	41
Wimblington P C	0	2	3
Winhills Primary School (Academy)	20	73	93
Wisbech & Fenland Museum	1	5	6
Wisbech Grammar	7	23	30
Wisbech Town Council	3	16	19
Witcham Parish Council	0	1	1
Witchford Village College Academy	60	188	248
Yaxley Parish Council	4	26	30
** Early retirement and other adjustments	2	-5,271	-5,269
Fund Account Contributions	27,017	82,086	109,103
* Action for Children are only paying Employ	ee contributions for	the year 14/15.	
** Includes adjustments arising from early ret			

# Investment Policy and Performance Report

The investment management of the Fund is governed by the provisions of the Local Government Pension Scheme – (Management and Investment of Funds) Regulations 2009. These seek to ensure that the Fund:

- is suitably invested and has taken appropriate advice;
- has suitably diversified investments;
- has an appropriate number of investment managers who invest fund monies on its behalf;
- relevant investment limits are not exceeded;
- Investments and investment arrangements are regularly monitored and reviewed;
- has an appropriate Statement of Investment Principles;
- understands its powers to borrow; and
- operates a separate bank account.

### **Investment Asset Allocation**

Asset allocation is determined by the Pension Fund Committee upon recommendation from the Investment Sub-Committee, who are informed by officers and professional investment advisors on the categories of investment in which the Fund should invest. Mercer Limited were appointed as Investment Consultants to the Fund following their success in a mini competition involving four providers under the LGPS National Framework for Investment Consultancy Services. Hymans Robertson LLP were the Investment Consultants to the Fund until 30 September 2014.

The Fund reviews its asset allocation on an annual basis and conducts a more comprehensive review following each triennial valuation. The last triennial valuation indicated that the Fund expects to remain cash flow positive for many years to come. A full review conducted in 2013-14 following the 2013 triennial valuation recommended no immediate change to the asset allocation.

Following the appointment of the new investment consultant, Mercer Limited, the investment strategy was reviewed by the Investment Sub-Committee and a revised strategy was approved by the Pension Fund Committee on 18 December 2014.

The review concluded that the existing strategy of 64% equities, 22% alternatives and 14% bonds was supportive of the funding arrangements in place as part of the 2013 actuarial valuation and that no change to this high level allocation was necessary. However, the review concluded that the existing global equity structure was over complex. As a result the strategy for global equities was re-focussed on high conviction mandates with a preference for global rather than regional mandates with the consequence that in the last quarter of the financial year the Fund performed a selection process to appoint managers to deliver this strategy.

The Fund also investigated the options for improving inflation protection in the Fund, as and when this might be appropriate. This work will continue 2015-16.

As the performance and therefore relative value of each investment asset class will vary over time, the Pension Fund Committee have approved tolerance levels around the target asset allocation percentages by which actual values can vary from the target allocation for each investment asset class.

### **Role of Investment Managers**

Following the approval of the strategic asset allocation by the Pension Fund Committee, the Investment Sub-Committee appoints external investment fund managers for each asset class. Managers are responsible for all "day to day" investment decisions, providing them with the flexibility to manage the Fund in such as way as to enhance returns and achieve the performance objectives for the funds under their management whilst acting within the constraints of an Investment Management Agreement (IMA) that is approved upon their appointment.

With the exception of one passive UK Equity and one passive Global Equity mandate, all investment managers have been given "active" briefs to outperform agreed specific benchmarks.

The IMA for each investment manager will include:

- the specific class or classes in which they are permitted to invest, in line with the Fund's asset allocation, allowing little or no flexibility between asset classes;
- the value of the mandate under their management to invest. The Fund's allocation to a specific asset class may be divided between more than one manager to minimise disruption should the need arise to replace the manager;
- the relevant performance target above benchmark to reflect the intensity of their specific specialist investment brief; and
- any geographic constraints.

There were no new manager appointments or terminations effective during the year. However, in February 2015 the Investment Sub-Committee approved the investment in pooled global equity funds managed by of JO Hambro Capital Management Limited and Dodge & Cox Worldwide Investments Limited to replace the Newton, Amundi, and Schroders global equity mandates. The transition to these managers was completed in the first quarter of 2015-16.

## Investment Manager Profiles and performance targets for 2014-15

The high level target asset allocation approved by the Pension Fund Committee in December 2014 is shown in the table below. However, this had not been implemented at 31 March 2015.

Asset Class	Weighting (%)
Equities	64.0
Passive	22.0
UK	10.0
Global	26.0
Emerging markets	6.0
Bonds and Fixed Income	14.0
Alternatives	22.0
Total	100.0

The target asset and manager allocation, associated benchmarks and performance targets at 31 March 2014 are shown in the table below. This also reflects the manager allocation at 31 March 2015 before the implementation of the revised strategy.

	Weighting (%)	Market Benchmark Adopted	Target above bench-mark (%)
UK Equity	20.0		
Schroders – Multi Asset	10.0	Composite benchmark	+1.00
State Street	10.0	FTSE All-Share index	n/a
Global Equity	44.5		
Amundi	12.0	MSCI Europe NDR	+2.00
Newton	12.0	MSCI AC World	+2.00
Skagen	5.0	MSCI Emerging Markets	+2.00
State Street	11.0	FTSE All World	n/a
Schroders – Multi Asset	4.5	Composite benchmark	+1.00
Bonds	14.5		
Schroders – Multi Asset	12.0	Composite benchmark	+1.00
M&G	2.5	3m Libor +4%	n/a
Private Equity	5.0		
Adams Street	2.0	MSCI World	n/a
HarbourVest	2.0	MSCI World	n/a
Cambridge and Counties Bank	1.0	MSCI World	n/a
Infrastructure	5.0		
Equitix	No split calculated	MSCI World	n/a
Partners Group	No split	MSCI World	n/a
UBS	calculated	MSCI World	n/a
Property	11.0		
Schroders	11.0	IPD UK All Balanced Property Fund Index	+0.75
Total	100.0		+1.1*

\* Overall Fund Target – the overall performance target is calculated taking into account the weightings for each manager.

The values of actual manager allocations, the percentage of the Fund and variance from the target asset allocation at 31 March 2014 and 31 March 2015 are shown below:

3′	1 March 20	14			31 March 2015		15
Market Value	Holding	Above/ (below) target			Market Value	Holding	Above/ (below) target
(£m)	(%)	(%)	Asset Class	Manager	(£m)	(%)	(%)
675.4	33.3	6.8	UK Equity	Schroders – Multi Asset	320.0	14.0	4.0
201.5	9.9	(0.1)		State Street	215.1	9.5	(0.5)
214.4	10.5	(1.5)	Global Equity	Amundi	241.3	10.7	(1.3)
235.0	11.6	(0.4)		Newton	284.4	12.6	0.6
90.2	4.4	(0.6)		Skagen	91.5	4.0	(1.0)
269.2	13.2	2.2		State Street	320.3	14.1	3.1
*	*	*		Schroders – Multi Asset	112.6	5.0	0.5
*	*	*	Bonds	Schroders – Multi Asset	284.4	12.6	0.6
49.4	2.4	(0.1)		M&G	51.8	2.3	(0.2)
45.7	2.2	0.2	Private equity	Adams Street Partners	57.9	2.5	0.5
38.7	1.9	(0.1)		HarbourVest	45.1	2.0	-
14.5	0.7	(0.3)		Cambridge and Counties Bank (direct holding)	17.3	0.7	(0.3)
17.5	0.9	**	Infra-structure	UBS Infrastructure	18.0	0.8	**
16.3	0.8	**		Equitix	18.4	0.8	**
5.6	0.3	**		Partners Group	11.2	0.5	**
152.1	7.5	(3.5)	Property	Schroders – Property	178.2	7.9	(3.1)
7.7	0.4	0.4	Cash		0.3	0.0	-
2,033.2	100.0		Total		2,267.8	100.0	

\* Schroder Multi Asset mandate is reported in aggregate under UK Equities at 31 March 2014.

\*\* No target allocated by individual manager.

# Performance monitoring

Investment manager performance is reviewed quarterly by the Investment Sub-Committee. The Committee review a comprehensive quarterly performance report that includes the performance of each manager measured against benchmark and target and the actual asset allocation compared to the Fund's target allocation. Managers are subject to challenge in these meetings from the Committee members and the Committee's independent investment adviser.

Total Fund and individual Manager performance is shown later in this section. 33

### Investment Performance 2014-2015

Investment performance data comparing the Cambridgeshire County Council Pension Fund with other local authority funds and indices are shown in the table below:

%	% Returns per annum for the financial year ended 31 March 2015								
		The Fund	The Benchmark	Retail Price Index	UK Average Weekly Earnings Index	Local Authority Average			
2014-2015	1 year	12.2	13.5	0.9	3.3	13.2			
2012-2015	3 years	11.7	11.4	2.2	1.7	11.0			
2010-2015	5 years	8.4	9.0	3.1	1.6	8.7			
2005-2015	10 years	7.5	8.2	3.0	3.1	7.9			

(Source: WM Universe).

#### Investment Manager Performance for periods ending 2014-15

		1 Year (%)			3	Years (%	pa)
Asset Class	Manager	Return	Bench- mark	Variance	Return	Bench- mark	Variance
UK Equity	Schroders – Multi Asset <sup>1</sup>	8.4	7.9	0.5	11.2	7.5	3.7
	State Street	6.7	6.5	0.2	10.3	10.3	-
Global	Amundi	12.0	6.8	5.2	14.2	12.1	2.1
Equity	Newton	20.8	18.4	2.4	16.6	13.5	3.1
	Skagen <sup>2</sup>	1.5	12.8	(11.3)	n/a	n/a	n/a
	State Street	19.0	19.2	(0.2)	14.1	14.2	(0.1)
	Schroders – Multi Asset <sup>1</sup>	8.4	7.9	0.5	11.2	7.5	3.7
Fixed Income	Schroders – Multi Asset <sup>1</sup>	8.4	7.9	0.5	11.2	7.5	3.7
	M&G	4.6	4.6	-	5.7	4.6	1.3
Property	Schroders – Property	15.2	16.6	(1.4)	7.6	9.4	(2.2)

<sup>1</sup> Schroders Multi Asset mandate: performance measure is the aggregate for all asset classes in the mandate. Performance for the Multi Asset mandate over 10 years was 9.3% compared to benchmark 7.5%.

<sup>2</sup> Skagen were appointed in 2012-13, therefore 3 year return is not yet available.

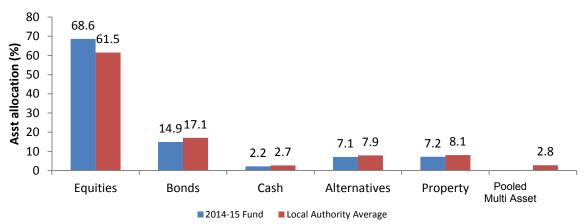
<sup>3</sup> Performance for the Schroders Property mandate over 10 years was 3.9% compared to benchmark 4.2%.

Other than The Schroders Multi Asset and Property mandates, no other manager has been in place for 10 years therefore no 10 year performance measure is available.

## Performance in comparison with Local Authority Universe

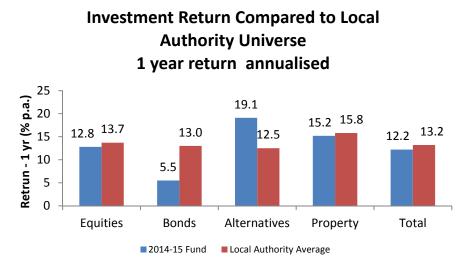
The Local Authority Universe is a National scheme consisting of over 90 Pension Funds. This scheme compares many aspects of Fund performance, the key areas of which are shown on the following pages.

The Fund participates in the WM Company's benchmarking of Local Authority investment performance, which provides useful information on how well the Fund has performed in comparison with other Local Authorities.



## Asset Mix Compared to the Local Authority Universe

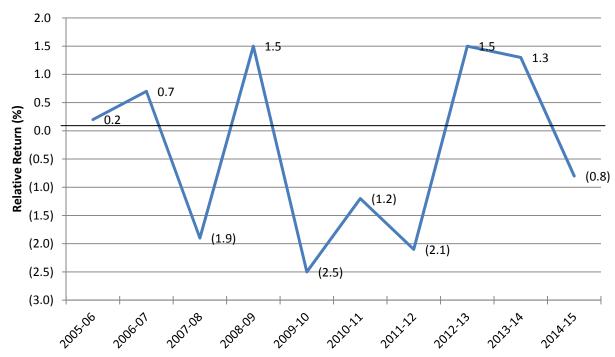
The graph shows that the Fund's asset mix is broadly comparable with the Local Authority Average, the main variances indicating the Fund's preference for equity and bonds.



Year Annual Return (%)	2005- 2006	2006- 2007	2007- 2008	2008- 2009	2009- 2010	2010- 2011	2011- 2012	2012- 2013	2013- 2014	2014- 2015
Total Fund	25.2	7.8	(4.7)	(18.8)	31.9	6.9	0.5	15.4	7.8	12.2
WM Benchmark	24.9	7.0	(2.8)	(19.9)	35.2	8.2	2.6	13.8	6.4	13.2

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The table above compares the Fund's performance with the WM Company Local Authority Average for the ten years since 2005. The relative performance is shown graphically below.



Fund Performance Relative To The Local Authority Universe

The graph demonstrates the volatility of annual return comparisons of Fund performance against the Local Authority Universe.

Of the ten years shown, the Fund has outperformed the Local Authority Average on five occasions, underperformed on five occasions.

# **Responsible Investment Policy**

The Fund defines "responsible investment" as the "integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices".

The Fund recognises that effective management of ESG issues can enhance longterm 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 Fund only invests with reputable investment managers who will have their own policies and procedures for considering ESG issues in day to day investment decisions as far as they are consistent with their primary obligation to meet performance targets. As well as responsibility to manage day to day investments decisions to managers, the Fund has delegated voting rights on company resolutions to its investment managers. Managers regularly report on their ESG activities, voting record and direct engagement on ESG issues with companies.

The Fund supports the UK Stewardship Code and expects the Fund's investment managers to comply with the UK Stewardship Code. The Fund has produced a Statement of Commitment to the UK Stewardship Code highlighting how the Fund is discharging its stewardship responsibilities which can be found in Appendix D of the Statement of Investment Principles.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF). This initiative enables the Fund to work with other investors to understand the impacts of ESG considerations on financial performance.

The Fund supports the Myners' Principles for good investment governance and has set out in Appendix E of the Statement of Investment Principles (See Appendix C attached to this report) the policies in place and actions taken to evidence compliance.

# **Custodian Services**

Northern Trust were appointed as Global Custodian with effect from 1 October 2014 following their success in a mini competition involving five providers under the LGPS National Framework for Global Custody Services. BNY Mellon were the Custodian until 30 September 2014.

The responsibilities of the Global Custodian are:

- arranging for the custody of the Scheme's assets in compliance with the custody agreement:
- ensuring that all holdings have been registered as assets of the Fund:
- manage the settlement of all deals entered into by the fund managers, collect all dividends and coupons accruing to the Fund and to hold all cash;
- providing the administering authority with monthly valuations of the Scheme's assets and details of all transactions during the quarter; and
- providing details in a timely manner to the WM Company for performance reporting.

# **Investment Consultants' Annual Investment Review 2014/15**

## Economic and Market Background

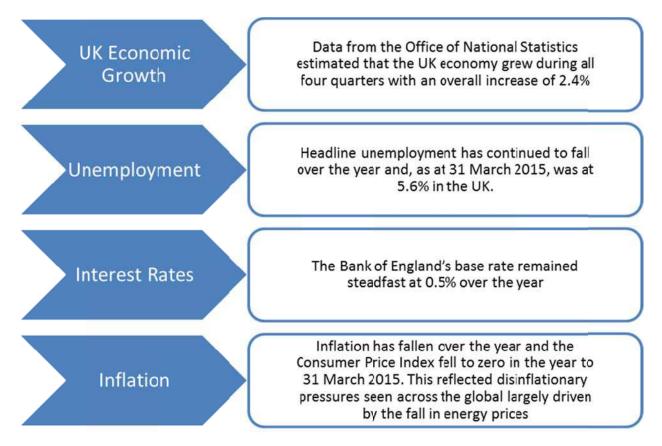
Both growth (equity type) and defensive (bond type) assets delivered positive returns over the 12 month period to 31 March 2015 with many of the world's central banks continuing to ease monetary policy. Strong economic growth at the start of the 12 month period slowed somewhat over the six months leading to 31 March 2015. The sharp fall in commodity prices in the second half of 2014 led to increased market volatility. Most pension schemes will have seen an increase in liability values as bond yields fell over the 12 month period.

Performance was positive both for growth and defensive assets, with long dated government bonds outperforming the equity market. In the UK, economic growth remained strong throughout the year, as the Office for National Statistics revised the

real GDP growth rate for 2014 from 2.6% to 2.8%, the fastest calendar year growth rate since 2006. The annual inflation rate fell to zero in February 2015.

Whilst economic growth in the UK has been strong, growth was strongest in the US which led to a US Dollar rally against Sterling and most other currencies. Sterling, however, appreciated against the Euro and the Japanese Yen. Emerging market assets underperformed their developed counterparts as falling commodity prices and the rising US dollar affected a number of countries in this region significantly.

## Key Events during the Year



## **Growth Assets**

Equity markets on the whole generated a positive return over the year to 31 March2015.

North America delivered strong performance over the year, particularly for the sterling investor who also benefited from a strengthening of the US dollar.

Japan also delivered strong returns over the year.

Over the 12 month period to 31 March 2015, the IPD UK All Property Index returned 18.3% in Sterling terms. The three main sectors of the UK Property market each recorded strong positive returns over the period (retail: 13.4%; office: 22.9%; and; industrial 22.7%).

It was a tough year for commodities with the sharp fall in oil prices contributing to the fall in commodity index.

## **Bond Markets**

Yields fell over the year to 31 March 2015 which led to positive returns of 27% from fixed interest gilts and 21.1% from index linked gilts.

European government bonds have generated a return of 13.7% over the year in local currency terms.

### Currencies

Over the 12 month period to 31st March 2015, Sterling fell 11.0% against the US Dollar from \$1.667 to \$1.485. Sterling appreciated 3.7% against the Yen from ¥171.69 to ¥178.03, and also appreciated against the Euro by 14.3% from €1.21 to €1.38 over the same period.

### **Fund Performance**

Over the twelve month period, the fund achieved a return of 12.2% versus a benchmark return of 13.5%. All managers generated a positive return over the year and all managers (with the exception of Skagen and Schroders property) generated a return above their respective benchmarks.

## Outlook

We might reasonably expect growth assets to outperform defensive assets such as government bonds over the medium term. However, following the strength of global equities over the last few years we expect returns to be more modest going forward. We continue to expect equities to perform well (especially compared to other assets), but see prospective returns as more in-line with historical norms (around 7% p.a.).

The US economy weakened in the first quarter of 2015, despite the positive backdrop of lower oil and stronger asset prices. We expect this weakness to prove temporary and the US economy to grow at a decent, above trend, pace for the rest of the year.

In contrast to the weakness in the US, the Eurozone was stronger than expected with strength in most countries. The region was boosted by the weakness in the euro and oil prices as well as the substantial fall in bond yields. Importantly, credit growth has at last started to recover and this means the recovery could be sustained for some time.

We continue to expect the US Federal Reserve to raise interest rates this year. However, the weakness in the US economy over the last few months may allow the Fed to wait until the autumn. When the Fed does raise rates, it is likely to signal that it will proceed cautiously. Nonetheless, the first rate hike in almost 10 years may unnerve markets and lead to bouts of volatility.

The biggest risk to financial markets is whether the Fed is able to raise interest rates to more normal levels over the next few years without damaging the US and global

economy or financial markets. In addition, at the time of writing, it remains unclear whether Greece will be able to reach agreement with its creditors. While the Eurozone is much more stable than a few years ago, an exit from the euro could destabilise markets.

### **Investment Strategy**

The Fund's strategic benchmark is allocated across a diverse range of asset classes expected to generate a return above the growth in the Fund's liabilities over the long term. The Fund holds a large equity portfolio which is held to generate strong real returns above that of the Fund's liabilities. The Fund also holds a defensive portfolio (made up of bond investments) and an alternatives portfolio which aims to achieve strong real returns whilst giving the Fund some diversification away from equity markets. The Fund's investment strategy is largely focused on equity markets with the view that equities will outperform over the long term and that this outperformance will improve the funding level over time.

During the year, the Committee has conducted a full review of the investment strategy. During the first 3 months of 2015 the Committee have reviewed the makeup of the defensive bond portfolio and are investigating ways to improve the ability of this portfolio to defend against adverse changes in interest rates and inflation (the main drivers for an increase in the Fund's liabilities).

The Committee has also considered enhancements to the growth portfolio. A review of the equity portfolio resulted in a simplified global approach and two managers were replaced. The Committee is currently investigating ways to structure the large passive equity portfolio in a more efficient manner.

The Committee intends to review the alternative portfolio towards the end of 2015.

Joanne Holden Mercer Limited June 2015

# Scheme Administration Report

Cambridgeshire County Council is responsible for administering the Cambridgeshire Pension Fund. In 2010, Cambridgeshire County Council and Northamptonshire County Council formed a joint partnership, LGSS, to deliver pensions administration with the aim of delivering cost savings to both Funds through efficient converged processes, sharing of resources and economies of scale.

The now fully converged LGSS Pensions has seen a reduction of staff from 75.5 FTE to 60 FTE, delivering significant cost savings whilst retaining a high level of performance during this reporting period. This shows that the LGSS Pensions has become more efficient and working at higher capacity, moving closer towards being a Centre of Excellence for pensions administration, a founding principal of LGSS.

### Implementing the new LGPS 2014

This financial year has seen LGSS Pensions successfully implement the new Local Government Pension Scheme 2014 changes. The pensions administration system was upgraded to reflect the changes and administrators received training on both the new scheme and the upgraded administration system.

#### **Pension Fund Website**

The LGSS Pensions website contains detailed information for all the Fund's stakeholders and has dedicated pages for both members and employers. The information is regularly updated to ensure the accuracy of the information being published. There is a comprehensive suite of forms and factsheets for members, prospective members and employers. Contact details are on the website so support can be sought in conjunction with the online information.

### **Employer Self Service**

Employer Self Service (ESS) gives employers access to the pensions database remotely and securely allowing them to view, create and amend their employees' data, run reports and perform benefit calculations. Employers who have successfully used the system with no issues have been given direct access, allowing them to make live updates to pension records.

