

CAMBRIDGESHIRE PENSION FUND



Pension Fund Board

Date: 4th October 2019

Report by: Head of Pensions

| | |
|------------------------------|---|
| Subject: | Pension Fund Annual Business Plan Update report 2019/20 |
| Purpose of the Report | To present the Pension Fund Business Plan Update for the period from 1 st July to 30 th September 2019 to the Pension Fund Board. |
| Recommendations | The Pension Fund Board are asked to note the Pension Fund Business Plan Update for the period ending 30 th September 2019 of the 2019/20 financial year. |
| Enquiries to: | Joanne Walton, Governance and Regulations Manager jwalton@northamptonshire.gov.uk |

1. Background

- 1.1 Good governance requires that updates to the pre-agreed Annual Business Plan and Medium-Term Strategy are provided to the Committee and Board on a regular basis. This update highlights the progress made on the key activities for the period up to 30th September 2019 of the 2019/20 Business Plan, which was approved by the Pensions Committee on 22nd March 2019.
- 1.2 A full list of the key fund activities for the 2019/20 financial year can be found in appendix 1 of this report.

2. Key Pension Fund Activities

2.1 Service Delivery (SD)

| Reference | Key action/task | 2019/20 | | | | Medium term | |
|-----------|--|---------|----|----|----|-------------|---------|
| | | Q1 | Q2 | Q3 | Q4 | 2020/21 | 2021/22 |
| SD1 | Monitor staffing levels in line with organisational reform | ✓G | | | | | |
| SD2 | Retain Customer Service Excellence standard accreditation | | ✓G | | | ✓ | |

2.1.1 SD1 - Monitor staffing levels in line with organisational reform

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

Update: No issues at present – Operations team has now reached full establishment.

Key Milestones:

All actions to be completed for Q1 to Q4 April 2019 to March 2020 – **On target for completion**

2.1.2 SD2 – Retain Customer Service Excellence standard accreditation

Action: Retain Customer Service Excellence (CSE) Standard accreditation and develop and implement Action Plan from feedback received.

Update: A re-assessment of the Customer Service Excellence (CSE) standard accreditation has been undertaken and LGSS Pensions achieved full compliance in all 57 areas including four areas being assessed as compliance plus. By utilising the online resources available, service standards will be monitored quarterly going forward. Any improvements that are made within a particular quarter will be submitted to the assessment service throughout the year for a more accurate and timely review.

Key Milestones:

- Full assessment Q2 August 2019 – **Completed**
- Develop and implement Action Plan Q3 November 2019 – **on target for completion.**

2.2 Governance and compliance (GC)

| Reference | Key action/task | 2019/20 | | | | Medium term | |
|-----------|--|---------|----|----|----|-------------|---------|
| | | Q1 | Q2 | Q3 | Q4 | 2020/21 | 2021/22 |
| GC1 | Procure a supplier of specialist legal advice | | ✓A | | | | |
| GC3 | Obtain proof of continued existence of scheme members residing overseas | | ✓G | | | | |
| GC5 | Deliver actions stemming from the review of the Fund's Additional Voluntary Contribution providers | ✓G | | | | | |
| GC7 | Complete the Guaranteed Minimum Pension reconciliation project with rectification of members records | ✓G | | | | | |

2.2.1 GC1 – Procure a supplier of specialist legal advice

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

Update: Commencement has been delayed until Q3 due to the need for staff involvement in an urgent illiquids consultancy procurement for the ACCESS pool. Still on target for an overall Q4 completion.

Key Milestones:

- Produce specification Q2 September 2019 – **Move to Q3 October 2019**
- Publish tender Q3 October 2019 – **Move to Q3 November 2019**

2.2.2 GC3 - Obtain proof of continued existence of scheme members residing overseas

Action: The Fund's Anti-Fraud and Corruption policy states that an exercise will be undertaken to prove the continuing existence of scheme members residing overseas every 2 years, to ensure pensions continued to be paid to the correct and eligible recipient.

Update: It was initially planned to use Western Union's Proof of Existence service to conduct this exercise as was the method in 2017. When undertaking a review of the terms and conditions of this service, LGSS Pensions, the Fund's legal advisors and the administering authority's Information Governance Team were uncomfortable with the position taken by Western Union with regards to the General Data Protection Regulation (GDPR). Western Union believed their GDPR responsibilities were limited to that of a Data Controller when the view of the administering authority was that Western Union were a Data Processor; a role that is accountable for any data breaches and their associated penalties. Attempts were made to negotiate with Western Union but no change of position could be agreed and given the risks associated with operating outside of the EEA, as would be the case for a number of members within the scope of this project, it was decided not to proceed.