ESS continues to be promoted to employers to generate further efficiencies. ESS has been offered to all employers across the Cambridgeshire Pension Fund with a concerted effort to increase use in place since January 2015.

#### **Member Self Service**

Member Self Service (MSS), allows members to securely access their own records held on the pensions database to enable them view their personal information and perform certain benefit calculations.

MSS, like ESS, is expected to generate further efficiencies. MSS has been rolled out to all active members across the Cambridgeshire Pension Fund; there has been a take up rate of approximately 18%.

During 2014-15, the MSS facility has been extended to deferred members. This will be further promoted via information contained within deferred annual benefit statements issued in 2015-16.

### i-Connect

i-Connect allows employers to securely upload payroll data to the pensions database on a monthly basis, ensuring accurate and timely record maintenance and providing a solution to the demands of automatic enrolment. LGSS Pensions has been working with its largest employers to implement i-Connect. Full implementation will achieve significant efficiencies for both the Fund and scheme employers.

### Administration Strategy

The Administration Strategy underwent a review in 2014-15 to update it in line with the 2014 Regulations. It was re-launched in December 2014 following a consultation with scheme employers. The Strategy is viewed as one of the main tools to aid the delivery of a high quality administration service to all stakeholders.

### **Internal Disputes Resolution Procedure**

Safeguards for Scheme members are contained within the LGPS Regulations, which contain comprehensive complaints and disputes procedures. Members are able to seek redress through the Internal Disputes Resolution Procedure which allows access to a two stage procedure in an attempt to bring a solution to any dispute. If the member or former member is still unhappy with the decision reached at stage two there is the right for the complainant to then lodge their grievance with the Pensions Ombudsman. At any stage a Scheme member has the right to direct their complaint to The Pensions Advisory Service (TPAS).

The following formal disputes have arisen and/or been resolved during 2014-15:

- one Stage 1 IDRP case relating to an administering authority decision arose and was dealt with in 2014-15. The appeal was not upheld; it related to a decision that a transfer could not be made as pension benefits were payable immediately due to redundancy after age 55;
- two Stage 2 IDRP cases relating to employing authority decisions arose in 2013-14 and were dealt with in 2014-15. One appeal was upheld; this related to an ill health pension decision. One appeal was not upheld; this related to a decision not to grant early payment of deferred benefits; and
- one case that was raised with the Pensions Ombudsman in 2013-14 had a determination issued in 2014-15. The appeal was not upheld; it related to an administering authority decision and centred around whether a statement with an estimate that no early payment reduction would apply, when the figures provided were reduced, had a material effect on the member's decision to retire.

Two cases were referred to the Pensions Ombudsman in 2014-15 and await determination; one relates to an administering authority decision, the other to an employing authority decision.

# Actuarial Report on Funds

### Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £1,905m, were sufficient to meet 72% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £728m.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

### Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2014. The valuation report can be found at: <u>http://pensions.cambridgeshire.gov.uk/index.php/governance2/key-documents/</u>.

### Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

### Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value. The key financial assumptions adopted for the 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.60%	2.10%
Pay increases	4.30%	1.80%
Price inflation/pension increases	2.50%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI\_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current pensioners	22.5 years	24.5 years
Future pensioners*	24.4 years	26.9 years

\*Currently aged 45

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from Cambridgeshire County Council, the administering authority to the Fund.

### Experience over the period since April 2013

Experience has been slightly better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and asset returns have been slightly better than expected meaning that funding levels are likely to have improved since the 2013 valuation.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

Geoffrey Nathan FFA Fellow of the Institute and Faculty of Actuaries For and on behalf of Hymans Robertson LLP

Hymans Robertson LLP 20 Waterloo Street Glasgow

## Extract from the actuarial valuation report

### **Executive Summary**

We have carried out an actuarial valuation of the Cambridgeshire Pension Fund (the Fund) as at 31 March 2013. The results are presented in this report and are briefly summarised below.

### Funding position

The table below summarises the financial position of the Fund at 31 March 2013 in respect of benefits earned by members up to this date.

	31 March 2010	31 March 2013
Past Service Position	(£m)	(£m)
Past Service Liabilities	2,048	2,633
Market Value of Assets	1,494	1,905
Surplus/(Deficit)	(555)	(728)
Funding Level	72.9%	72.4%

The increase in deficit reflects the adverse conditions which the Fund has had to contend with since the previous valuation. In particular, the decrease in the real gilt yield has increased the value placed on the Fund's liabilities.

### Contribution rates

The table below summarises the average employer contribution rate that would be required, based on this triennial valuation.

	31 March 2010	31 March 2013
Contribution Rates	(% of pay)	(%of pay)
Employer future service	17.2%	20.0%
rate (incl. Expenses)		
Past Service Adjustment	8.8%	10.5%
(20 year spread)		
Total Employer contribution	26.1%	30.5%
rate (incl. Expenses)		
Employee contribution rate	6.5%	6.1%
Expenses	0.5%	0.7%

Again, the increase in the total employer contribution rate is primarily due to the decrease in the real gilt yields which has increased both the employer future service rate and the past service adjustment.

The common contribution rate is a theoretical figure – an average across the whole Fund. In practice each employer that participates in the Fund has its own underlying funding position and circumstances, giving rise to its own contribution rate

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requirement. The minimum contributions to be paid by each employer from 1 April 2014 to 31 March 2017 are shown in the Rates and Adjustment Certificate.

The Fund does not undertake formal interim valuations. However, it receives quarterly funding updates based upon the latest triennial valuation funding data. This is reported to the Investment Sub Committee quarterly.

The key demographic assumptions are formally reviewed with the actuary at the start of each triennial valuation and any changes reflected in the valuation results. The assumptions used in the latest valuation are set out in Appendix E of the Funding Strategy Statement which can be found at Appendix B to the Annual Report.

# Governance Policy and Compliance Statement

It is a requirement for the Administering Authority to publish a Governance Policy and Compliance Statement since the Local Government Pension Scheme (Administration) Regulations 2008 came into force and this remains the case following the enactment of the Local Government Pension Scheme Regulations 2013 the (under regulation 55).

The Governance Policy and Compliance Statement incorporates a statement on how compliant the Administering Authority is against a set of best practice principles issued by Communities and Local Government in 2008. The compliance statement is intended to ensure transparency, accountability and stakeholder involvement.

The Governance Policy and Compliance Statement was last updated in January 2013 and can be found on the Cambridgeshire Pension Fund website, <u>http://pensions.cambridgeshire.gov.uk</u> and in appendix A of this report.

The Governance Policy and Compliance Statement was reviewed in June 2015 and the revised Statement will be updated and published on the website.

The activities of the Fund are controlled by the County Council's Pension Fund Committee

The Pension Fund Committee consists of the following representatives:

Representing	No.
Cambridgeshire County Council (County Councillors)	6
All other Local Authorities, Police and Fire	2
All other employers	1
Active Scheme members	1
Deferred and Pensioner Scheme members	1
Total	11

Operational investment matters are dealt with by the Investment Sub-Committee which consists of the following representatives:

Representing	No.
Cambridgeshire County Council (County Councillors)	4
All other employers	2
Scheme members	1
Total	7

All members have equal voting rights.

The Pension Fund Committee meets 4 times a year and holds an Annual General Meeting each July. The Investment Sub-Committee meets 4 times a year. In 2014-15, the meetings were held on the following dates;

Pension Fund	Date	Investment Sub-	Date
Committee	8 April 2014	Committee	5 June 2014
(meeting in April is normally held in March)	26 June 2014		11 September 2014
	24 July 2014 (AGM)		20 November 2014
	23 October 2014		19 February 2015
	18 December 2014		
	19 March 2015		

The following table shows the attendance of committee members at both the Pension Fund Committee and Investment Sub-Committee meetings during 2014-15.

		Attendance at Pension Fund Committee Meetings	Attendance at Investment Sub- Committee Meetings
County Council	Cllr S Count	6/6	3/4
Members	Cllr P Ashcroft	5/6	4/4
	Cllr R Hickford	6/6	4/4
	Cllr M Leeke	6/6	3/4
	Cllr J Reynolds	1/4	1 *
	Cllr M McGuire	2/2	N/A
	Cllr A Walsh	1/1	N/A
	Cllr M Shellens	4/4	2
District/Borough/	Cllr N Guyatt	1/1	1/1
Police and Fire	Cllr A Fraser	2/2	2/2
Representatives	Cllr D Seaton	3/6	4/4
All Other	David Brooks	0/1	N/A
Employers' Representatives	Tim Woods	3/3	N/A
Member	Matthew Pink	4/6	N/A
Representatives	John Walker	6/6	4/4

\* Attended as a substitute

# Pensions Administration Strategy Report

The Fund's Pensions Administration Strategy is produced in accordance with Regulation 59 of the Local Government Pension Scheme Regulations 2013. The Regulations provide that administering authorities may prepare, maintain and publish a written statement setting out their policy concerning administration matters, and the administering authority and its employing authorities must then have regard to that strategy when carrying out their functions.

The Regulations also require that the administering authority should consult with its employing authorities (and any other persons it considers appropriate) in preparing or reviewing its administration strategy.

In addition, regulation 70 of the Local Government Pension Scheme Regulations 2013 allows an administering authority to recover additional costs from a scheme employer where, in its opinion, they are directly related to the poor performance of that scheme employer. Where this situation arises the administering authority is required to give written notice to the scheme employer, setting out the reasons for believing that additional costs should be recovered, the amount of the additional costs, together with the basis on which the additional amount has been calculated.

The current Pensions Administration Strategy was approved by the Pension Fund Committee in October 2014, followed by a 30 day consultation period with the Scheme's employers. The strategy is published on the LGSS Pensions website and can be found in appendix B of this report.

To reinforce the importance of the Pensions Administration Strategy, regular employer forums are held to communicate the performance against agreed standards. Examples of the key performance indicators that are measured are detailed below:

Service Standard	Target (working days)
The provision of named pension contacts	30 working days
for the scheme employer	
Scheme employers must have published Employer Discretions, accessible to all employees and a copy provided to LGSS Pensions	Within 30 working days of approval
Accurate year end information must be provided for all Scheme members	By 30 April

During 2014-15 the scheme did not exercise its powers to recover additional costs from scheme employers.

# Funding Strategy Statement

The Fund is required to ensure that sufficient funds are available not only to meet its current liabilities, but also to make advance provision of accruing future liabilities. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made, in addition to the need to ensure sufficient funds are available for its current liabilities.

Although the regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the administering authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

This strategy is both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the administering authority to implement and maintain.

The Funding Strategy Statement is reviewed in line with the valuation cycle to ensure that the strategy is appropriate and relevant.

In 2014-15, contribution increases were implemented in accordance with the Statement to the Rates and Adjustments Certificate attached to the 2013 valuation of the Fund.

New admitted bodies are admitted into the Scheme in accordance with the Funding Strategy Statement and the Admission Bodies, Scheme Employers and Bulk Transfer Policy.

During 2014-15 one new bond and eight new guarantee agreements were put in place as security for the Fund.

The Funding Strategy Statement was updated in March 2014 and can be found on the Cambridgeshire Pension Fund website, <u>http://pensions.cambridgeshire.gov.uk</u> and in appendix B of this report.

# Statement of Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which came into force on 1 January 2010, require an administering authority, after consultation with such persons as it considers appropriate, to prepare, maintain and publish a written statement of the principles governing its decisions about the investment of scheme money.

The statement must also state the extent to which the administering authority complies with guidance given by the Secretary of State, and, to the extent the authority does not comply, the reasons for not complying. Currently the SIP compliance rating is deemed "fully compliant".

The statement must be reviewed and if necessary, revised, by the administering authority from time to time and, in the case of any material change in the authority's policies or breach of compliance, within six months of such change. To meet these requirements the Pension Fund Committee usually review the SIP at the annual general meeting each July.

The purpose of this document is to satisfy the requirements of these regulations. In addition, Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 came into effect 1 April 2004, requiring administering authorities to publish a Funding Strategy Statement (FSS). The FSS must have regard to the Statement of Investment Principles (SIP). This document contains reference to the FSS for information.

The Statement of Investment Principles was reviewed and approved by the Pension Fund Committee in March 2015. The SIP that was enforce in 2014-15 and can be found on the Cambridgeshire Pension Fund website, http://pensions.cambridgeshire.gov.uk and in appendix C of this report.

# **Communication Policy Statement**

The Communications Policy is guided by the standards set out in regulation 61 of the Local Government Pension Scheme Regulations 2013.

These Regulations require administering authorities to:

- prepare, maintain and publish a written statement setting out their policy concerning communications with:
  - Scheme members
  - representatives of Scheme members
  - o prospective Scheme members
  - employing authorities;
- set out their policy on:
  - the provision of information and publicity about the Scheme to members, representatives of members and employing authorities
  - the format, frequency and method of distributing such information or publicity
  - the promotion of the Scheme to prospective members and their employing authorities; and
- keep the statement under review and make such revisions as are appropriate following a material change in the policy on any of the matters mentioned below and if revisions are made, publish a revised statement.

The current Communications Policy was approved by the Pension Fund Committee in October 2014. The policy is published on the LGSS Pensions website and can be found in appendix D of this report.

In line with the Communications Policy the Fund's website has dedicated sections that provide up to date and detailed information for members, prospective members and employers.

Communications with the Scheme's employers take place on a regular basis through the use of bulletins which cover subjects ranging from changes to reporting procedures and notification of new employee contribution rate bandings to be applied.

The Fund delivers training and workshops for scheme employers on topics such as employers' responsibilities in the Fund and dealing with ill health retirements.

During 2014-15 presentations were delivered at strategic points around the County to ensure all members were in a reasonable commuting distance to be able to receive information on the new LGPS 2014. These sessions were very well attended with positive feedback received.

Pre-retirement presentations are regularly delivered, normally at the request of the scheme employer and at the employer's establishment to allow ease of access for Scheme members.

# Any Other Appropriate Material

The table below shows a summary of the number of employers in the Fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities).

	Active	Ceased	Total
Scheduled body	106	0	106
Admitted body	69	42	111
Designated body	44	2	46
Total	219	44	263

The following table shows an analysis of the Fund's assets at 31 March 2015 by asset class, based upon manager mandates.

	UK	Non UK	Global	Total
	£m	£m	£m	£m
Equities	535	91	960	1,586
Bonds	0	52	284	336
Property - direct holdings	0	0	0	0
Alternatives	36	29	281	346
Cash and cash equivalents	0	0	0	0
Other	0	0	0	0
Total	571	172	1,525	2,268

The following table shows an analysis of investment income accrued during the reporting period by asset class.

	UK	Non UK	Global	Total
	£000	£000	£000	£000
Equities	15,365	0	10,956	26,321
Bonds	0	2,351	0	2,351
Property - direct holdings	0	0	0	0
Alternatives	0	4,123	2,535	6,658
Cash and cash equivalents	382	0	0	0
Other	0	0	0	0
Total	15,747	6,500	13,491	35,712

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# Fund Account, Net Assets Statement and Notes

## Introduction

- **1.1** The following comprises the Statement of Accounts for the Cambridgeshire County Council Pension Fund. The accounts cover the financial year from 1 April 2014 to 31 March 2015.
- **1.2** These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 based on International Financial Reporting Standards (IFRS) as published by the Chartered Institute of Public Finance and Accountancy. The accounts have been prepared on an accruals basis. They do not take account of liabilities to pay pensions and other benefits in the future.
- **1.3** The accounts are set out in the following order:

**Fund Account** which discloses the size and nature of financial additions to and withdrawals from the Fund during the accounting period and reconciles the movements in the net assets to the Fund Account.

**Net Assets Statement** which discloses the size and disposition of the net assets of the Fund at the end of the accounting period.

**Notes to the Accounts** which gives supporting accounting policies, detail and analysis concerning the contents of the accounts, together with information on the establishment of the Fund, its membership and actuarial position.

# Cambridgeshire Fund Account for the year ended 31 March 2015

2013/14			2014/15
£000		Notes	£000
	Dealings with members, employers and others directly involved in the fund		
99,575	Contributions	7	109,103
4,249	Transfers in from other pension funds	8	2,866
103,824			111,969
(87,599)	Benefits	9	(91,901)
(5,514)	Payments to and on account of leavers	10	(36,845)
(93,113)			(128,746)
10,711	Net additions/(withdrawals) from dealings with members		(16,777)
(7,221)	Management Expenses	11	(9,898)
	Returns on investments		
36,504	Investment income	12	35,712
(1,803)	Taxes on income		(1,176)
115,628	Profit and losses on disposal of investments and changes in the market value of investments	14a	218,316
150,329	Net return on investments		252,852
153,819	Net increase in the net assets available for benefits during the year		226,177

Note: Management Expenses for 2013/14 have been re-presented to combine Administrative Expenses and Investment Expenses.

# Net Assets Statement as at 31 March 2015

2013/14			2014/15
£000		Notes	£000
1,991,232	Investment assets	14	2,219,621
47,259	Cash deposits	14	48,731
2,038,491			2,268,352
(5,311)	Investment liabilities	14	(594)
22,202	Current assets	19	16,055
4,053	Non current assets	20	1,896
(1,894)	Current liabilities	21	(1,991)
19,050			15,366
2,057,541	Net assets of the fund available to fund benefits at the period end		2,283,718
1,903,722	Opening net assets as at 1 April		2,057,541
153,819	Net increase in the net assets available for benefits during the year		226,177
2,057,541	Closing net assets as at 31 March		2,283,718

# Notes to the Accounts

# 1. Description of Fund

The Cambridgeshire County Council Pension Fund is part of the Local Government Pension Scheme and is administered by Cambridgeshire County Council. The County Council is the reporting entity for this Pension Fund.

The following description of the Fund is a summary only. For more detail, reference should be made to the Annual Report 2014/15 on pages 3 to 54 and the underlying statutory powers underpinning the scheme, namely the Public Services Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

## a) General

The Fund is governed by the Public Services Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the LGPS Regulations 2013 (as amended)
- the LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined benefit pension scheme administered by Cambridgeshire County Council to provide pensions and other benefits for pensionable employees of Cambridgeshire County Council, the district councils in Cambridgeshire County and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and fire-fighters are not included as they come within other national pension schemes.

The Fund is overseen by the Cambridgeshire Pension Fund Committee, which is a committee of Cambridgeshire County Council.

### b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Cambridgeshire Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

As at 31 March 2015 there are 219 (2014: 197) active employer organisations within the Cambridgeshire Pension Fund including the County Council itself, an increase of 22, as detailed below:

Cambridgeshire Fund	31 March 2014	31 March 2015
Number of employers with active members	197	219
Number of employees in scheme		
County council	10,723	10,824
Other employers	14,131	14,521
Total	24,854	25,345
Number of Pensioners		
County council	7,304	7,529
Other employers	7,787	8,129
Total	15,091	15,658
Deferred pensioners		
County council	12,993	14,097
Other employers	12,800	14,158
Total	25,793	28,255

## c) Funding

Benefits are funded by contributions and investment earnings. Currently the level of contribution income is sufficient to fund regular benefit payments. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2015. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013. Employers' contributions comprise a percentage rate on active payroll between 11% and 25.1% and deficit payments of fixed cash amount set for each employer as part of the triennial funding valuation.

## d) Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1 April 2008	Service from April 2008 to 31 March 2014
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump Sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

# e) Career Average Revalued Earnings (CARE)

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based upon their of 1/49th of each year's pensionable pay which creates a pension pot which is revalued annually by CPI until retirement.

There are a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits.

For more details, please refer to the Cambridgeshire Pension Fund scheme handbook available from LGSS Pension Services based at John Dryden House, Northampton NN4 7YD or online at pensions.cambridgeshire.gov.uk

Benefits are index linked in order to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the Retail Prices Index to the Consumer Prices Index. This change took effect from 1 April 2011.

# 2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2014/15 financial year and its position at year-end as at 31 March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 18 of these accounts.

# 3. Summary of Significant Accounting Policies

## Fund Account – revenue recognition

## a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis in the payroll period to which they relate.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

## b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see notes 8 and 10).

Individual transfers in/out are accounted for on an accruals basis when the associated liability is accepted by the receiving scheme.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on an accruals basis and are included in Transfers In (see Note 8).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

### c) Investment income

### *i)* Interest income

Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

### ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

#### *iii)* Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

# iv) Movement in the net market value of investments Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

#### v) Stock lending

Stock lending income is recognised in the Fund Account as it accrues. Stock lending income represents the transfer of securities by the Pension Fund to an approved counterparty ("Borrower"), against a receipt of collateral (non-cash), for a fee, subject to the obligation by that same counterparty to redeliver the same or similar securities back to the Lender at a future date.

## Fund Account – expense items

## d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities and paid in the following month.

## e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

## f) Management expenses

All management expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged direct to the Fund. Management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy.

Fees of the external Investment Managers and Custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition the fund has negotiated with the following managers that an element of their fee be performance related:

Schroders Investment Management – Multi Asset

Amundi Asset Management – Pan European Equity

Newton Asset Management – Global Asset

Skagen Asset Management - Emerging Market

Where an Investment Manager's fee note has not been received by the year end date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the Fund Account.

The cost of obtaining investment advice from external consultants is included in investment management charges.

The costs of the Council's in house fund management team are charged direct to the Fund and a proportion of the Council's costs representing management time spent by officers on investment management are also charged to the Fund.

### Net Assets Statement

### g) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised by the Fund.

The values of investments as shown in the net assets statement have been determined as follows:

### i. Market quoted securities

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

#### ii. Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- Securities subject to takeover offer the value of the consideration offered under the offer, less estimated realisation costs.
- Investments in pooled investment vehicles are valued at the net asset value or a single price advised by the Fund Manager.
- Investments in private equity funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective Fund Managers in accordance with the guidelines set out by the British Venture Capital Association.
- The joint ownership of Cambridge and Counties Bank is valued using the profit before tax multiple method.

### iii. Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the Fund, net of applicable withholding tax.

### h) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

# i) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

# j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

# k) Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

# I) Contingent liabilities

Provisions are measured at the best estimate (including risks and uncertainties) of the expenditure required to settle the present obligation, and reflects the present value of expenditures required to settle the obligation where the time value of money is material.

# m) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards [Code Para 6.5.2.8].

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 18).

# n) Additional voluntary contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential and Equitable Life as its AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing 65

additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 22).

# 4. Critical Judgements in Applying Accounting Policies

# Unquoted private equity and infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equity and infrastructure investments are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2015 was £165.4m (£138.3m at 31 March 2014).

# **Pension Fund liability**

The Pension Fund liability is calculated every three years by the appointed actuary, with quarterly updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

# 5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

ltem	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £191m. A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £49m, and a one-year increase in assumed life expectancy would increase the liability by approximately £41m.
Private equity and infrastructure	Private equity and infrastructure investments are valued at fair value. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £148.1m.There is a risk that this investment may be under- or overstated in the accounts.
Cambridge and Counties Bank	Cambridge and Counties Bank is not publicly listed and as such there is a degree of estimation involved in the valuation. For prudency, the Pension Fund's investment is valued using the profit before tax multiple basis.	The investment in the financial statements is £17.3m.There is a risk that this investment may be under- or overstated in the accounts.

# 6. Events After the Year End Date

There have been no events since 31 March 2015, and up to the date when these accounts were authorised that require any adjustments to these accounts.

# 7. Contributions Receivable

# By category

2013/14		2014/15
£000		£000
76,086	Employers	82,086
23,489	Members	27,017
99,575		109,103

# By authority

2013/14		2014/15
£000		£000
30,525	Administering Authority	34,689
62,884	Scheduled Bodies	65,771
6,166	Admitted Bodies	8,643
99,575		109,103

# 8. Transfers In From Other Pension Funds

2013/14		2014/15
£000		£000
4,249	Individual transfers	2,866
4,249		2,866

Transfers in from other pension funds are contingent on positive transfer elections from new employees with previous pension rights available to transfer.

# 9. Benefits Payable

## By category

2013/14		2014/15
£000		£000
68,383	Pensions	68,310
17,691	Commutation and lump sum retirement benefits	21,942
1,525	Lump sum death benefits	1,649
87,599		91,901

# By authority

2013/14		2014/15
£000		£000
34,247	Administering Authority	37,220
49,744	Scheduled Bodies	49,158
3,608	Admitted Bodies	5,523
87,599		91,901

The commutation and lump sum retirement benefits value is dependent on volumes of retirements and the specific commutation decisions of retirees. The value is expected to reduce year on year, even if commutation trends remain constant, as the amount of post 31/3/2008 service (which provides no automatic lump sum) forms an ever increasing component of the service on which pension benefits are based. The increase in benefits payable to Admitted Bodies in 2014/15 is due to schools converting to academies.

# 10. Payments To and On Account of Leavers

2013/14		2014/15
£000		£000
15	Refunds to members leaving service	108
-	Payments for members joining state scheme	-
-	Group transfers	32,745
5,499	Individual transfers	3,992
5,514		36,845

Individual transfers are dependent on individuals having an approved pension arrangement to transfer their LGPS benefits to after leaving the Cambridgeshire Fund and also the relative merits of that destination arrangement in comparison with the LGPS. Group transfers in 2014-15 represent a payment in February 2015 in connection with the transfer of the administration of pensions for the Probation Service to the Greater Manchester Pension Fund.

# **11. Management Expenses**

2013/14		2014/15
£000		£000
2,205	Administrative costs	2,292
4,569	Investment management expenses (see note 13)	7,198
447	Oversight and governance costs	408
7,221		9,898

# 12. Investment Income

2013/14		2014/15
£000		£000
24,275	Equity dividends	26,067
9,645	Pooled investments – unit trusts and other managed funds	7,978
161	Interest on cash deposits	102
2,423	Other (includes stock lending, class action and underwriting)	1,565
36,504		35,712

# **13. Investment Management Expenses**

2013/14		2014/15
£000		£000
4,015	Management fees	6,688
554	Investment support costs	510
4,569		7,198

The increase in management fees between 2013-14 and 2014–15 is due to performance related fees. Performance related fees in 2014/15 were  $\pounds$ 4.1m (2013/14:  $\pounds$ 1.7m)

# 14. Investments

Market value 31 March		Market value 31 March 2015
2014 £000		£000
£000	Investment coasts	£000
745.000	Investment assets	0.40.577
745,800	Equities	843,577
955,205	Pooled investments	1,044,265
146,164	Pooled property investments	162,593
138,312	Private equity/infrastructure	165,436
	Derivatives	
199	Futures	386
47,259	Cash deposits	48,731
3,462	Investment income due	3,276
2,090	Amounts receivable for sales	88
2,038,491	Total investment assets	2,268,352
	Investment liabilities	
	Derivative contracts:	
	Futures	(393)
(107)	Forward currency contracts	(157)
(5,204)	Amounts payable for purchases	(44)
(5,311)	Total investment liabilities	(594)
2,033,180	Net investment assets	2,267,758

# 14a: Reconciliation of Movements in Investments and Derivatives

	Market value 1 April 2014	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2015
	£000	£000	£000	£000	£000
Equities	745,800	236,732	(221,233)	82,278	843,577
Pooled investments	955,205	25,227	(25,513)	89,346	1,044,265
Pooled property investments	146,164	9,916	(15,565)	22,078	162,593
Private equity/infrastructure	138,312	17,565	(20,003)	29,562	165,436
	1,985,481	289,440	(282,314)	223,264	2,215,871
Derivative contracts:					
Futures	199	27	(4,276)	4,043	(7)
Forward currency contracts	(107)	2,470	(2,522)	2	(157)
	1,985,573	291,937	(289,112)	227,309	2,215,707
Other investment balances:	47,607	0	(0)	(8,993)	52,051
Cash deposits	47,259				48,731
Amount receivable for sales	2,090				88
Investment income due	3,462				3,276
Amounts payable for purchases of investments	(5,204)				(44)
Net investment assets	2,033,180			218,316	2,267,758

Transaction costs are included in the cost of purchases and in sale proceeds. They include costs charged directly to the Fund, such as fees, commissions, stamp duty and other fees.

Transaction costs incurred during the year totalled £709k (£670k in 2013/14). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

	Market value 1 April 2013	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2014
	£000	£000	£000	£000	£000
Equities	703,467	223,658	(248,972)	67,647	745,800
Pooled investments	869,170	149,107	(98,038)	34,966	955,205
Pooled property investments	132,546	39,577	(34,221)	8,262	146,164
Private equity/infrastructure	129,218	21,090	(17,623)	5,627	138,312
	1,834,401	433,432	(398,854)	116,502	1,985,481
Derivative contracts:					
Futures	302	234	(427)	90	199
Forward Currency Contracts	714	1,289	(1,643)	(467)	(107)
	1,835,417	434,955	(400,924)	116,125	1,985,573
Other investment balances:	44,069			(497)	47,607
Cash deposits	42,647				47,259
Amount receivable for sales	1,018				2,090
Investment income due	2,955				3,462
Amounts payable for	(2,551)				(5,204)
purchases of investments					
Net investment assets	1,879,486			115,628	2,033,180