Instead the alternative method will involve LGSS Pensions sending a proof of existence certificate to all pensioner members that reside overseas. The certificate will require a witness in the form of a suitable government official.

Key Milestones: (amended due to change in process)

- Prepare communications to members Q2 June 2019 – **Completed**
- Commence process with members Q3 November 2019 - **On target for completion**

2.2.3 GC5 - Deliver actions stemming from the review of the Fund's Additional Voluntary Contribution (AVC) providers

Action: The Fund has a responsibility to ensure that the range of investment choices

offered by their AVC providers remain suitably diverse and appropriate in terms of annual charges and risk profiles. As such, the Fund appointed an external adviser, Aon, to review and report on the fund ranges offered by the Fund's AVC providers Standard Life and Prudential.

Update: A report detailing the review was presented to the Pension Fund Committee in July 2019. No further action was required other than to respond to Equitable Life's proposal on the transfer of business to Utmost Life and Pensions. Further information on this is in the Governance and Compliance report to be presented at this meeting.

Key Milestones: The review of the Fund's AVC providers is now complete.

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

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

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

Update: A direct award was made to ITM Limited to complete the rectification stage of this project in April 2019. HMRC are still processing the queries raised during the reconciliation stage of this project, however work is underway on the next stage with agreeing the specification for rectification of pensions that need amending. Further information can be found in the Data Improvement Plan update report that is to be presented at this meeting.

Additional resources required: The Pension Fund Committee will be asked to approve an additional spend of £9,000 to cross reference a cut of data from HMRC detailing the Fund's final contracted-out liability against the data held by the Fund to identify any non-member liabilities that may have erroneously been transferred from other pension schemes during their reconciliation. It is proposed that ITM Limited will undertake this activity. It should be noted that this was not expected as it was thought that HMRC would not produce a final report.

In order for the rectification of pensions to be undertaken in an systematic and automated manner as opposed to time consuming manual data entry, it is proposed to purchase a 1 year license from Heywoods (the pensions and payroll administration software provider) to obtain access to the interfaces that will facilitate the pension amendments required.

Key Milestones: (amended due to delays with HMRC)

Completion of reconciliation stage was scheduled for Q1 April 2019 but is still ongoing due to delays with processing queries by HMRC - **ongoing**

Direct award contract for rectification Q1 April 2019 – **Completed**

Planning and testing, verification of results Q1-Q4 April 2019 to February 2020 – **On target for completion** depending on HMRC's ability to provide responses to all queries raised.

2.3 Communications, Systems and Employer Management (CSEM)

| Reference | Key action/task | 2019/20 | | | | Medium term | |
|-----------|---|---------|----|----|----|-------------|---------|
| | | Q1 | Q2 | Q3 | Q4 | 2020/21 | 2021/22 |
| CSEM2 | Develop and implement a digital communications strategy | ✓G | | | | | |
| CSEM4 | Implement monthly data collection for all employers | ✓G | | | | | |
| CSEM5 | Manage the 2019 valuation | ✓G | | | | | |

2.3.1 CSEM2 - Develop and implement a digital communications strategy

Action: In order to better engage with members and employers, improve efficiency, data security and reduce costs the Fund requires a digital communications strategy. This will set the Funds approach to using digital communications channels to engage with scheme members and employers. It will provide detail on the Fund's digital communication objectives, what communication channels will be used to achieve these objectives and in what circumstances. It will also provide guidance on best practice for such communications.

Update: A draft digital communications strategy has been developed and will be presented at this meeting. Due to the need to prioritise the production and delivery of annual benefit statements, the development of the strategy has been slightly delayed and it is now expected that the Pension Fund Committee will be presented with the strategy in December for approval.

Key Milestones:

- Induct new Communications Officer into the team Q1 April to May 2019 – **Completed**
- Set the objectives for digital communication Q1 May 2019 – **Completed**
- Produce the digital communication strategy Q2 June to July 2019 – **Completed**
- Pension Committee to approve the digital communication strategy Q3 October 2019 – **Completion date moved to December 2019**

2.3.2 CSEM4 – Implement monthly data collection for all employers

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

Update: The migration of smaller employers to the online i-connect portal is on track for completion by 31st December 2019 as planned. The deadline for migration of existing large employers to the i-connect extract has been extended to 31st March 2020. The purpose of the extension is to assist employers with the implementation of required changes to their payroll systems to enable the required extract and to allow sufficient testing of the output. It also allows those employers who are in the process of implementing new payroll software to incorporate the development of the extract into work planning.

Key Milestones:

- Cease issuing old data collection interfaces to new employers Q1 April 2019 – **Completed.**
- Migrate existing small employers to the online i-connect portal Q1-Q3 April to December 2019 – **On target for completion**
- Migrate existing large employers to monthly i-connect extract Q2-Q3 September to November 2019 – **Completion date moved to 31st March 2020**

2.3.3 CSEM5 – Manage the valuation

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

Update: Membership data has been provided to the Actuary and data queries have been responded to. Whole Fund results have been provided based on this data and are being presented to the Pension Fund Committee meeting on 10th October 2019 as planned. A draft Funding Strategy Statement has also been produced and approval from the Pension Fund Committee is required to issue the document for consultation. Once approved, the Actuary will proceed with calculating draft employer results to be issued alongside the strategy for consultation.

Key Milestones:

- Carry out pre-valuation data activities Q1 April to June 2019 – **Completed**
- Actuary carry out the Valuation Q2 July to August 2019 – **Completed**
- Draft the Fund's Funding Strategy Statement Q2 September 2019 - **Completed**
- Funding Strategy Statement to be approved by the Committee Q3 October 2019- **Completed**
- Issue whole Fund valuation results Q3 October 2019 – **On target for completion**

2.4 Operations (OPS)

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

2.4.1 OPS1 – Processing of undecided leavers

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

Update: Please refer to the Data Improvement Plan Update report to be presented at this meeting.

Key Milestones:

- Process outstanding Refund and Single DB cases Q3 October 2019 – **On target for completion**
- Process Multi DB casework Q3 November 2019 – **On target for completion**

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

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

Update: An internal Key Performance Indicator (KPI) process has been designed and implemented on a trial basis which monitors the customer experience from the point that the individual first contacts the fund. The process measures how efficiently the administration function assesses the query, ensuring that all key information has been received within the target of 5 working days. The customer journey experience was first trialled in the retirements team and is currently being reviewed for implementation from October 2019.

Key Milestones:

- Design the process of reporting the KPIs Q1 – Q2 April 2019 to September 2019 – **Completed.**
- Identify the processes which will be evaluated first Q3 October to December 2019 – **Completed**

2.5 Investments and fund accountancy (IA)

| Reference | Key action/task | 2019/20 | | | | Medium term | |
|-----------|--|---------|----|----|----|-------------|---------|
| | | Q1 | Q2 | Q3 | Q4 | 2020/21 | 2021/22 |
| IA2 | Implement the strategic asset allocation | | ✓G | | | | |
| IA4 | Extend global custody contract for 2 years | | ✓G | | | | |
| IA6 | Implement online payment platform for employers' contribution payments | | ✓G | | | | |
| IA11 | Implement the Local Economic Development Fund | | ✓G | | | | |

2.5.1 IA2 – Implement the strategic asset allocation

Action: The 15th February 2019 Investment Sub Committee agreed the asset allocation changes to be presented to the 22nd March Pension Committee for approval and adoption. The implementation of the revised strategic allocation is as follows.

Update: Review of equity options was considered by the Investment Sub Committee in September 2019. It was agreed to transition the UK active mandate to passive global to protect valuations in the current political economic climate. An additional Investment Sub Committee date for November or December is being arranged to receive presentations from three global managers and an emerging markets manager for potential subscription within the asset pool.

Key Milestones:

- Implement infrastructure mandates Q2 July to September 2019 – **Completed**
- Implement revised equity mandates Q3 October to December 2019 – **On target for completion**
- Review fixed income strategy Q3 October to December 2019 – **On target for completion**

2.5.2 IA4 – Extend global custody contract for 2 years

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

Update: Extension agreed with the Custodian. Formal documentation was signed by 30th September 2019.

Key Milestones:

- Extend contract Q2 July to September 2019 – **Completed.**

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

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

Update: The system has been fully tested and the online form and data export is ready to go live. The system was initially unable to indicate the outcome of a payment i.e. whether a payment had successfully been paid and this issue is likely to be resolved by the middle of October 2019.

Key Milestones:

- Implementation of solution Q1 April to June 2019 – **Completed**
- Platform live with test party Q2 July to September 2019 – **Completed**

- Launch platform to all employers Q3 October to December 2019 – **On target for completion.**

2.5.4 IA11 – Implement the Local Economic Development Fund

Action: The 14th February Investment Sub Committee approved the investment in a Local Economic Development Fund (LEDF) managed by Foresight Group. The Fund will engage with professional third party advisers to perform commercial and legal due diligence procedures and work with Foresight to develop the detailed investment guidelines and Governance framework before seeking approval of the Investment Sub Committee to launch the LEDF.