31 March 2014		31 March 2015
£000		£000
~~~~	Equities	~~~~
	UK	
335,542	Quoted	364,898
	Overseas	
410,258	Quoted	478,679
745,800		843,577
	Pooled funds – additional analysis	
	UK	
270,273	Fixed income	122,420
206,166	Equity	567,016
	Overseas	
49,419	Fixed income	213,787
429,347	Equity	140,276
0	Cash Fund	766
955,205		1,044,265
146,164	Pooled property investments	162,593
138,312	Private equity/infrastructure	165,436
284,476		328,029
1,985,481		2,215,871

# 14b: Analysis of Investments (Excluding Derivative Contracts)

# Analysis of derivatives

# Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the various investment managers.

# a) Futures

The economic exposure represents the notional value of stock purchased under futures contracts and is therefore subject to market movements.

# b) Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund's investment managers enter into forward foreign currency contracts to take advantage of current exchange rates.

# Futures

Outstanding exchange traded futures contracts are as follows:

Туре	Expires	Economic exposure	Market value 31 March 2014	Economic exposure	Market value 31 March 2015
		£000	£000	£000	£000
Assets					
UK Equity	Less than 1 year	17,050	221	0	0
Overseas Equity	Less than 1 year	0	0		
Overseas Cash	Less than 1 year	0	0	(18,077)	386
Futures					
Total assets		17,050	221	(18,077)	386
Liabilities					
UK Equity	Less than 1 year	0	0		
Overseas Equity	Less than 1 year	(10,330)	(22)	0	0
Overseas Cash	Less than 1 year	0	0	(2)	(393)
Futures					
<b>Total Liabilities</b>		(10,330)	(22)	(2)	(393)
Net Futures		6,720	199	(18,079)	(7)

# Open forward currency contracts

Settlement	Currency bought	Base market value	Currency sold	Base market value	Asset value	Liability value
		£000		£000	£000	£000
Up to one month	SEK	134,251	EUR	(14,711)	(	) (157)
Open forward currency forward currency contracts at 31 March <b>0</b> 2015					) (157)	
Net forward currency forward currency contracts at 31 March 2015					<u>(157)</u>	
Prior year comparative Open forward currency contracts at 31 March 2014 5					5 (112)	
Net forward currence	y contracts	at 31 Marc	h 2014			<u>(107)</u>

# Investments analysed by fund manager and direct holdings

Market va			Market v	
31 March	2014		31 March	2015
£000	%		£000	%
827,497	40.7	Schroders Investment Management	895,098	39.5
470,731	23.2	State Street Global Asset Management	535,387	23.6
234,932	11.6	Newton Investment Management	284,373	12.6
214,409	10.5	Amundi Asset Management	241,325	10.7
90,157	4.4	Skagen	91,480	4.0
49,418	2.4	M&G	51,829	2.3
45,668	2.2	Adams Street Partners	57,942	2.5
38,740	1.9	HarbourVest	45,123	2.0
17,498	0.9	UBS Infrastructure	18,011	0.8
16,302	0.8	Equitix	18,420	0.8
14,478	0.7	Cambridge and Counties Bank (direct	17,289	0.7
		holding)		
5,626	0.3	Partners	11,154	0.5
7,724	0.4	Cash with custodian	327	0.0
2,033,180	100.0		2,267,758	100.00

All the above companies are registered in the United Kingdom.

# The following investments represent more than 5% of the net assets of the Scheme

Security	Market value 31 March 2014	% of total Fund	Market value 31 March 2015	% of total Fund
	£000		£000	
Schroders International Selection Fund – Strategic Bond	156,756	7.7	161,958	7.1
Schroders Unit Trusts Instl Sterling Broad Mkt Bond X ACC	113,517	5.6	122,420	5.4
MPF All World Equity Index Sub-Fund	269,174	13.3	320,365	14.1
MPF UK Equity Index Sub- Fund	201,556	9.9	215,022	9.5

# 14c: Stock Lending

The Fund Strategy Statement sets the parameters for the Fund's stock-lending programme. At 31 March 2015, the value of securities on loan was £58.4m (31 March 2014: £126.7m) in exchange for which the Custodian held collateral at fair value of £64.6m (31 March 2014: £140.9m). Collateral consists of acceptable securities and government debt.

# **15:** Financial Instruments

# 15a: Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the year.

3'	1 March 2014			3 <sup>,</sup>	1 March 2015	
Designated as fair value through profit and	Loans and receivables	Financial liabilities at amortised		Designated as fair value through profit and	Loans and receivables	Financial liabilities at amortised
loss		cost		loss		cost
£000	£000	£000	<u> </u>	£000	£000	£000
			Financial assets			
745,800			Equities	843,577		
955,205			Pooled investments	1,044,265		
146,164			Pooled property investments	162,593		
138,312			Private equity/ infrastructure	165,436		
199			Derivative contracts	386		
	47,259		Cash		48,731	
3,462			Other investment balances	3,364		
	2,090		Receivables		0	
1,989,142	49,349	0		2,219,621	48,731	0
			Financial liabilities			
		(107)	Derivative contracts			(550)
		(5,204)	Payables			(44)
0 1,989,142	0 49,349	(5,311) (5,311)		2,219,621	48,731	(594) (594)

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# **15b: Net Gains and Losses on Financial Instruments**

Fair value 31 March 2014		Fair value 31 March 2015
£000		£000
	Financial assets	
116,502	Fair value through profit and loss	223,264
(497)	Loans and receivables	(8,993)
	Financial liabilities	
(377)	Financial liabilities measured at	4,045
	amortised cost	
115,628	Total	218,316

# 15c: Fair Value of Financial Instruments and Liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

31 March 20	4	31	March 2015
Carrying Fair val value	IE	Carrying value	Fair value
£000 £0	00	£000	£000
	Financial assets		
1,989,142 1,989,1	12 Fair value through profit and loss	2,219,621	2,219,621
49,349 49,3	19 Loans and receivables	48,731	48,731
2,038,491 2,038,4	91 Total financial assets	2,268,352	2,268,352
	Financial liabilities		
(5,311) (5,31	<ol> <li>Financial liabilities at amortised cost</li> </ol>	(594)	(594)
(5,311) (5,31	1) Total financial liabilities	(594)	(594)

The Authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

# 15d: Valuation of Financial Instruments Carried at Fair Value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

# Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index-linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

## Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

## Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which the Cambridgeshire Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Values at 31	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
March 2015	£000s	£000s	£000s	£000s
Financial assets				
Financial assets at fair value through profit and loss	1,140,664	761,572	317,385	2,219,621
Loans and receivables	47,232	1,499	0	48,731
Total financial assets	1,187,896	763,071	317,385	2,268,352
Financial liabilities				
Financial liabilities at amortised cost	(594)	0	0	(594)
Total financial liabilities	(594)	0	0	(594)
Net financial assets	1,187,302	763,071	317,385	2,267,758

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2014	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
Financial assets				
Financial assets at fair value through profit and loss	1,727,026	8,791	253,325	1,989,142
Loans and receivables	49,349	0	0	49,349
Total financial assets	1,776,375	8,791	253,325	2,038,491
Financial liabilities Financial liabilities at amortised cost	(5,311)	0	0	(5,311)
Total financial liabilities	(5,311)	0	0	(5,311)
Net financial assets	1,771,064	8,791	253,325	2,033,180

# 16: Nature and Extent of Risks Arising From Financial Instruments

# Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

## a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:

- the exposure of the Fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels; and
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for overthe-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

## b) Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund investment strategy.

## c) Other price risk – sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on Funds' asset allocations.

We provide an example below;

Asset Type	Potential Market Movement +/- (%p.a.)
Equities	9.7
Pooled Bonds	1.1
Property	2.8
Alternatives	3.8
Cash and Other Investment Balances	0.0

The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 2015 (£'000s)	Percentage Change (% rounded)	Value on Increase (£'000s)	Value on Decrease (£'000s)
Equities	1,550,869	9.7	1,701,303	1,400, 435
Pooled Bonds	336,207	1.1	339,905	332,509
Property	162,593	2.8	167,146	158,040
Alternatives	165,436	3.8	171,723	159,149
Cash	49,497	0.0	49,497	49,497
Other investment balances	3,156	0.0	3,156	3,156
Total Assets	2,267,758	6.6	2,417,430	2,118,086

Asset Type	Value as at 31 March 2014 (£'000s)	Percentage Change (% rounded)	Value on Increase (£'000s)	Value on Decrease (£'000s)
Equities	1,381,313	12.5	1,553,977	1,208,649
Pooled Bonds	319,692	3.5	330,721	308,663
Property	146,164	2.3	149,482	142,846
Alternatives	138,312	2.9	142,378	134,246
Cash	47,259	0.0	47,268	47,249
Other investment balances	440	2.7	440	440
Total Assets	2,033,180	8.3	2,202,710	1,863,649

## Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Council and its investment consultant in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2015 and 31 March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	As at 31 March 2015 £000	As at 31 March 2014 £000
Cash and cash equivalents	48,731	47,259
Cash balances	4,033	8,299
Fixed interest securities	336,207	49,419
Total	388,971	104,977

## Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. An 80 basis point (BPS) (i.e. 0.80%) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The Fund's investment consultant has advised that long-term average rates are expected to move less than 80 basis points from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/-100 BPS (1.0%) change in interest rates:

Asset type	Carrying amount as at 31 March 2015	Change in year in the net assets available to pay benefits +100 BPS -100 BPS		
	£000	+100 BPS -100 BPS £000 £000		
Cash and cash equivalents	48,731	487	(487)	
Cash balances	4,033	40	(40)	
Fixed interest securities	336,207	3,362	(3,362)	
Total change in assets available	388,971	3,889	(3,889)	

Asset type	Carrying amount as at 31 March 2014		in the net assets pay benefits	
	£000	+100 BPS -100 BPS £000 £000		
Cash and cash equivalents	47,259	473	(473)	
Cash balances	8,299	83	(83)	
Fixed interest securities	49,419	494	(494)	
Total change in assets available	104,977	1,050	(1,050)	

# Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (GBP). The Fund holds both monetary and non-monetary assets denominated in currencies other than GBP.

The Fund's currency rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations. The following table summarises the Fund's currency exposure as at 31 March 2015 and as at the previous year end:

Currency exposure – asset type	Asset Value as at 31 March 2015 £000	Asset Value as at 31 March 2014 £000
Overseas Equities	618,954	839,605
Overseas Fixed Income	213,787	49,419
Overseas Cash Fund	766	0
Total overseas assets	833,507	889,024

## Currency risk – sensitivity analysis

We consider the following approach to determining potential currency risk.

We determine the potential volatility of the aggregate currency exposure within the Fund at the year end and apply this single outcome to all non-UK assets. In order to calculate this, we need to create a currency basket based on a fund's currency mix. <sup>84</sup>

We do this by multiplying the weight of each currency by the change in its exchange rate (relative to GBP) and sum to create the aggregate currency change of the 'basket'. The aggregate currency change for March 2015 was 5.4% (7.7% for March 2014).

Repeating this for all of the months in our measurement year allows us to measure the observed volatility of this unique currency basket's changes relative to GBP. The 5.4% currency change is applied to the Fund's overseas assets as follows:

Asset Type	Asset Value as at 31/03/15	Change to net assets available to pay benefits	
	£000	+5.4%	-5.4%
Overseas Equities	618,954	652,378	585,530
Overseas Fixed Income	213,787	225,331	202,243
Overseas Cash Fund	766	807	725
Total overseas assets	833,507	878,516	788,498

Asset Type	Asset Value as at 31/03/14		
	£000		
Overseas Equities	839,605	903,953	775,257
Overseas Fixed Income	49,419	51,124	47,714
Overseas Cash Fund	0	0	0
Total overseas assets	889,024	,024 955,077 82	

# b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipts that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution. The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectible deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2015 was £4.03m (31 March 2014: £8.3m). This was held with the following institution:-:

	Rating	Balances as at 31 March 2015 £000	Balances as at 31 March 2014 £000
Bank deposit accounts			
Barclays Bank	А	4,033	8,299
Total		4,033	8,299

# c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.

The Council has immediate access to its Pension Fund cash holdings.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2015 the value of illiquid assets was £328.0m, which represented 14.5% of the total Fund assets (31 March 2014: £284.5m, which represented 14.0% of the total Fund assets).

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund investment strategy.

All financial liabilities at 31 March 2015 are due within one year.

# **17: Funding Arrangements**

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2013. The next valuation will take place as at 31 March 2016.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- 86

- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return.
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so.
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Normally this is three years but in some cases a maximum period of 12 years can be granted. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable. Where an employer's funding level is less than 90% of the 100% funding target, a deficit recovery plan has been put in place requiring additional contributions from the employer to meet the shortfall.

At the 2013 actuarial valuation, the Fund was assessed as 72.4% funded (72.9% at the March 2010 valuation). This corresponded to a deficit of £728m (2010 valuation: £555m) at that time.

The common contribution rate (i.e. the rate which all employers in the fund pay) is:

Year	Employers' contribution
	rate
2013/14	26.1%
2014/15	30.5%
2015/16	30.5%

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2013 actuarial valuation report and the funding strategy statement on the Fund's website.

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were:

# Financial assumptions

A summary of the main financial assumptions adopted for the valuation of members' benefits are shown below.

		31 March 2013	
Assumption	Description	Nominal	Real
Price Inflation (CPI)/Pension increases		2.5%	-
Pay increases	CPI plus 1.8% p.a.	4.3%	1.8%
Funding basis discount rate	"Gilt-based" discount rate plus an Asset Outperformance Assumption of 1.6% p.a.	4.6%	2.1%

# Mortality assumptions

Future life expectancy base don the actuary's fund-specific mortality review was:

	Active & Deferred		Current Pensioner	
Assumed life expectancy at age	Members			
65	Male	Female	Male	Female
2010 valuation – baseline	21.2	23.8	21.2	23.8
2010 valuation – improvements	23.5	25.9	22.4	25.0
2013 valuation - baseline	20.1	22.8	20.3	22.4
2013 valuation - improvements	24.4	26.9	22.5	24.5

Note that the figures for active and deferred members assume that they are aged 45 at the valuation date.

Various scaling factors have been applied to the mortality tables to reflect the predicted longevity for each class of member and their dependents.

## Other demographic valuation assumptions:

## a) Retirements in ill health

Allowance has been made for ill-health retirements before Normal Pension Age.

## b) Withdrawals

Allowance has been made for withdrawals from service.

## c) Family details

A varying proportion of members are assumed to be married (or have an adult dependant) at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Husbands are assumed to be 3 years older than wives.

# d) Commutation

Future pensioners are assumed to elect to exchange pension for additional tax-free cash up to 25% of HMRC limits for service to 31 March 2008 and 63% of HMRC limits for service from 1 April 2008.

# 18: Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

In order to assess the value of the benefits on this basis, the Actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 17). The actuary has also used valued ill health and death benefits in line with IAS 19.

The actuarial present value of promised retirement benefits at 31 March 2015 was  $\pounds$ 3.791 bn (31 March 2014:  $\pounds$ 3.120bn.) The Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2013 triennial funding valuation (see note 17) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

## Assumptions used

	31 March 2015 % p.a.	31 March 2014 % p.a.
Inflation/pension increase rate assumption	2.4	2.8
Salary increase rate	4.3	4.6
Discount rate	3.2	4.3

# **19: Current Assets**

31 March		31 March
2014		2015
£000		£000
2,114	Contributions due - members	1,601
5,921	Contributions due – employers	4,295
146	Transfer values receivable (joiners)	260
5,892	Sundry receivables	5,866
8,129	Cash balances	4,033
22,202		16,055

# 20: Non Current Assets

With effect from 1 April 2005, 71 employees of the Cambridgeshire Magistrates' Courts transferred out of the Cambridgeshire Fund as part of a national transfer of the Magistrates' Courts out of Local Government schemes. However, the Cambridgeshire Fund has retained the liability for the Magistrates' pensioners and deferred pensioners. An assessment of the transfer by the Scheme's actuary, which was agreed by the Government Actuary's Department in March 2011, has resulted in an annual amount of £0.632m to be paid by the Ministry of Justice (former Department for Constitutional Affairs) to the Fund as the valuation of the transfer out was less than the retained liability. Annual Payments commenced in April 2011 for ten years. At 31 March 2015, a total of £2,528,000 was still due from the Ministry of Justice, with £632,000 being shown in Current Assets and £1,896,000 being due after 31 March 2016 being shown in Non Current Assets.

# 21: Current Liabilities

31 March 2014		31 March 2015
£000		£000
885	Sundry payables	1,080
389	Transfer values payable (leavers)	450
620	Benefits payable	461
1,894		1,991

# 22: Additional Voluntary Contributions

Market value 31 March 2014		Market value 31 March 2015
£000		£000
578	Equitable Life	539
6,984	Prudential	7,394
7,562		7,933

Total contributions of £5k were paid directly to Equitable Life during the year (2013-14:  $\pounds 2k$ ) and total contributions of £1,109k were paid directly to Prudential during the year (2013-14: £1,170k). The value of the Equitable Life fund decreased during the year due to the payment of retirement benefits exceeding receipts from contributions and investment income.

# 23: Related Party Transactions

# **Cambridgeshire County Council**

The Cambridgeshire County Council Pension Fund is administered by Cambridgeshire County Council. Consequently there is a strong relationship between the Council and the Fund.

The Council incurred costs of £2.4m (2013/14: £2.7m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses.

The Council is also the single largest employer of members of the Pension Fund and contributed £34.5m to the Fund in 2014/15 (2013/14: £23.3m).

# **Cambridge and Counties Bank**

The Fund is joint owner, along with Trinity Hall, Cambridge, of Cambridge and Counties Bank (CCB). The Council's Section 151 Officer is Non-executive Director on the Board of CCB; for which CCB pays £35,000 p.a. to the Council.

## Governance

The following Pension Fund Committee members declared a personal interest due to either being a member of the Scheme themselves or having a family member in the Scheme:-

Councillor Michael Shellens Councillor Seaton Matthew Pink John Walker

County Council members have declared their interests in their Register of Members' Interests. Other members of the Pension Fund Committee are required to declare their interests at each meeting.

# 24: Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2015 totalled £119.5m (31 March 2014: £93.9m)

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between three and fifteen years from the date of each original commitment.

# 25: Contingent Assets

Eighteen admitted body employers in the Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

# 26: Impairment Losses

# Impairment for bad and doubtful debts

During 2014/15 the Fund did not suffer any impairment loss (2013/14: Nil) for overpayment of pensions unable to be recovered due to reasons of estoppel.

# **Glossary of Terms**

## Terms used in this report and general terms used in financial markets.

## Accruals

Income and expenditure which is due but will not be received or paid until after the end of the financial year.

## Actuary

An independent company which advises on the assets and liabilities of the Fund with the aim to ensure that the payment of pensions and future benefits are met.

## **Admitted Bodies**

Voluntary and charitable bodies whose staff can become members of the Local Government Pension Scheme subject to certain terms and conditions and other organisations to whom Local Government employees have been transferred under the outsourcing of Local Government services.

## All Share Index

Properly the FTSE All Share index which summarises the state of the UK equity market. It covers some 900 of the major UK industrial, commercial and financial companies.

## Arbitrage

Buying and selling securities (usually in different markets) to take advantage of small pricing anomalies.

## At Best

An instruction to deal at the best price ruling in the market at the time, i.e. The highest price (selling) or lowest (buying).

#### Authorised Unit Trusts

A unit trust which is approved by the Financial Services Authority (FSA) to be sold to members of the public.

#### Bargain

Another name for a trade or transaction of the Stock Exchange.

## Bear

Someone who believes prices will fall in the future

#### Bearer

Securities which are legally owned by the Bearer of the document. No registration of ownership.

## **Beneficial Owner**

The true owner of a security regardless of the name in which it is registered.

## **Bid Price**

The price at which securities are purchased by market makers.

## Bond

Security issued by a corporate or government body borrowing in the capital markets. Bonds promise to pay interest (coupons) during the life of the bond plus the principal sum borrowed on the redemption date. Bonds may be secured over assets of the firm or be unsecured. [See also Non-Current Assets].

#### Bonus issue

Bonds, scrip or free issue are equivalent in terms. Free shares are issued to existing shareholders out of company reserves.

#### Bull

Someone who believes prices will rise in the future.

#### **Certificate of Deposit**

Certificate evidencing deposit of cash with a commercial bank.

#### **Clean Price**

The price of a bond which is quoted without accrued interest.

#### **Commercial paper**

Short term loan stock issued by corporates as part of a funding programme. Unsecured, Bearer securities.

## Commutation

Giving up part or all of the pension payable from retirement in exchange for an immediate lump sum. Commutation factors (usually calculated by the Scheme Actuary) are used to determine the amount of pension which needs to be given up in order to provide the lump sum.

## Contract note

The documentary record of a trade which is sent from the broker to the investor.

## Convertible

Unsecured loan stock (bond) which converts into equity of the issuing company. The UK Government also issues convertible gilts which convert into other government stock.

## Coupon

The regular payment made on bonds.

#### Debenture

Fixed loan stock (bond) secured against the company's non-current assets. First in the event of the company going into liquidation.

#### Derivative

A financial instrument derived from a security, currency or commodity, or an index or indicator representing any of these, the price of which will move in a direct relationship to the price of the base instrument.

#### **Distribution dates**

The date when interest or dividends are distributed to investors. Also called Payment Date.

## Dividend

The distribution of profits by a company to its shareholders. The dividend may be passed or cut if profits fall. {See also Equities]

#### **Deferred Pension Benefit**

A pension benefit which a member has accrued but is not yet entitled to receive.

#### Earnings per share (Eps)

The net (after tax) profits of a company divided by the number of ordinary shares in 93

issue. This is used as the 'E' term in the P/E ratio to value shares.

## Equities

Shares representing the capital of a company issued to shareholders usually with voting rights on the way the company runs the business. Equity holders rank last in the event of the winding up of a company.

## **Exercise Price**

The price at which the holder of an option or warrant can buy/sell the underlying asset.

## Expiry

The date on which an option or warrant expires.

## **Financial Services Authority (FSA)**

The lead UK regulator. A designated agency which is not a government department.

## **Fixed Interest Corporate Bond**

A certificate of debt issued by a company or institution in return for a fixed rate interest with a promise of redemption to repay the original sum.

#### Gilt

Similar to Corporate Bonds by way of interest and redemption but these are issued by Government and are a loan to the Government.

#### FTSE-100 Index

The main UK index used to represent the approximate price movements of the top 100 shares.

#### **Futures**

Instruments which give a buyer the right to purchase a commodity at a future date.

#### Gearing

The amount of borrowing versus debt on a company's Balance Sheet (Net debt/Ordinary shareholders' funds). Warrants and options also exhibit gearing, i.e. a small move in the price of the

underlying asset can be magnified in the move in the price of the option.

## Hedge

To protect a fund from a fall in prices. This is usually accomplished by the selling of futures.

#### Hedge Fund

A limited partnership with very little restriction on the scope of its investment. Usually quoted in Luxembourg or Dublin. Hedge funds often use borrowing to gear up exposure to markets.

## IMRO

Investment Management Regulatory Organisation. Fund Manager Regulator.

## Index Linked

Stock whose value is related directly to an index, usually the Retail price Index and therefore provides a hedge against inflation.

## Interest Yield

The annual coupon on a bond divided by the clean price.

## Loan Stock

Unsecured bonds, which may be convertible if they have a warrant attached.

#### Longs

Long dated gilts with time frame to maturity of more than 15 years.

#### **Market Capitalisation**

For an individual stock it is the value of all shares held in the equity of the company. For a market or index it is the total of all the market caps of the constituent companies.

#### Mediums

Medium-dated Gilts with time to maturity of 5-15 years.

#### Nominee

A firm which acts on behalf of the underlying beneficial owner of the securities and in whose name the securities are registered.

## **Offer Price**

The price at which market makers will sell stock.

#### **Ordinary Shares**

'A' Shares which confer full voting and dividend rights to the Owner.

#### **Rights Issue**

A new issue of shares offered to existing shareholders in proportion to their existing holdings. Usually offered at a discount to entice take-up, which causes the existing shares to fall in value to the theoretical exrights price.

#### **Scheduled Bodies**

Local Authorities and similar bodies whose staff are entitled automatically to become members of the local Authority Pension Fund.

#### Scrip Issue

Issue of free shares to current shareholders. Often used instead of a cash dividend (scrip dividend alternative).

#### Short

Selling more of an asset than the investor owns.

#### Spread

The difference between the bid and offer prices.

#### Stag

A person who applies for a new issue in the hope of selling quickly to make a profit.

#### Stock

Shares (e.g. Common stock). However, UK Gilts are more correctly described as stock.

## **Transfer Values**

Sums which are paid either to or received from other pension schemes and relate to new and former members' periods of pensionable employment with employers participating in the scheme.

#### Trust

Investments are owned by trustees for the underlying beneficial owners. A unit trust is a trust, incorporated under a trust deed. An investment trust is a company, not a trust.

## Underwriter

A firm which agrees to underwrite a new issue, for a fee, thereby guaranteeing the securities will be sold.

## Unit trust

An open-ended trust investing in a wide spread of stocks, shares and cash (subject to FSA limits). Investors buy units directly from the Fund manager to participate in a diversified portfolio. Unit trusts are subject to FSA investment and borrowing regulations.

## Warrants

Long dated options warrants give the holder the right to buy/sell a specified quantity of a particular stock, or any other asset, at a fixed price on or before a specified date.

## Yield Gap

Spread between gilt yields and yields on the stock market.

## Zero coupon bond

A bond which is issued at a discount to par and does not pay coupons but is redeemed at par Appendix A – Governance Policy & Governance Compliance Statement Appendix B – Funding Strategy Statement Appendix C – Statement of Investment Principles Appendix D – Communication Policy Statement

## CAMBRIDGESHIRE PENSION FUND



## **Pension Fund Board**

Date: 21<sup>st</sup> October 2015

## **Report by:** Deputy Head of Pensions

Subject:	June 2015 Pension Committee meeting standing reports.
Purpose of the Report	To provide the Pension Fund Board with an update of the standing items discussed at the June 2015 Pension Committee meeting.
Recommendations	That the Pension Fund Board note the contents of this report.
Enquiries to:	Joanne Walton – LGSS Pensions Governance and Regulations Manager Tel – 01604 367030 E-mail – jwalton@northamptonshire.gov.uk

#### 1. Background

- 1.1 This report is to bring the Pension Fund Board up to date with the information contained within the standing items on the agenda of the June 2015 Pension Committee meeting.
- 1.2 The standing items were:
  - Business Plan Update Report
  - Employers Admissions and Cessations Report; and
  - Governance and Legislation Report.

### 2. Business Plan Update Report

- 2.1 Good governance dictates that each Pension Fund should adopt a Business Plan detailing the Fund's objectives and setting out key priorities for the 2015-16 and in some cases, subsequent years.
- 2.2 The Annual Business Plan and Medium Term Strategy 2015-16 to 2017-18 was approved by the Pension Committee at the meeting held on 23 March 2015 and can be found in appendix 1.
- 2.3 Updates on the progress made against the Business Plan are presented to the Pensions Committee at every meeting. The updates highlight the progress made on the Fund's activities, its achievement on the key performance indicators and also any other initiatives during each quarter of 2015-16 as laid out in the Business Plan.

2.4 The Fund Business Plan update for the first quarter of 2015-16 that was presented to the Pensions Committee on 26 June 2015 is attached in appendix 2.

## 3. Employers Admissions and Cessations Report

- 3.1 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.
- 3.2 This Employers Admissions and Cessations Report provides an update on admissions to and cessations from the Cambridgeshire Local Government Pension Scheme (also known as the Cambridgeshire Pension Fund) since the last meeting.
- 3.3 The Employers Admissions and Cessation Report that was presented to the Pensions Committee on 26 June 2015 can be found in appendix 3.

### 4. Governance and Legislation Report

- 4.1 The Governance and Legislation Report identifies issues concerning the governance of the LGPS and also new, amending and overriding legislation that will have an impact on how the Scheme is managed and on members' benefits. The report also provides details of relevant consultations affecting the LGPS and forthcoming training events.
- 4.2 The Governance and Legislation Report that was presented to the Pensions Committee on 26 June 2015 can be found in appendix 3.

### 5. Relevant Pension Fund Objectives

Perspective	Outcome		
Governance	<ul> <li>To have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.</li> </ul>		
	<ul> <li>Ensure the Fund and its stakeholders have the appropriate skills and receive training to ensure those skills are maintained in a changing environment.</li> </ul>		

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

## 6. Finance & Resources Implications

- 6.1 Not applicable.
- 7. Risk Implications

#### a) Risk(s) associated with the proposal

Risk	Mitigation	Residual Risk
There are no risks associated		
with this report.		

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

Risk	Risk Rating
There are no risks associated with this report.	

#### 8. Communication Implications

8.1 Not applicable.

### 9. Legal Implications

9.1 Not applicable.

### 10. Consultation with Key Advisers

10.1 Not applicable.

#### 9. Alternative Options Considered

9.1 Not applicable

### 10. Background Papers

10.1 Not applicable

## 11. Appendices

- 11.1 Appendix 1 Annual Business Plan and Medium Term Strategy 2015-16 to 2017-18
- 11.2 Appendix 2 Annual Business Plan Update Report (Period 1/June 2015)
- 11.3 Appendix 3 Employers Admissions and Cessation Report June 2015
- 11.4 Appendix 4 Governance and Legislation Report June 2015

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?	Not applicable	
Has this report been cleared by Deputy Head of Pensions?	Mark Whitby – 22/09/2015	
Has this report been cleared by Legal Services?	Not applicable	

# Annual Business Plan and Medium Term Strategy 2015-16 to 2017-18 Cambridgeshire Pension Fund



## **Executive summary**

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

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

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

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

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

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

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



## Purpose and scope of the Fund

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

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

## **Administration of the Fund**

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

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

## **Governance and Management of the Fund**

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

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

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

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

## **Stakeholders of the Pension Fund**

Stakeholders of the Fund fall into the following categories;

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

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

## **Fund Objectives**

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

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

## **Key Fund activities 2015-16**

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

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

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

#### **Regulatory, strategic/objective based and contractual activities**

Activity	Lead Officer	Timescale for completion	Approach to achieving/managing
Regulatory activities			
Implementing the 2015 governance changes.	Governance and Regulations Manager	This will be an ongoing process throughout 2015- 16 into 2016-17.	<ul> <li>Embed the Pensions Regulator Code of Practice – Governance and administration of public service pension schemes.</li> <li>Assist LGSS Democratic Services with the creation and ongoing operation of the Public Service Pensions Act 2013 requirement for each public service pension scheme to have a local pension board.</li> </ul>
Strategic/Objective b	ased activities	5	
Improving employer performance and engagement.	Employer and Systems Manager	Ongoing.	<ul> <li>Undertake full review of Administration Strategy including approach to dealing with poor performing employers.</li> <li>Introduce improved system for escalation of endemic employer issues from casework officers to</li> </ul>

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

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

## **Policy and Strategy activities**

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

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

## **Financial forecasting**

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

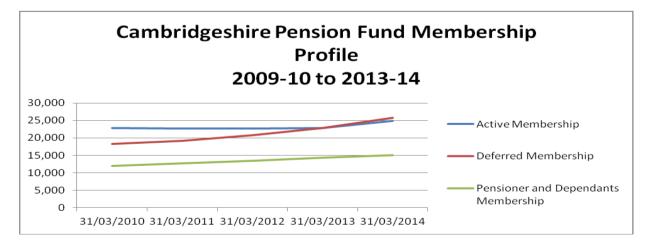
The following section provides a commentary and statistical information on these pressures which has been used in the financial forecasting for the period 2015-16 to 2017-18 on pages 12 and 13. Key data on the Fund's membership profile, funding position, investment allocations and an actuarial cash flow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

## **Membership profiles**

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

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

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



## **Employee contributions**

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

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

## **Employer contributions**

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

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

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

## **Member benefits**

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

## **Fund employers**

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

## **Fund Account**

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

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

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

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

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

Administration expenses are explained in a separate section below.

## **Pensions Administration Expenses**

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

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

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

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

\*1 [Note11 of the Statement of Accounts]

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

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

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

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

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

## **Influences on Fund Estimates**

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

Influences on Fund Estimates				
	Positive	Negative		
Employee	Stabilising active members	Reducing active membership		
Contributions	50:50 Option	50:50 Option		
	Auto Enrolment	Outsourcing – closure to new		
		entrants		
	New contribution bandings	New contribution bandings		
Employer	Valuation Uplift	Outcoursing closure to pow		
Contributions	Auto Enrolment	Outsourcing – closure to new entrants		
	50:50 option	entrants		
Benefit		Index Linked uplifts		
Payments		Continuation of austerity		
		programmes.		
		Longevity		
		Increased profile of pensioners		
	Freedom and Choice (1 April 201	5) – Transfers of individual		
	member fund values out of the Fund. Although there is no			
	experience data available, it is possible that an increased number of			
	transfers out of the Fund could actually benefit liabilities. Future			
	legislation may also allow the Fund to restrict the value of a transfer			
	payment should an increased amount of payments result in a			
	worsening of the Funding position	ו.		

## **Key Performance Indicators**

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

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

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## Key data of the Cambridgeshire Pension Fund

## Membership

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



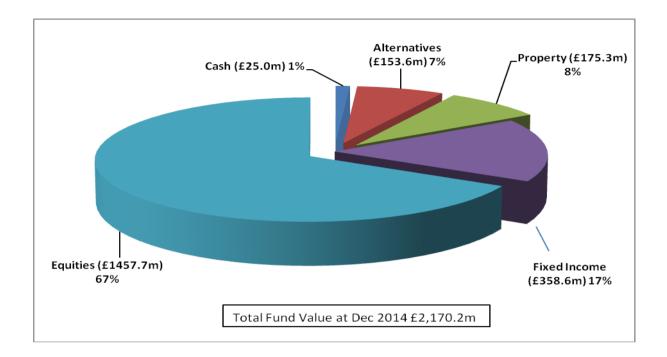
## Assets and liabilities

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

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

### Investments

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



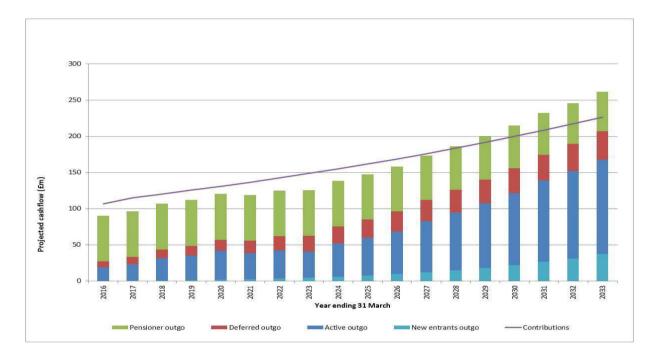
The Fund's assets are invested with the following managers:

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

\* The UBS mandate includes a small legacy property allocation.

## **Actuarial Cashflow Forecasts**

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



## Cambridgeshire Pension Fund

# Annual Business Plan 2015-16 Update 1 (June 2015)



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Welcome to the first Business Plan Update of 2015-16.

The Annual Business Plan and Medium Term Strategy 2015-16 was approved at the March meeting of the Pension Fund Board, the purpose of this update is to show the progress made during this first quarter linking directly to Cambridgeshire Pension Fund objectives.

To demonstrate the progress made there are four sections that provide the relevant evidence as follows -

- Key Fund challenges
- Contribution reporting
- Administration and investment expenses
- Key Performance Indicators

This update shows how the Fund has performed in terms of actions required and whether KPI targets have been met. The purpose is to highlight outstanding actions in order to reach key milestones and address any areas of poor performance in order to improve and meet targets.

The regular update aims to show the quarterly performance with an overview of the year after the fourth quarter. The update ensures the Fund is keeping on track to ensure the desired outcomes.

Mark Whitby Deputy Head of LGSS Pensions Service

## **Key Fund activities**

The Annual Business Plan 2015-16 laid out the key activities facing the administration and governance of the Local Government Pension Scheme. The plan related to the Fund's objectives as well as changes in regulations, in order to ensure that actions taken are clearly defined and for a specific purpose.

A number of these activities link directly to the Fund's policies, strategies and contractual services in order to ensure functions are being carried out effectively.

The below table shows the key Fund activities as agreed and provides an update on how the Fund has been working towards these actions. Collaboration between sections of the Service has ensured good progress against each activity.

Regulatory activities	Progress	Timescale for completion
Implementing the 2015 governance changes.	• The Pension Regulator's code of practice will be embedded throughout the year within existing processes to strengthen controls in such areas of contribution monitoring and skills and knowledge. <b>Ongoing – Amber.</b>	Ongoing process throughout 2015-16 into
<ul> <li>Embed the Pensions Regulator Code of Practice – Governance and administration of public service pension schemes.</li> <li>Assist LGSS Democratic Services with the creation and ongoing operation of the Public Service</li> </ul>	<ul> <li>The Local Pension Board has now been established and a recruitment process has appointed two out of the three Employer Representatives and Scheme Member Representatives. Democratic Services will work with the Board to recruit the remaining representatives required.</li> <li>Completed – Green.</li> </ul>	2016-17.
Pensions Act 2013 requirement for each public service pension scheme to have a local pension board.	Local Pension Board Members have attended a training session on 21 May 2015 in order assist them in their roles in which they are required to obtain and maintain an appropriate level of knowledge and understanding. The purpose of the training was to highlight and in brief explain, all the areas of	

	knowledge a Board member is expected to have. <b>Completed – Green</b> The first Local Pension Board is due to take place on 16 July 2015 where the foundations will be set for the running of the Board going forward. <b>Ongoing – Amber.</b>	
Strategic/Objective based activities	Progress	Timescale for completion
<ul> <li>Improving employer performance and engagement.</li> <li>Undertake full review of Administration Strategy including approach to dealing with poor performing employers.</li> <li>Introduce improved system for escalation of endemic employer issues from casework officers to Employers Team.</li> </ul>	<ul> <li>An employer issues log is in development for the casework team to log issues as they arise. The Employer's team will monitor this log for patterns and intercede accordingly. This is expected to be delivered by the end of July 2015. Ongoing – Amber.</li> </ul>	Ongoing.
<ul> <li>Organisational Workforce Development to facilitate Customer Service Excellence Standard training with a view to achieving this Standard.</li> </ul>	<ul> <li>Organisational Workforce Development attended the March Service meeting to give an overview of the Customer Service Excellence Standard. Following this, a Project Team has been formed and we are currently at data gathering stage in order to identify areas for improvement. <b>Ongoing – Amber</b>.</li> <li>Customer Service Excellence criterion to be discussed at team meetings and implemented going forward. In order to</li> </ul>	Ongoing process throughout 2015-16 into 2016- 17.

<ul> <li>Embed customer service culture.</li> <li>Carry out customer satisfaction surveys.</li> <li>Continue to build on staff capabilities with a number of learning and development activities.</li> </ul>	<ul> <li>promote customer service further, a dedicated employer helpline has recently been set up to supplement the employers email; this ensures that employers can always contact a member of the team. Ongoing – Amber.</li> <li>An employer satisfaction survey was undertaken in March. 621 invitations to the survey were sent across both Funds with 101 responses received. The response was overall very positive. An action plan is being developed for areas where improvement is needed. Ongoing – Amber.</li> <li>It is planned that there will be a "member satisfaction survey is conducted following each individual contact with a Scheme member. Ongoing – Amber.</li> <li>Staff will continue to be offered the opportunity for formal and informal training opportunities. Including the opportunity to multi task within the casework teams. Ongoing – Amber.</li> </ul>	
<ul> <li>Source efficiencies to reduce the cost of administering the Fund.</li> <li>Improve efficiency of business processes, particularly those in connection with non Altair based activity.</li> <li>Improve employer performance.</li> </ul>	<ul> <li>Fund processes will be continuously reviewed throughout the year seeking to drive efficiencies. A new process is due to be introduced over the upcoming months for the admission of employers to the scheme; this is to ensure comprehensive guidance is received leading up to an admission and to ensure employers are aware at induction of training available and expectations of the Fund. <b>Ongoing – Amber.</b></li> <li>The training plan will continue to be developed and delivered throughout 2015-16 and the administration report will be a</li> </ul>	Throughout 2015-16

Move to electronic annual benefit statements.	<ul> <li>regular feature of the employer forums which will now be incorporate in workshops in the future. Ongoing – Amber.</li> <li>The intention is to move to electronic annual benefit</li> </ul>
<ul> <li>Promote greater use of employer and member self- service facility.</li> </ul>	statements. This must be communicated to members twice before this is feasible. It is intended that the first of these communications will be included in the 2015 annual benefit statement newsletter with an aim of moving to electronic
<ul> <li>Continue to build on staff capabilities with a number of learning and</li> </ul>	annual benefit statements in 2016. <b>Ongoing – Amber.</b>
development activities.	<ul> <li>Employer Self Service (ESS) has been offered to all employers across both Cambridgeshire and Northamptonshire Pension Funds. With a concerted effort to increase use in place since January 2015. As at 31 March 2015, 111 employers have signed up for access to ESS with 38 of employers approved for activation since January 2015. Once employers are using Employer Self Service, the data that they submit is monitored and those employers who we are confident are submitting sound data are given increased "Direct Update" access. For employers that require support with ESS the Employers Team is available via a dedicated email address and phone number to provide assistance. Ongoing – Amber.</li> </ul>
	<ul> <li>Member Self Service (MSS) has been rolled out to all active members from across both the Cambridgeshire and Northamptonshire Pension Funds. Of the members that were issued with activation keys, 18% have registered to use MSS and have logged on for the first time to access their pension record.</li> </ul>
	Deferred members have also registered and logged onto MSS

	<ul> <li>for the first time. This is a total of 724 of the 43,010 deferred members (1.7%) across both Funds. Included in the deferred annual benefit statement (due to be issued in June 2015), information will be provided on how deferred members can utilise MSS going forward. Ongoing – Amber.</li> <li>Staff will continue to be offered the opportunity for formal and informal training opportunities. Including the opportunity to multi task within casework. Ongoing – Amber.</li> </ul>	
<ul> <li>Managing the risks associated with the increasing volume and diversity of scheme employers as a result of the move to alternative service delivery models.</li> <li>Monitor and manage resource</li> </ul>	<ul> <li>There continues to be a review of the impact resulting from an increasing number of Scheme employers on the advisory functions provided by the Service in areas such as the accountancy and employer support. The review will continue to be carried out during rest of the financial year. Ongoing – Amber.</li> </ul>	Throughout 2015-16
<ul> <li>Identify split between statutory and potentially chargeable non-statutory activity.</li> </ul>	• The Fund has recently recruited an Employer Services Manager (acting) to ensure that the resources are managed effectively in this area. With the ongoing increase of employers in the Fund, the staffing of the team is being addressed to fill vacant positions. <b>Ongoing – Amber.</b>	
<ul> <li>Investigate and progress as appropriate employer covenant monitoring, liability monitoring and employer risk register projects.</li> </ul>	The FRS17 process is being managed more effectively to ensure the Fund is able to cope with increased pressure at each accounting cycle. The management includes starting the process at the earliest opportunity to establish the number of reports required and to then agree timescales with the actuary and liaise effectively. <b>Ongoing – Amber.</b>	
	<ul> <li>An exercise has been carried out in order to establish chargeable functions of the Employers Team. A charging structure has been developed based on type of activity in the</li> </ul>	

	<ul> <li>fund and amount of time spent; this has been implemented 1 June 2015. Similarly within funding, a charging structure is in place for the Pension Funds administration costs for the FRS17 process. Completed – Green.</li> <li>A system has been implemented for regularly carrying out risk assessments on admission bodies and other bodies who have a bond or guarantee in place to ensure that these still appropriately cover the risk exposure to the Fund and scheme employer. This process is done, mostly, on an annual basis but no longer than 3 years and should be carried out 3 months prior to renewal date. Completed – Green.</li> </ul>	
<ul> <li>Improve data quality.</li> <li>The Guaranteed Minimum Pension (GMP) reconciliation project will ensure that the correct amount of GMP is held on both Altair and on the individual pensioner payroll records.</li> <li>Reconciliation of the pensioner payroll against Altair pensioner records will be run in tandem with the GMP reconciliation project.</li> </ul>	<ul> <li>The first stage of the project is to reconcile the GMP of pensioner members, then moving to deferred members. The reconciliation of active member GMP data cannot commence until contracting out ceases in April 2016 and HMRC issue their data on this group of members.</li> <li>An initial comparison has been made between the Funds' records held on Altair and the HMRC database and a resulting 51,000 potential discrepancies have been identified either on the amount of GMP or the dates that are applicable to the GMP.</li> <li>Closer inspection of the data has commenced and only a small proportion of cases are actually resulting in the incorrect levels of pension being paid.</li> <li>As the project progresses, the Committee will be supplied with details of how many records have been corrected and the</li> </ul>	Throughout 2015-16

	number of any over or underpayments identified. Ongoing – Amber.	
Renewal/review of contracts	Progress	Timescale for completion
<ul> <li>Procurement of actuarial, governance and benefits consultancy service.</li> <li>LGSS Pensions participation in the refreshing of the National LGPS Framework for Actuarial and Benefits Consultancy contracts to commence from May 2015.</li> </ul>	<ul> <li>Work to refresh the National LGPS Framework for Actuarial and Benefits Consultancy has been delayed. Further updates will be provided once the project commences. Ongoing – Amber.</li> </ul>	Process to complete by June 2017.
<ul> <li>Review Additional Voluntary Contribution providers.</li> <li>Gather investment and membership data and analyse performance and popularity of the current providers.</li> <li>Seek information on other suppliers Additional Voluntary Contribution facilities for LGPS members.</li> </ul>	<ul> <li>Prudential have carried out an internal review on their investment options. A meeting has been arranged for August to discuss the review. A report will be presented at the October Committee meeting. Ongoing – Amber.</li> </ul>	October 2015 Committee meeting.

# **Contribution Reporting**

The following table shows the percentage of employers in the Cambridgeshire Pension Fund who paid their employee and employer contributions either on time or late (after the 19<sup>th</sup> of the moth following deduction) for the period 1 April 2014 to March 2015.

	Apr-	May-	Jun-	Jul-	Aug-	Sep-	Oct-	Nov-	Dec-	Jan-	Feb-	Mar-
	14	14	14	14	14	14	14	14	14	15	15	15
% of Employers												
Paid on Time	97.3	95.7	97.3	99.5	98.5	96.6	96.9	99.4	99.0	95.7	97.6	91
% of Employers												
Paid Late	2.7	4.3	2.7	0.5	1.5	3.4	3.1	0.6	1.0	4.3	2.4	9

The average percentage of employers who did not pay their contributions by the 19<sup>th</sup> day of the month following deduction was 2.9%, per month.

In the quarter, January had 9 late payments totalling £49,537.95, February had 5 late payments of £10,013.66 and in March, there were 19 late payments of £367,105.14. For March, 14 of the 19 late payments were late by three days or less. The total of late payments for this quarter amounted to £426,656.75.

There were three employers who were reported as paying late more than once in this quarter of which the value amounted to  $\pounds$ 19,097.52. A breakdown of this is below –

Employer	Month	Days Late	Amount	Comments/Action
A	January February March	21 13 11	£1,604.18 £1,487.39 £1,487.39	Employer was contacted in respect of late payments.
В	January February March	70 42 11	£4,530.93 £5,000 £5,000	This employer was contacted and escalated which resulted in the three months being paid in April 2015.
С	January February	7 28	£737.51 £737.51	Employer was contacted in respect of late payments.

All late paying employers are informed that late payment is not acceptable and if they continue to pay late they could incur a late payment penalty. However, in light of these ongoing issues around this area a communication will be sent to all employers addressing importance of making payments in time and subsequent penalties for failing to do so.

In line with the Pension Regulators Code of Practice, LGSS Pensions Service will be working with the employers who are paying over contributions later than the statutory deadline to ensure compliance each month going forward.

# Administration and Investment Expenses

Below is how the Fund has performed against the financial forecast detailed in the Annual Business Plan for 2015-16.

At the time of writing data for only one full calendar month was available which is reflected in the lack of variance from the original estimate.

However, there is a current under spend of £11,000 to the end of April 2015 in the area of LGSS Pensions Services which is relates to staff vacancies that are in the process of being recruited to.

CCC Administration, Governance and Investment Expenses						
30 April 2015	2015-16 Original	2015-16 Full Year	2015-16 Variance	Comments		
	Estimate £'000	Forecast £'000	£'000			
LGSS Pension Service	1,491	1,480	-11	Vacancy factor on staffing		
County Council Related Overheads	702	702	-			
Administration Expenses	2,193	2,182	-11			
Direct Fund – Governance Related	415	415	-			
Direct Fund – Governance Related	415	415	-			
Direct Fund – Investment Related	250	250	-			
Direct Fund – Investment Related	250	250	-			
Total Administration, Governance and Investment expenses	2,858	2,847	-11			

# **Key Performance Indicators – March 2015**

Below are the results of how the Pensions Service has performed against the Key Performance Indicators set out in the 2014-15 Annual Business Plan.

Function/Task	Indicator	Target	Average Performance for this quarter	Update/Additional Information
Send welcome letter to new employer.	Welcome letter sent within 15 days of receiving confirmation of conversion from the Academy or from date admission agreement sealed.	90%	100%	Target achieved – See Appendix 2 for past performance.
Complete internal validation of data for new admissions.	Complete internal validation within the agreed time frame.	90%	100%	Target achieved – See Appendix 2 for past performance.
Keep the employer website up to date, including procedural guides, scheme guide and all other documents and forms.	20 working days from date of change/amendment.	100%	100%	Target achieved
Acknowledge death of active/deferred/pensioner member.	Letter issued within 5 working days following notification of death.	100%	99%	Target missed by 1% -See Appendix 3 for past performance.
Notify employees retiring from active membership of benefits award.	Issue award within 5 working days after payable date or date of receiving all necessary information if later.	95%	100%	Target achieved and exceeded - See Appendix 3 for past performance.

Provide a divorce quotation to employees on request.	Provided within 10 working days from receipt of all information.	90%	55%	Target missed due to a loss of staff in this area and an increase in workloads due to the introduction of the Freedom of Choice legislation. The volume of requests increased significantly prior to the legislation coming into force to allow decisions to be made without the regulatory need for members to obtain financial advice. As the volume of work in the area of divorce quotations is low, if an individual case target was missed, the overall performance would show a significant reduction. A recruitment process is underway to address staff shortages in the section with acting up positions being advertised. See Appendix 3 for past performance.
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%	93%	Target achieved and exceeded. See Appendix 3 for past performance.
Publish the Pension Fund Annual Report and any report from the auditor.	By 31 August following the year end.	100%	100%	This activity has been completed for the year 2014-15 in quarter three.
Provide an FRS17/IAS19 report to employers for their chosen accounting date.	Within one month of the 31 March, 31 July or 31 August (or other) accounting date, providing employer has returned required data to LGSS Pensions Service by	100%	75%	Target missed – 24 employers requested reports for the March accounting exercise. 18 completed reports were delivered on time and 6 were delivered late.