Update: Agreements with Foresight have been signed and the LEDF was launched in September. Foresight have appointed the first dedicated Cambridge staff and taken a lease on local premises

Key Milestones: The implementation of the Local Economic Development Fund is now complete.

3. Relevant Fund objectives

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

4. Risk Management

- 4.1 The Pension Fund Committee approves the Annual Business Plan and Medium-Term Strategy every March for the upcoming year. The plan highlights the key activities of the Fund and the progress of these activities are reported through the Business Plan Update reports provided to the Pension Fund Committee and Pension Fund Board at every meeting.
- 4.2 The risks associated with failing to monitor progress against the Business Plan have been captured in the Fund's risk register as detailed below.

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

- 4.3 A full version of the Fund risk register can be found at the following link –

5. Communication Implications

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

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

7. Legal Implications

7.1 Not applicable

8. Consultation with Key Advisers

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

9. Equality Screening

9.1 There are no equality implications in relation to this report.

| Reason that no EqlA is required | ✓ as appropriate |
|---|------------------|
| The paper is for information only | ✓ |
| The proposal/activity/decision has no impact on customers or the service they receive | |
| The proposal impacts upon staff but the proposed staffing changes will not affect the service that customers receive* | |
| Other (please explain further) | |

10. Alternative Options Considered

10.1 Not applicable

11. Background Papers

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

12. Appendices

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

| Checklist of Key Approvals | |
|---|--------------------------|
| Has this report been cleared by Head of Pensions? | Mark Whitby – 19/09/2019 |

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

Service Delivery

| Reference | Key action/task | 2019/20 | | | | Medium term | |
|-----------|--|---------|----|----|----|-------------|---------|
| | | Q1 | Q2 | Q3 | Q4 | 2020/21 | 2021/22 |
| SD1 | Monitor staffing levels in line with organisational reform | | | ✓ | | | |
| SD2 | Retain Customer Service Excellence standard accreditation | | ✓ | | | ✓ | |

Governance and Compliance

| Reference | Key action/task | 2019/20 | | | | Medium term | |
|-----------|--|---------|---|---|---|-------------|---------|
| | | | | | | 2020/21 | 2021/22 |
| | Procure a supplier of specialist legal advice | | | ✓ | | | |
| | Procure a supplier of mortality screening and member tracing services and process results | ✓ | | | | | |
| | Obtain proof of continued existence of scheme members residing overseas | | ✓ | | | | |
| | Re-procurement for administration and payroll system | | | | | ✓ | |
| | Deliver actions stemming from the review of the Fund's Additional Voluntary Contribution providers | | ✓ | | | | |
| | potential liability reduction exercises | | | | ✓ | | |
| | Complete the Guaranteed Minimum Pension reconciliation project with rectification of members records | | | ✓ | | | |

Communications, Systems and Employer Management

| Reference | Key action/task | 2019/20 | | | | Medium term | |
|-----------|---|---------|----|----|----|-------------|---------|
| | | Q1 | Q2 | Q3 | Q4 | 2020/21 | 2021/22 |
| CSEM1 | Incorporate employer covenant monitoring into the valuation cycle | ✓ | | | | | |
| CSEM2 | Develop and implement a digital communications strategy | | ✓ | | | | |
| CSEM3 | Review cyber resilience | | | | ✓ | | |
| CSEM4 | Implement monthly data collection for all employers | | ✓ | | | | |
| CSEM5 | Manage the 2019 valuation | | ✓ | | | | |

Operations

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

Investments and fund accountancy

| | | 2019/20 | | | | Medium term | |
|-----------|--|---------|----|----|----|-------------|---------|
| Reference | Key action/task | Q1 | Q2 | Q3 | Q4 | 2020/21 | 2021/22 |
| IA1 | Continue development of the asset pool | ✓ | | | ✓ | | |
| IA2 | Implement the strategic asset allocation | | ✓ | | | | |
| IA3 | Implement the cash management policy | ✓ | | | | | |
| IA4 | Extend global custody contract for 2 years | | ✓ | | | | |
| IA5 | Re-tender collaboratively with ACCESS for global custody services | | | | | ✓ | |
| IA6 | Implement online payment platform for employers' contribution payments | | ✓ | | | | |
| IA7 | Re-tender for investment consultancy services | | | | ✓ | | |
| IA8 | Re-tender for the independent adviser role | | | ✓ | | | |
| IA9 | Complete sign up to the responsible investment stewardship code | | | | ✓ | | |
| IA10 | Consider multi-fund investment strategies | ✓ | | ✓ | | | |