	the 1 <sup>st</sup> of the month in which the accounting date falls. This is a KPI that reflects the performance of the scheme employer, LGSS Pensions Service and the Actuary.			
Performance of each Fund's assets.	Each Fund's assets performance vs. target on a rolling 3 year basis. 1.6% above gilts [as at March 2013]. Therefore target is currently 4.6%. Actual performance for both funds is currently around 6.2%. That is: 3.2% above gilts.	>4.6%	11.6%	Target achieved. Performance to 31 March 2015: 3 year performance 11.7%
Fund asset performance in relation to LGPS peers.	Each Fund's ranking on annual, independently produced WM ranking. Final figures produced annually as at the 31 March. Target is for both Funds to be in the top performing third.	<34	26	Target achieved.

# **Key Performance Indicators – April 2015**

Below are the results of how the Fund has performed against the Key Performance Indicators set out in the 2015-16 Annual Business Plan in period one.

The following Key Performance Indicators are based on the performance of LGSS Pensions Service.

Function/Task – Service Key Performance Indicators	Indicator	Target	Within Target	Update/Additional Information
Notify leavers of deferred benefit entitlement.	Deferred award letter sent within 40 working days of last day of employment.	90%	98%	Target achieved and exceeded. See Appendix 3 for past performance
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%	91%	Target missed due to a national issue with the administration software (Altair) which has impacted a group of retirements crossing the year end period which has meant that manual calculations have needed to be performed impacting resources .
Award dependant benefits.	Issue award within 5 working days of receiving all necessary information.	95%	97%	Target achieved and exceeded. See Appendix 3 for past performance
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%	78%	Target missed due to a national issue with the administration software (Altair) which has impacted a group of retirements crossing the year end period which has meant that manual calculations have needed to be performed impacting resources. Actual retirements have been

				prioritised ahead of estimates. See Appendix 3 for past performance.
Provide transfer-in quote to scheme member.	Letter issued within 10 working days of receipt of all appropriate information.	100%	58%	Target missed due to loss of staff in this area and an increase in workloads due to Freedom of Choice legislation. The volume of requests increased significantly prior to the legislation coming into force to allow decisions to be made without the regulatory need for members to obtain financial advice. A recruitment process is underway to address staff shortages in the section with acting up positions being advertised. See Appendix 3 for past performance.
Notify the employer and scheme members of changes to the scheme rules.	Within one month of the LGSS Pensions Service being informed of the change.	95%	100%	Target achieved and exceeded.
Issue annual benefit statements to active members as at 31 March each year.	By the following 31 August (pending timely receipt of satisfactory year end data from the scheme employer).	100%	N/A	Not relevant for this reporting period.
Notify the employer and scheme members of changes to the scheme rules.	Within one month of the LGSS Pensions Service being informed of the change.	95%	100%	Target achieved and exceeded.

Function /Task – Employer Key Performance Indicators	Indicator	Target	Within Target	Update/Additional Information
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.	Contributions to be received by individual employers by 19 <sup>th</sup> calendar day of month after deduction and statement/schedule was received by the same date as payment.	100%		Reporting on this KPI will commence in the next Business Plan Update.
Provide LGSS Pensions Service with accurate year end information in the prescribed format.	Accurate year end information to be provided for all scheme members by 30 April following contribution year end.	100%		Reporting on this KPI will be after the 30 April 2016.
Provide LGSS Pensions Service with all necessary information regarding new starters and hours/weeks per year variations in a format acceptable to the Administering Authority.	Accurate information provided within 10 working days of the relevant calendar month end or within 30 days of commencement/change if earlier where employer automatic enrolment duties apply.	95%	33%	This is due to interfaces not being submitted on time and in the correct format. Close liaison between the Pension Service and the large payroll providers has resulted in progress in this area and the performance should increase for the next quarter as interface files are now being received in the correct format.

The following Key Performance Indicators are based on the performance of the employers within the Fund

# CAMBRIDGESHIRE PENSION FUND



## **Pension Committee**

Date: 25 June 2015

**Report by:** Deputy Head of Pensions

Subject:	Employer Admissions and Cessations Report					
Purpose of the Report	To report on the admission of one scheduled body and to gain approval for four admission bodies to join the Cambridgeshire Pension Fund. To further report on three cessations from the Fund and their					
	final cessation payments.					
	That the Pension Fund Committee					
	<ol> <li>notes the admission of the following scheduled body to the Cambridgeshire Pension Fund:         <ul> <li>UTC Cambridge</li> </ul> </li> </ol>					
Recommendations	<ul> <li>2) approves the admission of the following admission bodies to the Cambridgeshire Pension Fund: <ul> <li>Carers Trust</li> <li>Cambridge Live</li> <li>Cambridgeshire and Peterborough NHS Foundation Trust (CPFT)</li> </ul> </li> </ul>					
	<ul> <li>3) approves the reduction in the final cessation figure claimed for the following bodies:</li> <li>Red 2 Green</li> <li>Mepal Outdoor Centre</li> </ul>					
	<ul> <li>4) notes the current withdrawal from the Cambridgeshire</li> <li>Pension Fund of the following body:         <ul> <li>Hemingford Grey Parish Council</li> </ul> </li> </ul>					
Enquiries to:	Mark Whitby, Deputy Head of Pensions Tel – 01604 368502 E-mail – <u>Mwhitby@northamptonshire.gov.uk</u>					

#### 1. Background

1.1.1 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.

1.1.2 This report provides an update on admissions to the Cambridgeshire Pension Fund since the last meeting of the Pension Fund Board.

## 1.2 New scheduled admission

- 1.2.1 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 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.
- 1.2.2 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.
- 1.2.3 The following became a new scheme employer either as a result of conversion to Academy status or opening as a brand new educational establishment.

Date	New prospective designating body
23/06/2014	UTC Cambridge – a brand new University Technical College for Cambridge, which opened to students on 1 September 2014. Prior to that administration and ground staff became members of the LGPS.

1.2.4 Actuarial advice will be sought on appropriate employer contribution rates from the Fund actuary and these will be advised to the new Academy.

#### 1.3 New admission bodies

- 1.3.1 Paragraph 1(d)(i) 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.
- 1.3.2 A paragraph 1(d)(i) admission body is a 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."
- 1.3.3 The Pension Fund Committee is asked to approve that the following become new admission bodies in the Cambridgeshire Pension Fund.

Date	New Admission Body	Background information
01/04/2015	Carers Trust	Transfer of services from Cambridgeshire
		County Council for providing services and
		support for family carers and their families
		across the county. 6 employees with LGPS
		membership have transferred.
		This is a pass through agreement.
01/04/2015	Cambridge Live	Transfer of the Arts services from Cambridge
		City Council to form a new company providing
		the same service. 37 employees with LGPS
		membership have transferred.
01/04/2015	Cambridgeshire and	Transfer of 16 employees who are in the LGPS
	Peterborough NHS	from Cambridgeshire and Peterborough
	Foundation Trust (CPFT)	Clinical Commissioning Group (CCG).

#### 1.4 Cessations

- 1.4.1 The charity Red 2 Green ceased as an admission body following the last active member leaving the Fund on 30 June 2011. A cessation valuation identified a cessation deficit of £60,000 based on the more prudent gilts based approach. A meeting was recently held with Red 2 Green at which trustees and their Chief Financial Officer expressed their opinion that this exit payment was inappropriate and unaffordable. Red 2 Green will be providing written representation as to why they feel they should not and cannot pay the exit payment as currently calculated. This will include a request for consideration by the Fund of acceptance of a lower exit payment, including a suggested figure that Red 2 Green would be willing to pay. If the cessation deficit has been calculated on an ongoing basis, the exit payment would have been £13,000. We will provide you with a further update once we have received representation from Red 2 Green.
- 1.4.2 Mepal Outdoor Centre ceased as an admission body following the last active member leaving the Fund on 30 September 2012. A cessation valuation identified a cessation deficit of £474,000. It is not likely that any monies will be recovered from Mepal Outdoor Centre, other than very small amounts over an extended period of time as they have no material capital assets or liquid funds to make this exit payment. Mepal Outdoor Centre has provided evidence, in the form of financial statements and a recent bank statement, to show that they do not have the required funds to pay this exit payment. They have also provided and Title Deed and Licence to Assign to show that the building and property they currently occupy is owned by East Cambridgeshire District Council and leased to them for a peppercorn rent. It is recommended that this exit payment is not pursued as allowed by the Admission Bodies, Scheme Employers and Bulk Transfers Policy.
- 1.4.3 Hemingford Grey Parish Council's last member of the LGPS retired on 1 January 2015. Whilst the cessation process initially commenced with effect from 2 January 2015, new legislation was introduced with the Local Government Pension Scheme (Amendment) Regulations 2015 that allow administering authorities the discretion to suspend an employer's liability to pay an exit payment, for a period of up to 3 years, where that employer exits the Fund due to having no more active members in the Fund. This discretion can be exercised where the administering authority is of the

opinion that the employer is likely to have one or more active members with the period of the suspension. The administering authority has decided to suspend the requirement for an exit payment in this case as a new clerk will be joining the Council in June 2015 and may wish to commence contributing to the LGPS. Hemingford Parish Council has indicated that it would make a new designation to allow this, if the new Clerk so wishes. The position will be reviewed by the 30<sup>th</sup> June 2015 and if there are no active members at this time, the exit payment will be required.

#### 2. Relevant Pension Fund Objectives

Perspective	Outcome
Funding and Investment	• To ensure that the Fund is able to meet its liabilities for pensions and other benefits with the minimum, stable level of employer contributions.
	<ul> <li>To ensure that sufficient resources are available to meet all liabilities as they fall due.</li> </ul>
	<ul> <li>To maximise the returns from its investments within reasonable risk parameters. Provide a high quality, friendly and informative administration service to the Funds' stakeholders.</li> </ul>
	<ul> <li>Administer the Funds in a cost effective and efficient manner utilising technology.</li> </ul>
	<ul> <li>Ensure the Funds and its stakeholders are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Funds.</li> </ul>
	<ul> <li>Put in place standards for the Fund and its employers and ensure these standards are monitored and developed as necessary.</li> </ul>
	<ul> <li>Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount.</li> </ul>
	<ul> <li>Maintain accurate records and ensure data is protected and has authorised use only.</li> </ul>
	<ul> <li>Understand the issues affecting scheme employers and the LGPS in the local and national context and adapt strategy and practice in response to this.</li> </ul>
Governance	<ul> <li>To have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.</li> </ul>
	<ul> <li>Ensure the Fund and its stakeholders have the appropriate skills and receive training to ensure those skills are maintained in a changing environment.</li> </ul>

# 3. Finance & Resources Implications

- 3.1 Actuarial costs in obtaining employer contribution rates, bond levels and funding position at commencement are recharged directly to the relevant employer.
- 3.2 The employer contribution rates contain an allowance for administration charges, meaning the new admissions should be cost neutral.
- 3.3 The failure to recover the full exit payments from the exiting employers, Mepal Outdoor Centre and Red 2 Green, will result in unpaid liabilities being borne by the whole Fund.. An employer risk register was also prepared as part of the triennial valuation process.

# 4. Risk Implications

a) Risk(s) associated with the proposal

Risk	Mitigation	Residual Risk
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
Future pension liabilities that cannot be supported by an academy.	There is a Secretary of State guarantee if an academy fails.	Green

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

Risk	Risk Rating
Non compliance with CLG guidance that an admission body application 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
If we do not negotiate an alternative exit payment with Red 2 Green it is possible that we will not recover any amount and future pension liabilities in relation to Red 2 Green will not be pre funded and will need to be met by the whole Fund.	Red

# 5. Communication Implications

Direct	Direct communications will be required to facilitate employer start up
Communications	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 employers guidance
	available on the pensions website.

#### 6. Legal Implications

6.1 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.

#### 7. Consultation with Key Advisers

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

#### 8. Alternative Options Considered

8.1 None available.

#### 9. Background Papers

9.1 N/A

#### 10. Appendices

10.1 N/A

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 Chief Finance Officer/Section 151 Officer?	Chris Malyon – 09/06/2015	
Has this report been cleared by Deputy Head of Pensions?	Mark Whitby – 29/05/2015	
Has the Chairman of the Pension Fund Committee been consulted?	Councillor Count – 09/06/2015	
Has this report been cleared by Legal Services?	Laurie Gould on behalf of Quentin Baker – 15 June 2015Pending Lauriee Gould on behalf of Quentin Baker (CPF)	

# CAMBRIDGESHIRE PENSION FUND



## **Pension Committee**

Date: 25 June 2015

#### **Report by:** Deputy Head of Pensions

Subject:	Governance and Legislation Report
Purpose of the Report	<ul> <li>To provide the Pension Committee with;</li> <li>1) Information on issues concerning the governance of the Local Government Pension Scheme (LGPS) on a national and local basis;</li> <li>2) Information on new or amending legislation affecting the LGPS;</li> <li>3) Details of relevant consultations affecting the LGPS; and</li> <li>4) Details of forthcoming training events.</li> </ul>
Recommendations	That the Pension Committee notes the content of the report.
Enquiries to:	Name: Jo Walton – Governance and Regulations Manager, LGSS Pensions Service Tel: 01604 367030 E-mail: jwalton@northamptonshire.gov.uk

#### 1. Background

- 1.1 This is a new standing report that identifies issues concerning the governance of the Local Government Pension Scheme (LGPS) and also new, amending and overriding legislation that will have an impact on how the Scheme is managed and on members' benefits.
- 1.2 This information was previously reported in the Business Plan Update but to provide greater clarity of the issues and to avoid duplication it is felt that a separate standing report will better deliver the governance required around this area.

#### 2. Governance – Activity of the LGPS Shadow Scheme Advisory Board

2.1 The Scheme Advisory Board has been operating in shadow form for approximately two years since the requirement for a national scheme advisory board was identified in the Public Service Pension Act 2013. The Shadow Scheme Advisory Board is scheduled to convert into its formal statutory status following the general election along with the appointment of Chairperson by the Secretary of State for Local Government and Communities. Following the appointment of Chairperson and the other representative positions of the Board, decisions regarding the number and types of supporting working groups will be identified.

2.2 The Shadow Advisory Board have released the Annual Report for 2013-14 which is a consolidation of the Annual Reports of the 91 Local Government Pension Scheme Funds in England and Wales. The aim of the consolidated Annual Report is to provide a single source of information about the status of the LGPS for its members, employers, and other stakeholders. The key highlights from the report can be found in the following table;

Category	2013/14	2012/13
Active membership	1.8m	1.7m
Deferred membership	1.7m	1.6m
Pensioner membership	1.45m	1.4m
Total membership	5m	4.8m
Number of Scheme employers	10,671	9,340
Total assets	£192.1bn	£180.9bn
Net investment return on assets after fees	+5.9%	+12.5%
Total contributions paid	£8.7bn	£8.3bn
Total benefits paid	£8.6bn	£8.2bn
Average annual administration cost per member	£20.75	£21.42

- 2.2 On 16 April, the Shadow Scheme Advisory Board issued a letter to all LGPS administering authorities in England and Wales regarding the resourcing required for the ongoing work of the Scheme Advisory Board. Regulation 113 of the recently amended LGPS Regulations 2013 states the expenses incurred by Shadow Scheme Advisory Board (which are to be within its annual budget agreed by the Secretary of State) are to be treated as administration costs of the Scheme and are therefore a direct charge to the Fund.
- 2.2.1 The Secretary of State is now considering possible budget options for the funding of the Shadow Scheme Advisory Board. The options put forward are based on the size of the active membership of each scheme. For this Fund, the options suggested an annual levy of £6,500, £5,500 and £4,250, which equates to £0.35, £0.30 and £0.22 per all active members in the LGPS as at 2014.
- 2.2.2 The budget has yet to be agreed by the Minister but the Shadow Advisory Board are still working on alternative options such as the use of seconded staff to carry out its functions which may lower the annual levy. Based on the significant work programme facing the Shadow Scheme Advisory Board their preference would be for the £0.35 per member levy (£6,500 per annum).
- 2.2.3 Upon the agreement of the Secretary of State of the budget for 2015-16 and the formal establishment of the Shadow Advisory Board, levy notices will be issued to all administering authorities detailing the amount to be paid and the planned work programme for 2015-16.
- 2.3 As mentioned in the Cambridgeshire Pension Fund Business Plan Update presented at the March 2015 meeting of the Pension Fund Board, the Shadow Advisory Board have begun a project to look into methods of managing the deficits of LGPS Funds. At the Shadow Advisory Board meeting in London on 24 April, PwC discussed the findings and recommendations from the report that the Shadow Advisory Board commissioned them to undertake on this matter. The recommendations are concerned with;

- Standardising valuation assumptions for comparison purposes only;
- Greater transparency in funding plans with the division of employer contributions between the past and future service rate being reported; and
- The proposal that there should be a minimum level of employer contributions (generally the future service rate with a floor of the employee contribution rate).

We now wait to hear if and how these recommendations will be taken forward.

# 3. Governance - The Pensions Regulator

- 3.1 The Public Service Pensions Act 2013 extended the powers of the Pensions Regulator over public service pension schemes with effect from 1 April 2015.
- 3.2 In March 2015, the Pensions Regulator published its corporate plan for 2015-18. The plan for the next 3 years includes the following;
  - Establish and run a regulatory regime for public service pension schemes;
  - Embed the regulatory regime around the government's defined contribution pension reforms and flexibility (freedom and choice);
  - Continue to provide automatic enrolment guidance to employers;
  - Disrupt pension scam models; and
  - Work with employers and trustees in line with their defined benefit strategy and code of practice.
- 3.3 The Pensions Regulator is aware that administration and governance standards in some public service pension schemes fall short of the requirements of the new legislation and standards the Regulator expects. The corporate plan sets out the method by which the Regulator will engage with pension boards and scheme managers to raise standards. The plan refers to a survey that the Regulator will issue in this scheme year to enable them to baseline the features and status of public service pension schemes. The survey will ask each scheme to baseline themselves against the standards expected and put in place plans to remedy any shortfalls. The Pensions Regulator will publish a report on the findings in due course.

# 4. Governance - Local Pension Board

- 4.1 The Public Service Pensions Act 2013 and Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 require each Fund to create a local pension board to assist the administering authority Cambridgeshire County Council to:
  - secure compliance with the Local Government Pension Scheme (LGPS) regulations and other legislation relating to the governance and administration of the LGPS and also the requirements imposed by the Pensions Regulator in relation to the LGPS; and
  - ensure the effective and efficient governance and administration of the LGPS.

LGSS Pensions Service has worked closely with LGSS Democratic Services to create the local pension board within the County Council's constitution by the

statutory deadline of 31 March 2015. The local pension board was approved at the full Council meeting on 24 March 2015.

The local pension board is formed as follows;

Scheme Member Representative	Scheme Employer Representative
1) Barry O'Sullivan	1) Councillor Mac McGuire
2) John Stokes	2) Councillor Lucy Nethsinga
3) Vacant	3) Vacant

The Chairperson will be elected at the first meeting of the local pension board on 16 July 2015 at which the draft terms of reference will be agreed.

# 5. Legislation

5.1 The following legislation has been issued that has an affect on member's benefits;

Legislation	Outline/Relevance to the LGPS
The Public Service Pensions	Details that the increase to be applied on 1
Revaluation Order 2015	April 2015 to a CARE pension built up during
(http://www.legislation.gov.uk/uksi/20	membership of LGPS 2014 during the whole
15/769/contents/made)	of the 2013/14 scheme years is 1.2%. Pro-
	rata percentage increases apply for those
	that joined or left the scheme during the year.
The Guaranteed Minimum Pensions	Details that the increase to be applied from 6
Increase Order 2015	April 2015 to the post 5 April 1988
http://www.legislation.gov.uk/uksi/201	Guaranteed Minimum Pension element of
5/470/contents/made	pension in payment is 1.2%.
Pension Schemes Act 2015	Details protection for those taking advantage
http://www.legislation.gov.uk/ukpga/2	of the new pension freedoms from 6 April
015/8/contents/enacted	2015 and introduces legislation on the new
	guidance service, Pension Wise. 5.2 refers in
	more detail.
The Pensions Increase (Review)	Details that the increase to be applied from 6
Order 2015	April 2015 to a pension which began before
http://www.legislation.gov.uk/uksi/201	22 April 2014 will be 1.2%. Pro-rata
5/671/pdfs/uksi 20150671 en.pdf	percentage increases apply for later dates.
Taxation of Pensions Act 2014	Includes amendments that affect the age that
http://www.legislation.gov.uk/ukpga/2	trivial commutation lump sum payments may
014/30/pdfs/ukpga_20140030_en.pdf	be made (age 55), and the limit at which a
	trivial commutation lump sum death benefit
The Local Government Pension	may be paid (£30,000).
Scheme (Amendment) Regulations	Mostly corrected references and resolved technical issues in LGPS Regulations 2013.
2015	teorinical issues in LOF 5 Negulations 2015.
http://www.legislation.gov.uk/uksi/201	
5/755/pdfs/uksi 20150755 en.pdf	

5.2 Changes in the law introduced by the Pension Schemes Act 2015 mean that from 6 April 2015 many members of UK pension schemes which offer defined contribution benefits will have increased flexibility over how they take their pension from age 55. This has become known in the industry as Freedom and Choice.

- 5.2.1 For LGPS members to benefit from the increased flexibilities such as taking a single, or a number of, cash sums from uncrystallised funds at different stages, they would need to have left all active membership of the LGPS in England and Wales and transferred their deferred benefits to a defined contribution scheme which offers this facility.
- 5.2.2 The Pension Schemes Act 2015 requires members who are transferring their 'safeguarded benefits' (which are LGPS benefits but not AVCs) to flexible benefits to take appropriate independent advice where the cash equivalent transfer value (CETV) in relation to all entitlement under the LGPS in England and Wales is more than £30,000. The administering authority must ensure that the member has received and can provide evidence of appropriate independent advice before making a payment.
- 5.2.3 The Fund Actuary is currently undertaking modelling to understand the effect on the funding level based on estimated levels of members transferring their benefits to defined contribution arrangements. However, early indications are that the funding position may improve as a result of this activity as the cost of paying out liabilities at the present time is cheaper to the Fund than the long term payment of benefits (based on current gilt yields).

#### 6. Consultations/Call for Evidence

- 6.1 In March 2015 a joint call for evidence by the Department of Work and Pensions (DWP) and the Financial Conduct Authority (FCA) was released entitled "Transaction Costs Disclosure: Improving Transparency in workplace pensions" to explore:
  - What costs should be included in the transaction cost reporting;
  - How such costs should be captured and reported;
  - Whether information about other factors that impact on investment return should also be provided;
  - How trustees will receive costs information and whether additional disclosure requirements on other parties are necessary to enable this; and
  - When, how and in what format members and/or other prescribed persons should receive transaction cost information.

The Local Government Association (LGA)/Local Government Pensions Committee (LGPC) Secretariat issued a response to the consultation which expressed support for the extension of regulatory transparency of costs and charges to the LGPS. In stating this support the LGA/LGPC sought to ensure that any such extension would:

- Ensure the levels of transparency are those required for effective decision making by LGPS pensions committees;
- Provide an effective balance between the level of detail exposed and the cost of such exposure; and
- Support a greater degree of understanding of and accountability for scheme investment costs.

The response also indicates that an open and transparent market for LGPS investment costs is an effective way to achieve greater value for money and demonstrate increased accountability to the scheme's stakeholders.

#### 7. Training Events

- 7.1 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.
- 7.2 In order to facilitate the acquisition of skills and knowledge, appendix 1 lists all events that are deemed useful and appropriate.
- 7.3 Requests to attend events will be facilitated by the Governance Team process. However, it may be necessary to restrict numbers of attendees on some courses through reasons of cost.

#### Perspective Outcome To have robust governance arrangements in place, to facilitate • Governance informed decision making, supported by appropriate advice, policies and strategies. Ensure the Fund and its stakeholders have the appropriate skills • and receive training to ensure those skills are maintained in a changing environment. To ensure that the Fund is able to meet its liabilities for pensions • Funding and and other benefits with the minimum, stable level of employer Investment contributions. To ensure that sufficient resources are available to meet all • liabilities as they fall due. To maximise the returns from its investments within reasonable • risk parameters. Promote the Scheme as a valuable benefit. • Communications Deliver a clear and consistent message; that is simple, relevant . and impactful, uses plain English throughout and engages all levels of stakeholders' understanding. Provide clear information about the Scheme, including changes to • the Scheme, and educate and engage with members so that they can make informed decisions about their benefits.

#### 8. Relevant Pension Fund Objectives

Perspective	Outcome
Administration	<ul> <li>Provide a high quality, friendly and informative administration service to the Funds' stakeholders.</li> </ul>
	<ul> <li>Administer the Funds in a cost effective and efficient manner utilising technology.</li> </ul>
	<ul> <li>Ensure the Funds and its stakeholders are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Funds.</li> </ul>
	<ul> <li>Put in place standards for the Fund and its employers and ensure these standards are monitored and developed as necessary.</li> </ul>
	<ul> <li>Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount.</li> </ul>
	<ul> <li>Maintain accurate records and ensure data is protected and has authorised use only.</li> </ul>
	<ul> <li>Understand the issues affecting scheme employers and the LGPS in the local and national context and adapt strategy and practice in response to this.</li> </ul>

#### 9. Finance & Resources Implications

9.1 There are no significant financial and resource implications as a result of the contents of this to note report.

#### 9. Risk Implications

10.1 There are no associated risks connected to the content of this report.

# **11.** 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.
Website	Information on Freedom and Choice can be found on the LGSS Pensions website.

#### 12. Legal Implications

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

#### 13. Consultation with Key Advisers

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

# 14. Alternative Options Considered

14.1 There are no alternative options to be considered.

# 15. Background Papers

15.1 Cambridgeshire Fund Business Plan Update report (February 2015)

# 16. Appendices

16.1 Appendix i) – Training events 2015-16.

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 Chief Finance Officer/Section 151 Officer?	Chris Malyon – 09/06/2015			
Has this report been cleared by Deputy Head of Pensions?	Mark Whitby – 09/05/2015			
Has the Chairman of the Pension Committee been consulted?	Councillor Count – 09/06/2015			
Has this report been cleared by Legal Services?	Laurie Gould on behalf of Quentin Baker – 15 June 2015			

Appendix i)

#### External training and events 2015-16

The list of training events will be updated as we become aware of definitive dates and new events. We will also continue to email details of the training events as soon as we are notified where we feel members of the Pension Committee, Investment Sub-Committee and Pension Fund Board will benefit from attending.

Date	Event		Relevant for:
22 April 2015	LGPS Investment Risk		Officers, Committee/Board Members
18 – 20 May 2015	NAPF Local Authority Conference		Officers, Committee/Board Members
29 May 2015	Schroders Trustee Training 2015	2	Committee/Board Members
25 – 26 June 2015	12 <sup>th</sup> Annual LGPS Trustees Conference	2	Committee/Board Members
26 – 27 June 2015	LGC Pension Fund Symposium	2	Officers
7 – 9 July 2015	CIPFA Annual Conference	3	Officers
10 July 2015	CIPFA Pensions Network Operational	2	Officers
	Governance of the LGPS		
9,13, 23 July 2015	AON Pension Board Member Training	2	Committee/Board Members
July 2015	CLASS Group (heywoods) AGM	2	Officers
10 – 11 September 2015	LGC Investment Summit	3	Officers, Committee/Board Members
October 2015	heywoods User Group	2	Officers
14 – 16 October 2015	NAPF Annual Conference - Manchester	2	Officers, Committee/Board Members
15 October 2015	LGE Trustee Training (Fundamentals 1)	2	Newly elected Board and Committee Members
21 October 2015	13 <sup>th</sup> Annual LG Investment Forum	2	Officers, Committee/Board Members
November 2015	CIPFA Pensions Network Annual Conference	2	Officers and depending on agenda, PFB Members
17 – 18 November 2015	Pensions Managers' Annual Conference	4	Officers
10 November 2015	LGE Trustee Training (Fundamentals 2)	2	Newly elected Board and Committee Members
November 2015	LGC Investment Awards		Officers and ISC Members
December 2015	Eversheds Pensions Conference		Officers
2 -4 December 2015	LAPFF Annual Conference	3	Officers, Committee/Board Members

# MEMBERSHIP, TERMS OF REFERENCE & STANDING ORDERS AND CODE OF CONDUCT

То:	Cambridgeshire Local Pension Board		
Date:	21st October 2015		
From:	Democratic Services Manager		
Purpose:	The Cambridgeshire Local Pension Board is asked to consider the following:		
	i)	the process for appointing to the Employer and Employee Representative vacancies on the Local Pension Board;	
	ii)	its Terms of Reference and Standing Orders; and	
	iii	) its Code of Conduct.	
Recommendation:	The Cambridgeshire Local Pension Board is asked to recommend to Council:		
	(a)	the process for appointing to the Employer or Employee Representative vacancies on the Local Pension Board; and	
	(b)	its Standing Orders as set out in Appendix A including changes proposed at its meeting.	
	The Cambridgeshire Local Pension Board is also asked to:		
	(c)	note the new Employer and Employee Representatives on the Board; and	
	(d)	adopt the Cambridgeshire County Council Code of Conduct for all members of the Cambridgeshire Local Pension Board.	

	Officer contact:
Name:	Michelle Rowe
Post:	Democratic Services Manager
Email:	michelle.rowe@cambridgeshire.gov.uk
Tel:	01223 699180

# 1. BACKGROUND

# Membership

- 1.1 At its last meeting, the Board was asked to consider how appointments should be made to outstanding employer and employee vacancies. Following discussion, it was resolved to re-advertise the vacant Employer and Employee Representative places on the Local Pension Board.
- 1.2 The Board also asked officers to contact those who had shown interest in the positions to enquire as to why they had not pursued it further.

# **Terms of Reference and Standing Orders**

1.3 The Board at its meeting on 16 July 2015 received a report detailing changes to the Council's Constitution following the meeting of Council on 24 March 2015. There was some discussion about whether the Board's stand-alone function should be recognised. At the meeting, it was agreed to operate within the current process and to consider the Terms of Reference further at a future meeting of the Board if issues arose. The Board resolved to recommend to Council its Standing Orders as set out in Annex 3 including changes proposed at its meeting. The Democratic Services Manager was asked to circulate a revised Annex 3 to the Board.

# Code of Conduct

1.4 At its last meeting, the Board noted that employee representatives would need to sign the Cambridgeshire County Council Members' Code of Conduct, which covers the procedure for dealing with confidential items.

#### 2. MEMBERSHIP OF THE CAMBRIDGESHIRE LOCAL PENSION BOARD – APPOINTMENT TO EMPLOYER AND EMPLOYEE VACANCIES

- 2.1 Officers met with the Chairman of the Board, Councillor Mac McGuire, on 11 August 2015 to review the advertising process for both the employer and employee vacancies. At the request of the Chairman, it was agreed to advertise as follows:
  - i) On 18 August 2015, a letter and advert was sent to all Cambridgeshire Libraries with a request to display the information.
  - ii) On 18 August 2015, a letter, copy of the advert, application form and pack was e-mailed to all Parish Councils in Cambridgeshire.
  - iii) An advert was placed on the Local Pension Fund website.
  - iv) On 17 August 2015, a letter, a copy of the advert, application form and pack was sent to all Employer Contacts with a request to circulate it to members of the scheme.
- 2.2 The Chairman also asked officers to seek quotations for the printing and posting of one A4 black and white letter to
  - 1) Deferred and Pensioner members (43,913);
  - 2) Active, Deferred and Pensioner members (69,258); and
  - 3) Active members (25,345).

The cheapest quote was just under £10,000. Given the cost, it was acknowledged that it would not be appropriate to use funding from the Pension Fund.

- 2.3 A request for information was also received from Unison and Unite. Both organisations were e-mailed in August with a copy of the relevant information.
- 2.4 The closing date for applications was 30 September 2015. One application has been received for an Employee representative who will be interviewed before the meeting of the Board by the Head of Community Services & Litigation (deputising for the Monitoring Officer) and Democratic Services Manager.
- 2.5 At the request of the Board, the Democratic Services Manager has contacted one applicant who had shown interest in the Employer Representative position to enquire as to why he had not pursued it further. Unfortunately, the applicant had been unable to attend the interview. He has confirmed that he is still interested in the position and will be interviewed before the meeting of the Board by the Head of Community Services & Litigation (deputising for the Monitoring Officer) and Democratic Services Manager.
- 2.6 The Board has been presented with two recommendations to reflect the possible outcomes of the interviews.

# 3. TERMS OF REFERENCE AND STANDING ORDERS

- 3.1 Following the last meeting, the Democratic Services Manager circulated the revised Standing Orders attached as **Appendix A** to the Board.
- 3.2 One Board member, supported by another member, has commented that he is uncomfortable with one area. He explained that Local Pension Boards were set up following the Hutton review of public service pensions. One of his intentions is to make sure there is independent oversight of governance. After what happened over Maxwell in the 1990s other pension schemes separated the employer from the pension scheme and fund. The LGPS is peculiar in that the local authority administers the local fund of the LGPS but is also an employer. Therefore there is no legal separation as the employer is making decisions about what is happening to the fund. This member believes that Lord Hutton came up with the idea of scheme advisory boards and local pension boards to provide that independence so at least the pension committees have some independent oversight. He is concerned that any changes to the Standing Orders will be laid before full council for it to agree as he believes this goes against the independent nature of what a local Pension Board is supposed to be. As far as he is concerned, the Local Pension Board is not a committee of the local authority but a committee set up as part of the administering authority's functions but independent of the pensions committee. He quotes the section from LGPS Board Guidance which refers to terms of reference, which is statutory guidance:

#### "Terms of Reference

5.34 The Administering Authority when establishing its Local Pension Board should create terms of reference for the Board on the basis that the Board is a stand-alone body. The terms of reference are the rules setting out how the Board will be constituted and operate on a day to day basis. The terms of reference for a Local Pension Board should be reviewed periodically and at each material change in regulations impacting on Local Pension Boards."

He is also highlighting the fact that if the Pensions Board makes suggestions about changing its terms of reference and these are blocked it could refer back to the Act and challenge the decision i.e.

Local pension boards: establishment 106 (8) A local pension board shall have the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.

3.3 In response to this concern, the Democratic Services Officer sought legal advice. The Board is advised that the reference to stand-alone body in the paragraph that has been quoted is in relation to the fact that the Board shall have its own terms of reference. Paragraph 5.34 actually states that the Administering Authority (AA) (in this case Cambridgeshire County Council (CCC)) should create the terms of reference. This makes sense as CCC established the Local Pension Board (Pension Fund Board) and therefore from a governance perspective, although the pension board may make changes to the terms etc. these would need to be signed off by CCC as the AA. This is more an internal issue rather than being in relation to the pension board specifically and the example of the Health and Wellbeing Board can be used. If this was established by the full Council, it would follow that any amendments to terms of reference etc. would ultimately go back to full Council for approval. Attention is also drawn to section 8 of the guidance in relation to reporting where recommendations and concerns about decisions of the AA or the Committee with delegated responsibility are reported back to those groups rather than the pension board making unilateral decisions itself.

The point about regulation 106(8) – the Pension Board will have the power to do anything. It is suggested that this power is conferred by the terms of reference that the AA established. Therefore if the Pension Board wanted to act beyond this it would appear logical to have to go back to the establishing AA to change the Terms of Reference.

# 4. CODE OF CONDUCT

- 4.1 One Board member, supported by another member, commented that he has a technical issue with regard to adopting the Council's Code of Conduct. Whilst he does not have a problem with following the Council's own Code of Conduct, he believes there needs to be formal recognition that the Board is essentially adopting this code as it suits its purposes. Legal advice has confirmed that, according to the guidance, some or all of an existing code of conduct may be adopted.
- 4.2 The two current Employee Representatives have completed a Code of Conduct form which will be published on the Council's website if the Board approves a recommendation to adopt the County Council's Code of Conduct.

Source Documents	Location		
Local Government Pension Scheme (Amendment) (Governance) Regulations 2015	Jo Walton, LGSS Pensions Service Governance and Regulations Manager Tel - 01604 367030 E-mail - jwalton@northamptonshire.gov.uk		
Local Pension Board – Agenda and Minutes 16 July 2015	http://www2.cambridgeshire.gov.uk/Com mitteeMinutes/Committees/Meeting.aspx? meetingID=1020		

# Cambridgeshire Pension Fund Board (Standing Orders)

#### 1. Notice of Meetings

Meetings of the Board will be convened by the Administering Authority, who will also arrange the clerking and recording of meetings (a member of the County Council's Democratic and Members' Services Team will act as Clerk). Officers from the LGSS Pension Service will provide pension fund information to the Board.

The agenda and papers for meetings must be available at least five clear working days before the meeting.

#### 2. Chairmanship

A Chairman/woman and Vice-Chairman/woman will be appointed by the employer and member representatives of the Board from among their own number but not from the same sector of representatives.

The role of the Chairman/woman is to ensure meetings are properly conducted, decision making is clear and professional advice is followed. The Chairman/woman will agree the agenda and approve the minutes for each meeting.

#### 3. Other members

The Board may appoint other members with the agreement of the Administering Authority. Other members will not have voting rights on the Board.

#### 4. Reporting

The Board should in the first instance report its requests, recommendations or concerns to the Pension Committee.

On receipt of a report, the Committee should, within a reasonable period, consider and respond to the Board.

Where the Board is not satisfied with the response received it may request that a notice of its concern be placed on the website and in the Fund's annual report.

Where the Board is satisfied that there has been a breach of regulation which has been reported to the Committee and has not been rectified within a reasonable period of time it is under an obligation to escalate the breach.

The appropriate internal route for escalation is to the Monitoring Officer and the Section 151 officer.

The Board may report concerns to the LGPS Scheme Advisory Board for considering subsequent to, but not instead of, using the appropriate internal route for escalation.

Board members are also subject to the requirements to report breaches of law under the Act and the Code [and the whistleblowing provisions set out in the Administering Authority's whistle blowing policy].

The Board will publish an annual report of its activities for that year and include it part of the Pension Fund's annual report.

## 5. **Board Knowledge and Understanding**

Every individual who is a member of the Board must be conversant:

- with the rules of the Local Government Pension Scheme;
- any document recording policy about the administration of the Fund which is for the time being adopted in relation to the Fund.

Every individual who is a member of the Board must also have knowledge and understanding of:

- the law relating to pensions; and
- such other matters as may be prescribed.

The Board shall establish and maintain a Knowledge and Understanding Policy and Framework to address the knowledge and understanding requirements that apply to Board members under the Act.

#### 6. Members' Conduct

The Board should at all times act in a reasonable manner in the conduct of its purpose. Part 5 - Codes and Protocols of the County Council's Constitution will therefore apply to all members of the Board

http://www.cambridgeshire.gov.uk/info/20050/council structure/288/councils constitution

The Board should always act within its terms of reference and standing orders.

# 7. Termination of Membership

Board membership may be terminated prior to the end of the term of office due to:

- (i) a member representative appointed on the basis of their membership of the scheme no longer being a scheme member in the Fund;
- (ii) a member representative no longer being a scheme member or a representative of the body on which their appointment relied;
- (iii) an employer representative no longer holding the office or employment or being a member of the body on which their appointment relied;
- (iv) a Board member no longer being able to demonstrate to the Administering Authority their capacity to attend and prepare for meetings or to participate in required training;
- (v) the representative being withdrawn by the nominating body and a replacement identified;
- (vi) a Board member has a conflict of interest which cannot be managed in

accordance with the Code of Conduct;

- (vii) a Board member who is an elected member becomes a member of the Pensions Committee;
- (viii) a Board member who is an officer of the Administering Authority becomes responsible for the discharge of any function of the Administering Authority under the Regulations.

#### 8. Role of Advisors

The Board will seek alternative routes for advice prior to outside advisors being commissioned at considerable cost. The approval of the Section 151 is required if the Board needs to pay advisers.

#### 9. Urgent Items of Business and the Publication of Information

The Board will follow the requirements of the Local Government Access to Information Act 1985 as set out in the Administering Authority's Constitution.

#### 10. Working Groups/Sub-Committees

The Board will have the power to set up working groups/sub committees if appropriate.

#### 11. Expenses

Board members will be able to claim <u>reasonable</u> expenses from the Pension Fund if claimed within two months.

Travel by private vehicles will be reimbursed at the rates set for tax allowance purposes by the Inland Revenue for business travel. Currently these are 45p per mile for the first 10,000 miles and 25p a mile thereafter and an additional 5p per mile where a passenger (another councillor) is carried.

Parking fees and public transport fares will be reimbursed at cost on production of a valid ticket or receipt. In the case of travel by rail, standard class fare or actual fare paid (if less) will be reimbursed.

#### 12. Public Access to Board Meetings and Information

The Board meetings can be open to the general public (unless there is an exemption under the relevant legislation which would preclude part (or all) of the meeting from being open to the general public.

The following will be entitled to attend Board meetings in an observer capacity:

- (a) Members of the Pension Fund Committee;
- (b) Any person requested to attend by the Board.

Any such attendees will be permitted to speak at the discretion of the Chairman/woman.

#### 13. Data Protection

The Administering Authority, Cambridgeshire County Council, assumes the role of the Data Controller.

#### 14. Amendment of the Terms of Reference (Constitution) and Standing Orders

The Board may recommend variations to its Terms of Reference or Standing Orders by a simple majority vote by the members provided that prior notice of the nature of the proposed variation is made and included on the agenda for the meeting. The recommendation will then need to be approved by Full Council.

#### Agenda Item No: 2b)

# Cambridgeshire Local Pension Board

## **Minutes - Action Log**



#### Introduction:

This log captures the actions arising from the Cambridgeshire Local Pension Board 16<sup>th</sup> July 2015 and will form an outstanding action update from meetings of the Committee to update Members on the progress on compliance in delivering the necessary actions.

This is the updated action log as at 12<sup>th</sup> October 2015

	Minutes of 16 <sup>th</sup> July 2015					
Minute No.	Report Title	Action to be taken by	Action	Comments	Completed	
4.	Cambridgeshire Local Pension Fund Board Terms of Reference & Standing Orders	D Cave	A report to be presented to the Pensions Committee regarding confidential items enabling Board Members to remain when confidential items are discussed.	Report presented to the Pensions Committee on 30 <sup>th</sup> July 2015 and was agreed unanimously.	Completed	
5.	Membership of The Cambridgeshire Local Pension Board – Appointment To Employer and	M Rowe	To contact those who had shown interest in the position to enquire as to why they had not pursued it further.		Completed	

	Member Vacancies.				
5.	Membership of The Cambridgeshire Local Pension Board – Appointment To Employer and Member Vacancies.	Cllr McGuire/M Rowe.	The Chairman to review the advertising process for both the employer and member vacancies with Democratic Services.		Completed
6.	Presentation on The Operation of The Cambridgeshire Pension Fund.	J Walton/D Snowdon	Governance Policy and Compliance Statement to be circulated to Board Members		
6.	Presentation on The Operation of The Cambridgeshire Pension Fund.	J Walton	Draft of Risk Register to be presented to the next meeting of the Board.		
7.	Cambridgeshire Local Pension Board – Knowledge and Understanding Policy Framework	M Oakensen/ D Snowdon	Democratic Services should work with the Pensions Team and keep updated a list of the core documents recording policy about the administration of the Fund with electronic links	The following link is to a web page that contains all the core documents required <u>http://pensions.cambridgeshire.gov.uk/index.</u> <u>php/governance2/key-documents</u>	Completed
7.	Cambridgeshire Local Pension Board – Knowledge and	J Walton/D Snowdon	Democratic Services to develop a training record for Members of the Board.	Example attached at appendix 1	Completed

	Understanding Policy Framework			
8.	Cambridgeshire Local Pension Board – Work Programme.	D Snowdon	No-councillor representatives should sign the Council's Code of Conduct and complete a Declaration of Interests form.	Completed
9.	Local Pension Board Meeting Dates 2015-16	D Snowdon	The Democratic Services Officer to liaise with Board members regarding potential meeting dates.	Completed
9.	Local Pension Board Meeting Dates 2015-16	D Snowdon	Board members to be provided with future Pension Committee meeting dates.	Completed
9.	Local Pension Board Meeting Dates 2015-16	J Walton/D Snowdon	Future dates of training sessions to be circulated to Members of the Board.	Ongoing

|--|

Ref	Subject	Desired Learning Outcome/Success Measures	Priority	Date	Responsibility	Nature of training	Attendance by:	Cllrs Attending	Percent age of total
	Local Pension Board Training.	<ul> <li>LGPS regulatory structure and overview</li> <li>Who's who at national level within the LGPS</li> <li>Basic benefit structure and current administration challenges</li> <li>The role and functions of the board and how they differ from the committee</li> <li>The Regulator's code of practice</li> <li>The Knowledge and skills requirements</li> </ul>		1/09/15	J Walton		John Stokes Barry O'Sullivan	L Nethsingha	
			V						

This link provides the relevant information and documents for Board Members

http://pensions.cambridgeshire.gov.uk/index.php/governance2/key-documents/

The link provides the following:

- Funding Strategy Statement
- Longevity Reports
- Actuarial Valuation Reports
- Valuation Session 2010
- Annual Reports and Statements of Account
- Statements and Policies
- CIPFA Benchmarking Results
- List of Investments

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## LOCAL PENSION BOARD

## MINUTES OF THE CAMBRIDGESHIRE LOCAL PENSION BOARD

## Thursday, 16th July 2015

Members of the Board: Employers - Councillors M McGuire and L Nethsingha Scheme Members - B O'Sullivan and J Stokes

Officers in attendance: *M* Oakensen –Governance Officer *D* Snowdon – Democratic Services Officer *M* Rowe – Democratic Services Manager *J* Walton – Governance and Regulations Manager *M* Whitby - Deputy Head of Pensions

*Time: 10.00 a.m. to 11.45 a.m. Place: Shire Hall, Cambridge* 

#### 1. ELECTION OF CHAIRMAN/WOMAN

Having been duly moved and seconded by Mr Stokes and Mr O'Sullivan respectively, it was unanimously resolved to appoint Councillor McGuire as the Chairman of the Local Pension Board.

## 2. ELECTION OF VICE-CHAIRMAN/WOMAN

Having been duly moved and seconded by Mr Stokes and Councillor McGuire respectively, it was unanimously resolved to appoint Mr O'Sullivan as the Vice-Chairman of the Local Pension Board.

## 3. APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

Councillor McGuire declared a Disclosable Pecuniary Interest under the Code of Conduct as a member of the Local Government Pension Scheme (LGPS). Mr O'Sullivan and Mr Stokes also declared that there were members of the LGPS.

#### 4. CAMBRIDGESHIRE LOCAL PENSION FUND BOARD – TERMS OF REFERENCE & STANDING ORDERS

The Board received a report detailing changes to the Council's Constitution following the meeting of Council on 24 March 2015. The Democratic Services Manager explained that the guidance pertaining to the Board's terms of reference was extremely detailed and a number of the key issues were covered in the changes to the Council's Constitution approved by Council. The report also included a new change to the Constitution to reflect

#### Action



a reference to the "Regulations under the Public Service Pension Act 2013".

It was noted that Annex 3 covered issues detailed in the guidance which were not covered in the Council's Constitution. The Annex also contained a number of questions for the Board to consider as part of its discussion of the report.

During discussion the Board:

- commented that it had been expecting a stand-alone document and had found the Terms of Reference difficult to navigate and interpret. It was explained that the Council's Constitution covered all meetings including the Pension Committee and Investment Sub-Committee and that separating the Board would create an anomaly.
- proposed that the Board's stand-alone function should be recognised and that it should therefore have stand-alone Terms of Reference. It was explained that the Board was administered within the Constitution in the same manner as the Health and Wellbeing Board, which also had a similar stand-alone function. It was noted that Annex 3 was designed to cover the issues that were particular to the Board.
- agreed to operate within the current process and to consider and discuss the Terms of Reference further at a future meeting of the Board if issues arose.
- expressed concern regarding how item 11 was phrased. It was agreed that because the guidance considered broader costs rather than just travel the wording should be amended to "reasonable expenses".
- agreed that its annual report should in the first instance be published as part of the Pension Fund's Annual Report.
- considered item 8 of Annex 3 of the report and requested that alternative routes for advice be sought for the Board prior to outside advisors being commissioned at considerable cost. Officers confirmed that an approved list of advisors was available.
- agreed that item 9 should follow the requirements of the Local Government Access to Information Act 1985, which applied to other Council committee meetings.
- confirmed that it wished to retain the power to set up working groups and/or sub committees.
- agreed that the terms of reference should take account of the Administering Authority's role as a "data controller".
- questioned the quorum for the Board and whether substitute members of the Board were necessary. The quorum was confirmed to be two members (1/3) of the Board, which must include one employer and one member representative. It was agreed that substitute members were not required as the Democratic Services Officer, when arranging meetings of the Board, would do his upmost to ensure that a mutually

convenient date was proposed for meetings. It was noted that this might involve, subject to the Chairman's approval, cancelling and rearranging meetings.

- discussed attendance at meetings of the Pension Committee and questioned whether Board members would have to leave the meeting when confidential items were discussed. Officers proposed that a report be presented to the next meeting of the Pensions Committee. It was noted that employee representatives would need to sign the Members' Code of Conduct, which covered the procedure for dealing with confidential items, to enable them to remain in the meeting when confidential items were discussed.
- discussed reference in the guidance to the Board having its own budget for specified purposes. The Democratic Services Manager reported that she did not have a budget for the Local Pension Board. She added that if the Board required funding it would need to make a specific request and seek approval from the Section 151 Officer.

It was resolved to recommend to Council:

- a) the one revision to the Terms of Reference in the Council's Constitution; and
- b) its Standing Orders as set out in Annex 3 including changes proposed at its meeting. (Note – the Democratic Services Manager to circulate a revised Annex 3 to the Board)

#### M Rowe/ J Walton

#### MEMBERSHIP OF THE CAMBRIDGESHIRE LOCAL PENSION BOARD – APPOINTMENT TO EMPLOYER AND MEMBER VACANCIES

The Board was asked to consider how appointments should be made to outstanding employer and employee vacancies. Officers highlighted the fact that despite a lot of initial interest there had been very few applications received once those who had expressed an interested had realised the level of work involved.

During discussion the Board:

5.

- requested that a further recruitment exercise be undertaken to fill the vacant Employer place and that if it was not successful the matter be referred to full Council for an Employer appointment to be made.
- received confirmation from officers that additional resources could be provided from the LGPS to fund the recruitment exercise.
- asked officers to contact those who had shown interest in the position to M Rowe enquire as to why they had not pursued it further.
- acknowledged that offering the remaining place to Unison was a possibility. The Board was informed that the Constitution and Ethics Committee had confirmed the importance of paragraph 15.14 in the guidance relating to the need for the appointment process to be open to all members over paragraph 15.20 an individual's ability to properly

D Cave

represent the interests of employers or members. It was acknowledged that not all members of the pension scheme would have been aware of the opportunity to apply to become a Board member. It was therefore agreed that the vacant member place should be advertised again. M Rowe agreed that the Chairman should review the advertising process for both Cllr McGuire • the employer and member vacancies with Democratic Services. considered the timetable for the recruitment of additional Board members. Full Council was due to meet in October, therefore it was D Snowdon agreed that a meeting of the Board should take place in early October. Democratic Services would arrange the date and venue. It was resolved to: re-advertise vacant Employer and Employee Representative places on the Local Pension Board. 6. PRESENTATION ON THE OPERATION OF THE CAMBRIDGESHIRE **PENSION FUND** The Board received a presentation attached at Appendix A that provided background information and context to the operation of the Cambridgeshire Pension Fund. During the presentation: J Walton/ it was requested that the Governance Policy and Compliance Statement be circulated to Board members. D Snowdon officers informed the Board that the Risk Register was being updated • J Walton over the summer and the draft would be presented to the next meeting of the Board. officers informed the Board that some equity funds had not performed as well as had been hoped for but returns were generally good. It was resolved to note the presentation on the operation of the Cambridgeshire Pension Fund. **CAMBRIDGESHIRE LOCAL PENSION BOARD – KNOWLEDGE AND** 7. UNDERSTANDING POLICY FRAMEWORK The Board considered a report that proposed developing and maintaining a policy and framework to address the knowledge and understanding requirements that applied to members of the Local Pension Board. It was asked to designate responsibility to the Democratic Services Manager and the LGSS Pensions Service Governance and Regulations Manager for ensuring that the knowledge and understanding framework for the Local Pension Board was developed and implemented. Members were informed that the degree of knowledge and understanding required of Board members was significant. It was therefore proposed that

M Oakensen/

Democratic Services should work with the Pensions Team to prepare and

keep updated a list of the core documents recording policy about the administration of the Fund and that the lists and electronic links to documents (as well as the rules of the LGPS) should be accessible to all Members. It was also agreed that a pack of essential/key documents should be printed and given to all members of the Board.

The Board discussed the need for high quality and ongoing training particularly to take into account changes to legislation. It was noted that some of the Board members had attended an LGA event on 21 May. Together with the Pensions Team, it was felt that Democratic Services should develop and maintain a training record for each Board member. Members discussed the proposal for a personalised training plan for individual members and felt that at this stage training should be conducted on a collective basis.

It was resolved to:

designate responsibility to the Democratic Services Manager and the LGSS Pensions Service Governance and Regulations Manager for ensuring that the knowledge and understanding framework for the Local Pension Board was developed and implemented.

#### 8. CAMBRIDGESHIRE LOCAL PENSION BOARD – WORK PROGRAMME

The Board received a report that set out the Pension Board priorities and work programme for 2015/16.

It was noted that the Guidance on the creation and operation of Local Pension Boards in England and Wales had identified a number of work areas for the Board including the approval of a Code of Conduct. The Democratic Services Manager reported that Councillor representatives on the Board had already signed to undertake to observe the Council's Code of Conduct and completed a Declaration of Interests Form. The Board agreed that non-councillor representatives should also sign up to the Council's Code of Conduct and complete a Declaration of Interests Form.

Members of the Board requested that the Governance and Regulations Manager in consultation with Democratic Services identified a work programme based upon the Pension Committee work programme.

It was resolved to consider the proposed priorities and work programme and to require non-councillor representatives to sign up to the Council's Code of Conduct and complete a Declaration of Interests Form, which would be published on the Council's website.

#### 9. LOCAL PENSION BOARD MEETING DATES 2015-16

The Board considered meeting dates for 2015-16. Officers suggested that approximately 4 meetings per year would be appropriate and reminded the Board that there would be training to complete between meetings.

The Democratic Services Officer was asked to liaise with Board members regarding potential meeting dates. It was noted that Mondays and Thursdays should be avoided if possible.

D Snowdon

M Oakensen/ D Snowdon

D Snowdon

J Walton/ D Snowdon

D Snowdon

Officers suggested that the agenda for the next meeting of the Pensions Committee be used as a framework for the next agenda of the Board. It was suggested that Board members should be provided with the dates of future Pension Committee meetings. Board members were advised to contact Democratic Services if they required hard copies of documents to be printed and sent to them.

It was requested that future dates of training sessions be circulated to J Walton members of the Board. D Snowdon

Chairman

## CAMBRIDGESHIRE PENSION FUND



#### **Pension Fund Board**

#### **PRIVATE PAPER**

Date: 21 October 2015

#### **Report by:** Deputy Head of Pensions

Subject: Annual General Meeting of the Cambridgeshire Pensic Fund 2014-15			
Purpose of the Report	To provide the Pension Fund Board with an update of the topics discussed at the AGM which relate to the Fund's financial performance during the period 2014-15		
Recommendations	That the Pension Fund Board note the contents of the report.		
Enquiries to:	Name – Joanne Walton – LGSS Pensions Governance and Regulations Manager Tel – 01604 367030 E-mail – jwalton@northamptonshire.gov.uk		

#### 1. Background

- 1.1 Cambridgeshire Pension Fund has for a number of years hosted an Annual General Meeting at which members of the Pension Committee and professional advisers meet to discuss the Fund's financial performance during the financial year just passed.
- 1.2 The Pension Fund Board was established and fully recruited to in May 2015 and as such this report is intended to provide a brief update on the matters discussed that relate to the Fund's financial performance during 2014-15.
- 1.3 This report will address the following information discussed at the Annual General Meeting;
  - Annual Performance Review 2014-15 (WM State Street Global Services)
  - Annual Custodian Monitoring Report six months to 31 March 2016 (Mercer Sentinel)
  - Annual Review of the Fund's Investment Managers (Mercer Sentinel)
  - Investment Manager Fee Review (Mercer Sentinel)
- 1.4 Members of the Pension Fund Board will be invited to attend future Annual General Meetings of Cambridgeshire Pension Fund which are normally held in the month of July.
- 2. Annual Performance Review 2014-15 (WM State Street Global Services)

#### 2.1 Background to the Annual Performance Review

- 2.1.1 The Cambridgeshire Pension Fund (the "Fund") has engaged WM State Street Global Services ("State Street") to provide performance reporting for the Fund's investments. State Street provides quarterly reports for review at the meetings of the Investment Sub Committee.
- 2.1.2 State Street have summarised the full year's performance in the attached presentation to the Pension Fund Committee reviewing the market environment and the total Fund performance covering the period from 1 April 2014 to the 31 March 2015 relative to its other LGPS peers.

#### 2.2 2014-15 Annual Performance Review

- 2.2.1 The Annual Review that State Street presented at the meeting is attached as a Appendix 1 to this paper.
- 2.3 State Street summarise investment performance in the year as follows:-
  - The Fund has under-performed its benchmark in the latest year having out performed its benchmark in the two previous years reflecting underperformance in the year by Skagen arising from equity selection.
- 2.4 It is noted that the Fund underperformed by 0.8% relative to the universe after two years of outperformance.
- 2.5 Over a three year investment cycle the Fund outperformed the universe.
- 2.6 The Committee should note that whilst the universe is not a league table where the highest return is the sole measure of success, However, Officers will investigate consistently high performing LGPS funds in order to understand if there are any lessons to be learned.

#### 3. Annual Custodian Monitoring Report 2014-15 (Mercer Sentinel)

#### 3.1 Background to the Annual Custodian Monitoring Report

- 3.1.1 The Cambridgeshire Pension Fund (the "Fund") has engaged Mercer Sentinel to review the performance of its global custodian, The Northern Trust Company (Northern Trust), in administering and safekeeping assets and to analyse the efficiency and effectiveness of its active investment managers.
- 3.1.2 This report covers the period from 1 October 2014 to 31 March 2015. It monitors and benchmarks providers' performance as it relates to:
  - Cash Management
  - Operational Efficiency: Trade Settlement, Income Collection, Corporate Actions, Proxy Voting, Tax Reclaims, Foreign Exchange
  - Investment Manager Reconciliations
  - Securities Lending
  - Transaction Cost Analysis

- 3.1.3 As part of the regular monitoring of the Custodian, Officers attend regular quarterly service review meetings with the Custodian to discuss Custodian performance and Fund Manager participation.
- 3.1.4 This report and the Appendix contain information on the performance of the Custodian and commercial arrangements with the Custodian which are considered to be commercially sensitive and are therefore to be treated as private papers.

#### 3.2 2014-15 Performance Review

- 3.2.1 Mercer Sentinel's key findings are noted below, with references to the detailed pages of the report which is attached as Appendix 2.
- 3.2.2 The sterling average on deposit cash was approximately £56,000. The average daily sterling sweep was £34.9m and generated an income of approximately £50,300, which is less competitive than rates of interest received by other Mercer Sentinel clients with similar sized funds.

The average Euro cash balance was approximately £147,000. A charge of 16bps was incurred for these balances. This was applied by the custodian following the ECB's announcement in September 2014 to impose negative interest rates to the Eurozone. The average US Dollar cash balances were £107,500.

The overall overdraft interest paid across sterling, US Dollars and Euro was approximately £25,000 and arose largely from the transition to the new custodian in October 2014. Overdraft interest rates appear slightly high compared to other Mercer Sentinel clients (Pages 5 to 8).

- 3.2.3 Trade settlement, income collection and corporate actions were satisfactory and well within market standards for the six months to 31 March 2015. No follow ups required (Pages 9 to 11).
- 3.2.4 Tax reclaims are disappointing, with only £245,922 being received during the six months to 31 March 2015. Total tax reclaims outstanding was £757,808 and are largely due to longer recovery times for aged outstanding tax reclaims. This is a result of local tax authorities in the individual countries concerned, requiring increased documentation from the clients before they are prepared to release the funds (Pages 12 and 13).
- 3.2.5 Foreign exchange analysis indicated that the overall cost for the six months to 31 March 2015 was marginally better than average of the universe (Pages 14 to 17).
- 3.2.6 Securities lending delivered a strong performance returning £86,837 of net earnings for the six months to 31 March 2015. This reflects the improved fee split with the Custodian from 70/30 to 81/19 as part of the appointment of Northern Trust as Custodian effective from 1 October 2014 (Pages 18 and 19).

- 3.2.7 Transaction Cost Analysis indicated that all three managers delivered an acceptable performance during the period, although Amundi (who have been terminated post 31 March) appeared to be expensive compared to the market standard. Total commissions for the six months to 31 March 2015 were approximately £134,000 or 7.24 bps which in aggregate remain within market standards despite high costs of 7.96bps for Amundi (Page 20).
- 3.2.8 The process for investment manager reconciliations was bedding in during the period, following the transition to the new Custodian. However, all four managers reconciled within tolerance in March 2015 (Page 21).

#### 3.3 Conclusion

3.3.1 Mercer Sentinel consider the services provided by the Fund's various investment managers and its global custodian, Northern Trust, in each of the following areas to be:-

	6 Months to 31 March 2015
Cash Management	Below Standard
Operational Efficiency	
Trade Settlement	Satisfactory
Income Collection	Satisfactory
Corporate Actions	Satisfactory
Proxy Voting	N/A
Tax Reclaim	Satisfactory
Foreign Exchange	Satisfactory
Securities Lending	Satisfactory
Transaction Cost Analysis	Below Standard *
Investment Manager Reconciliations	Below Standard
*Arising from manager now terminated	

- 3.3.2 In the opinion of Officers, the Custodian has provided a satisfactory service to the Fund during the first six months of the contract, as evidenced by the findings of Mercer Sentinel.
- 3.3.3 The efficiency of foreign exchange and trade execution and commissions paid by the Fund's ongoing investment managers remains competitive in comparison to the market. Trades executed by Amundi were expensive relative to the market but this manager has been terminated subsequent to the period end.
- 3.3.4 Officers and Mercer Sentinel will follow up with the Custodian on Cash Management and Investment Manager reconciliations.
- 4. Annual Review of the Fund's Investment Managers 2014-15 (Mercer Sentinel)

#### 4.1 Background to the Annual Review of the Fund's Investment Managers 2014-15

- 4.1.1 The Investment Strategy of the Fund is approved by the Pension Committee with the Investment Sub Committee (ISC) being responsible for the delivery of the Strategy.
- 4.1.2 The Fund Investment Strategy is based on a high allocation to growth assets with the expectation that these will deliver higher returns over the longer term.

- 4.1.3 The Investment Sub Committee reviews the State Street/WM performance report each quarter to monitor the performance of the Fund and its investment managers.
- 4.1.4 This report and appendix 3 provide qualitative research views from Mercers and additional quantitative analysis of the performance of each investment manager for the year ending 31 March 2015. This includes an overview of the key contributors or detractors to performance and key issues to consider for each mandate going forward.
- 4.1.5 This report and appendix 3 contain Mercer's proprietary research and manager ratings which are considered to be commercially confidential data and the papers are therefore to be treated as private papers of the Pension Committee and the Pension Fund Board.

#### 4.2 Summary of the Fund's performance 2014-15

- 4.2.1 The Fund returned 12.2% (estimated 11.6% net of fees) over the year to 31 March 2015. This was 1.3% behind the benchmark return of 13.5%.
- 4.2.2 The Fund's assets grew by £231 million over the year to 31 March 2015. The Fund's liabilities also grew by £537 million over the same period. This represents a reduction in funding level from 78% to 72% between 31 March 2014 and 31 March 2015.
- 4.2.3 All managers achieved positive absolute returns and all active managers (with the exception of Skagen and Schroders Property) outperformed their benchmark over the year to 31 March 2015. However, it should be recognised that Skagen's role in the Fund is to take a contrarian view and as such a degree of underperformance might be expected to compare less favourably when other managers out perform their benchmarks.

#### 4.3 Summary of the investment manager performance 2014-15

The contribution of each investment manager to the Fund's total return over the year to 31 March 2015, net of fees, is shown in the table below:

Manager	Asset Allocation as at 31 March 2015 (%)	Contribution to Total Return over the Year (%)
State Street UK	9.6	0.7
State Street Global	14.3	2.7
Newton	12.6	2.6
Amundi	10.7	1.4
Skagen	4.1	0.1
Schroders Multi Asset	31.9	2.8
Schroders Property	8.0	1.2
M&G	2.3	0.1
Total Return (ex PE and Infrastructure)	93.4	11.6
Adams Street	2.6	-
HarbourVest	1.8	-

UBS	0.8	-
Equitix	0.8	-
Partners Group	0.6	-
Total*	100.0	n/a

Net of fees returns have been estimated by Mercer using data from the managers.

• A total Fund return cannot be estimated due to the complexities of the private asset returns, Mercer have shown private asset returns in more detail in sections 9 and 10 of the Appendix.

#### 4.4 Summary of the Fund's investment managers

4.4.1 The table below provides a summary overview of the review that was carried out on the Fund's investment managers and their mandate:

	Comments
Statestreet Global & UK	Retain
Equity	No immediate concerns with the current mandate.
	Terminated
Newton Global Equity	Performance had picked up more recently after several years of disappointing performance although issues remained with the communication of Newton's approach and style. The transition to JO Hambro was completed in Q1 2015/16.
	Terminated
Amundi	Decision to terminate for strategic reasons and due to lack of confidence in the manager. Transition to Dodge & Cox was completed in Q1 2015/16.
	Watch
Skagen Emerging Market Equity	Performance over the last 12 months has been poor and there have been a number of personnel changes at the firm. Skagen are also currently in the process of a potential change in ownership. Skagen should remain on watch for now.
Sabradara Multi Accat	Retain (but review the multi-asset structure) The manager should be retained but the multi asset
Schroders Multi Asset	structure and fees charged should be reviewed following the termination of the regional equity funds in favour of Dodge & Cox.
	Retain
M&G Bonds	M&G's performance over the last year has been good despite a challenging market.
Schroders Property	Detein
Adams Street Private Equity	Retain All alternative managers should be retained. However, a review of the Fund's Property and Alternatives strategy as a
HarbourVest Private Equity	whole is scheduled to be carried out in late 2015/16.

#### Comments

#### **UBS Infrastructure**

#### Equitix Infrastructure

#### Partners Group Infrastructure

#### 5. Investment Manager Fee Review 2014-15 (Mercer Sentinel)

#### 5.1 Background to the Investment Manager Fee Review

- 5.1.1 The Investment Strategy of the Fund is approved by the Pension Committee with the Investment Sub Committee (ISC) being responsible for the delivery of the Strategy.
- 5.1.2 The Investment Sub Committee has mandated different investment managers according to their areas of expertise to assist the Fund in the delivery of its Strategy.
- 5.1.3 The performance of the Fund's investment managers is reviewed on a quarterly basis by the Investment Sub Committee.
- 5.1.4 This paper reviews the fees paid by the Fund to its investment managers over the 3 year period to the 31 March 2015. The fee is compared against the median fee of similar sized mandates across Mercer's global client base, which is documented in Mercer's 2014 Global Fee Survey. The report also considers the performance delivered by each manager in order to contextualise fees paid.
- 5.1.5 The report also reviews transaction costs which can lead to erosion of Fund assets if not monitored.
- 5.1.6 This report contains confidential information on the fees paid to individual managers which is considered to be commercially sensitive and therefore should be treated as a private paper.

#### 5.2 Investment Manager Fee Review 2014-15

- 5.2.1 The table below shows the estimated fees for each of the Fund's managers over the 3 years to 31 March 2015. Given the fees are charged on Fund specific tiered fee scales on the assets under management, the table sets out the actual amounts charged by the investment managers each year (which also accounts for any performance related fees).
- 5.2.2 The fees charged are compared to the performance of the manager in order to highlight their magnitude in comparison to both the absolute returns achieved and relative to benchmark.
- 5.2.3 Given the long-term nature of private equity and infrastructure a "fees versus value added" comparison is not possible over short periods, however a comparison across the managers can be seen from the table:

Manager/Portfolio	Fund Asset Under Manage- ment (£m)	Fees charged Over 3 Years (£m)	Fees Charged* (% p.a.)	Relative Value Add Over 3 Years after fees (£m)	Total Return (£m)
State Street (UK)	215.4	0.2	0.04	Passive	64.2
State Street (Global)	320.5	1.0	0.11	Passive	99.7
Newton	283.5	1.5	0.18	2.8	105.5
Amundi	241.4	1.7	0.24	2.3	79.7
Skagen	91.6	3.5	1.40	-0.9	10.7
Schroders Multi- Asset	717.0	8.6	0.40	37.1	202.4
Schroders Property**	179.3	1.0	0.19	-12.9	35.3
M&G	51.8	0.8	0.54	0.9	6.2
Sub total	2,100.5	18.4		29.3	603.6
Adams Street	58.7	2.3	1.32	-	-
HarbourVest	40.6	1.9	1.55	-	-
UBS	18.0	0.8	1.52	-	-
Equitix***	18.4	0.5	1.11	-	-
Partners Group	11.1	1.2	3.47	-	-
Total	2,247.3	25.2	-	29.3	603.6

May not sum due to rounding

\*Estimated by Mercer and based on 31 March 2015 asset values

\*\*Includes Schroders fees only and is not inclusive of the underlying manager fees

\*\*\*Equitix was only able to provide a breakdown in charges from 31/12/12 to 30/6/15.

5.2.4 The table shows that over a three year period the fees paid to managers, excluding the private equity and infrastructure, were £18.4m compared to returns of £603.6m. In addition, Investment managers with the exception of Schroders property and Skagen have added value to the Fund over the last three years after fees.

#### 5.3 Comparison of the Fund's Investment Manager fees 2014-15

- 5.3.1 By estimating the percentage fee charged per annum, the Fund's investment management fees can be compared to those being paid by other pension funds. The performance related fees does not always make for a fair comparison due to its nature.
- 5.3.2 The table below compares the Fund's management fee to other pension funds using the average ("median") for similar sized mandates covered by Mercer's Global Fee Survey. The upper quartile and lower quartile respectively refers to the top and bottom 25% fees in the universe:

Managar/Portfolio	Average Annual	Median Annual	Fees
Manager/Portfolio	Fee (% p.a.)	Fee (% p.a.)	Quartile**

State Street (UK passive)	0.04	0.10	lower quartile
State Street (Global passive)	0.11	0.13	second quartile
Newton	0.18	0.47	lower quartile
Amundi	0.24	0.55	lower quartile
Skagen	1.40	0.76	upper quartile
Schroders Multi-Asset*	0.40	0.50	lower quartile
Schroders Property	0.19	0.25-0.9	below median
M&G	0.54	0.5-1.5 with performance fee	competitive fee
Adams Street	1.32	0.75-2	average fee
HarbourVest	1.55	0.75-2	average fee
UBS	1.52	0.5% plus 40%	average fee
Equitix	1.11	<ul> <li>0.5% plus 10% carried interest</li> </ul>	average fee
Partners Group	3.47	above a return of 8%	high fee relative to peers

5.3.3 The majority of the Fund's investment managers have competitive fee arrangements in place when compared to the wider universe.

- 5.3.4 Only Skagen and Partners Group are charging a fee above the median manager for their respective asset classes
- 5.3.5 Given the performance fee element of their fee schedule, Newton's fee is significantly lower than the median manager. Although Newton have outperformed over the last 3 years, because of historical underperformance, the Fund had accumulated a fee credit which has resulted in no outperformance fee being paid during the last 3 years.

5.3.6 Given the performance fee element of their fee schedule, Newton's fee is significantly lower than the median manager. Although Newton have outperformed over the last 3 years, because of historical underperformance, the Fund had accumulated a fee credit which has resulted in no outperformance fee being paid during the last 3 years.

#### 5.4 Summary of Transaction costs 2014-15

5.4.1 The level of transaction costs incurred within LGPS portfolios is also under increased scrutiny. The following table summarises the transaction costs incurred within each portfolio over the last three years.

Manager	Transaction Costs (£m)	Actual Turnover Over 3 Years (% p.a.)	Expected Turnover (% p.a.)
Newton	0.5	29.3	50.0
Amundi	0.2	25.8	50.0
Skagen	0.3	21.0	25.0
Schroders Multi-Asset	1.1	13.5	-
Schroders Property	0.6	7.6	10.0
M&G	0.0	7.3	-

#### 3 Years to 31 March 2015

Source: Investment Managers

- 5.4.2 All managers are under their expected annual turnover for the three year period under review.
- 5.4.3 While transaction costs are important to monitor, investment managers are incentivised to keep a handle on the transaction costs incurred as their quoted returns are net of these transaction costs
- 5.4.4 Depending on a manager's approach for investing, we would expect differences in the level of turnover and transactions costs incurred.
- 5.4.5 M&G's transaction costs are paid for by the custodian and are ultimately charged on the assets through the additional expenses which includes various other items e.g. administration costs. The additional expenses are capped and therefore, regardless of the level of turnover in the portfolio, the Fund will not be charged an additional fee.

#### 5.5 Investment Manager Performance

5.5.1 The Fund's total return over three years to 31 March 2015 is £603m with Schroders Multi Asset the biggest contributor, reflecting the performance of this manager and size of the mandate.

5.5.2 The table below summarises the investment return generated by manager (excludes private equity and infrastructure) over three years to 31 March 2015. The total return comprises capital gains and the income paid out by the Fund:

	I	Return over 3 yea	r
Manager	Capital Gain/Loss (£m)	Income (£m)	Total Return (£m)
State Street (UK passive)	42.3	21.8	64.2
State Street (Global passive)	76.1	23.6	99.7
Newton	90.7	14.8	105.5
Amundi	64.0	15.7	79.7
Skagen	5.0	5.7	10.7
Schroders Multi-Asset	157.7	44.7	202.4
Schroders Property	18.3	17.1	35.3
M&G	0.7	5.4	6.2
Total	454.7	148.8	603.6

5.5.3 Capital gain has contributed 75% of the return over 3 years and 25% has been generated through investment income.

#### 6. Relevant Pension Fund Objectives

Perspective	Outcome	
Funding and Investment	• To ensure that the Fund is able to meet its liabilities for pensions and other benefits with the minimum, stable level of employer contributions.	
	To ensure that sufficient resources are available to meet all liabilities as they fall due.	
	To maximise the returns from its investments within reasonable risk parameters.	

#### 7. Finance & Resources Implications

7.1 The finance implications are set out in the report.

#### 8. Risk Implications

a) Risk(s) associated with the proposal:

Risk	Mitigation	Residual Risk
Impact of the performance of an investment manager on the risk and return profile of the Fund.	Regular monitoring of the Fund's investment managers is undertaken by officers supported by a range of professional external providers.	Amber

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

Risk	Risk Rating
The Fund will not be meeting key governance requirements as part of its decision making process.	Amber

#### 9. Communication Implications

9.1 There are no communication implications with the recommendations.

#### 10. Legal Implications

10.1 There are no legal implications with the recommendations.

#### 11. Consultation with Key Advisers

11.1 The reports presented at the Annual General Meeting was originally produced in consultation with Mercer, the Fund's appointed investment consultant, in compliance with the LGPS (Management and Investment of Funds) Regulations 2009 and utilising information and advice provided by WM State Street Global Services and the Fund's investment managers

#### 12. Alternative Options Considered

12.1 Not applicable.

#### 13. Background Papers

13.1 None.

#### 14. Appendices

- 14.1 Appendix 1 WM State Street Global Services Cambridgeshire Pension Fund Annual Review 2014-15 (section 2)
- 14.2 Appendix 2 Mercer Sentinel Custodian Monitoring Report 2014-15 (private) (section 3)
- 14.3 Appendix 3 Mercer Annual Manager Report 2014-15 (private) (section 4)

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?	Not applicable	
Has this report been cleared by Deputy Head of Pensions?	Mark Whitby – 18/09/2015	
Has this report been cleared by Legal Services?	Not applicable	