PENSION FUND COMMITTEE

Thursday, 19 March 2020

Democratic and Members' Services
Fiona McMilan
Monitoring Officer
Shire Hall
Castle Hill
Cambridge
CB3 0AP

10:00

Kreis Viersen Room
Shire Hall, Castle Hill, Cambridge, CB3 0AP

AGENDA

Open to Public and Press

1. Apologies for absence and declarations of interest

Guidance on declaring interests is available at http://tinyurl.com/ccc-conduct-code

2.	**Public minutes of the meeting held 14th January 2020**	**5 - 18**
3.	**Valuation of the Pension Fund**	**19 - 74**
4.	**Pension Fund Annual Business Plan Update report 2019-20**	**75 - 88**
5.	**ACCESS Asset Pooling**	**89 - 100**
6.	**Pension Fund Annual Business Plan and Medium-Term Strategy 2019-20 to 2021-22**	**101 - 130**

The Pension Fund Committee comprises the following members:

Mr Lee Phanco Mr Matthew Pink Councillor Richard Robertson Councillor David Seaton and Mr John Walker Councillor Peter Downes Councillor Ian Gardener Councillor Anne Hay Councillor Terence Rogers Councillor Josh Schumann and Councillor Mike Shellens

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

Clerk Name: Rob Sanderson

Clerk Telephone: 01223 699181

Clerk Email: rob.sanderson@cambridgeshire.gov.uk

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

https://tinyurl.com/CommitteeProcedure

MINUTES OF THE PENSION FUND COMMITTEE

Date: Thursday 14th January 2020

Time: 10.00am – 11.35am

Place: Kreis Viersen Room, Shire Hall, Cambridge

Present: County Councillors P Downes, I Gardener, A Hay, T Rogers (Chairman) and M Shellens; Cambridge City Councillor R Robertson; Liz Brennan (substituting for John Walker)

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

Observers: John Stokes

Apologies: Councillor Seaton, John Walker and Matthew Pink

173. DECLARATIONS OF INTEREST

Councillor R Robertson declared a personal interest as his wife was a retired member of the LGPS.

Liz Brennan declared a personal interest as an active scheme member.

174. MINUTES OF THE PENSION FUND COMMITTEE MEETING HELD ON 10th OCTOBER 2019 AND ACTION LOG

The minutes of the Pension Fund Committee meeting held on 10th October 2019 were approved as a correct record and were signed by the Chairman.

The following items were discussed:

Item 122 – Automating monthly data collection - officers advised that due to staff turnover, this project had not yet been completed. Information had been available before Christmas but there were concerns that it was not completely accurate, so it had since been revised and the report would be circulated to Members.

Item 138 – KPIs – this report had been deferred until the March meeting.

The Committee noted the Minute Action Log.

175. VALUATION OF THE FUND

Officers updated Members on progress since the agenda had been published. There had been negotiations with employers, including a forum meeting in December where the process and contribution rates had been explained. A number of meetings had been arranged with the smaller charities, showing them the rates they would need to pay. Officers explained how a more relaxed approach was being taken with Employers who provided security e.g. charges on assets, but a more prudent approach, effectively stripping out the investment return in valuations, had to be taken with those employers who did not provide security. A number of Employers had proactively been looking to provide security, which was very positive.

There had been some really positive feedback from both the Employers and the Actuary regarding the Employer Forum, and the Actuary had commented that it was one of the best and most constructive events of its kind he had attended, which was great credit to the team.

The Funding Strategy Statement (FSS) Consultation finished on Friday 17th January, and no responses had been received to date, but there was general acceptance of the principles of the FSS. The main changes to the FSS since it had been considered by Committee were:

- A reduced time horizon for getting to full funding for Further Education colleges, as the government was no longer acting as a guarantor for their liabilities;
- A more prudent approach has been taken in relation to admission bodies with no guarantor (mainly small charities), increasing the Funding target so it is based on the employers exit basis but reducing the required probability of success threshold to 50% (previously 80%) to cushion some of the extra prudence;
- Conversely a more relaxed approach had been taken on Contractors, moving down to a 55% probability of success threshold to avoid a build-up of a surplus in their funding position;

In response to Member questions:

- officers explained that the contribution rates were always reviewed in the Valuation period, to ensure that a deficit would not be opened up in future. The contribution rate for *employees* was set nationally through LGPS. That mechanism was set in 2014, and was regularly adjusted for CPI. There was a cost cap in the new LGPS mechanism, which was on hold following the McCloud case. Cost control was put in place to protect employers: employers could determine how they apply employee rates, i.e. they have some discretion on when grades are changed (e.g. monthly or annually).

- security was sought from employers in those cases where the contribution rates were becoming unaffordable. Two employers were already discussing with officers security in the form of a charge on assets, and another employer was looking at setting up a surety bond. It was confirmed that the baseline approach to contributions was on a prudent, exit basis, but a more relaxed approach could be taken if there was security;

- regarding how reflective the contribution rates being negotiated were of historic rates, officers confirmed that they were slightly higher due to the McCloud risk: the LGA had advised that liabilities should be valued on the current structure, but with a cushion built in for McCloud. At the higher end of the scale e.g. greater than 80% funded, that prudence was already there, but needed to be included on less funded employers who were at the lower end of the scale;

- the Committee noted that the FSS would be presented for Members' consideration at their March meeting, and the Actuary would be present for that meeting.

It was noted that the overall funding percentage of the Fund was 100%, but that each individual employer was different in terms of their funding level, i.e. some were quite underfunded, whilst some were significantly overfunded (>120%). Any employers exiting the Fund with a surplus would receive a refund. In cases where the indemnity was provided by the County Council, there was an argument that the County Council should receive the surplus, and there was currently a legal case relating to the Northamptonshire Fund on that basis, and a similar case in Cambridgeshire, which was on hold pending the outcome of the Northamptonshire case.

It was resolved unanimously to:

1) Note the Valuation update

176. ANTI-FRAUD AND CORRUPTION POLICY REVIEW

The Committee received a report on the Cambridgeshire Pension Fund Anti-Fraud and Corruption Policy. Members were reminded that the Policy had been approved by the Committee in 2017, and was being reviewed to reflect changes since that time, such as annual proof of existence for overseas members.

The Chairman thanked Mr Stokes, Chair of the Pension Fund Board, as that body had spent considerable time helping review this Policy.

A Member noted that the deterrent value of the Policy was alluded to in the "Purpose" section of the report, and suggested that this should be emphasised in the Policy. **Action required.**

A Member asked about verifying bank account details of pensioners, especially those about to be paid a lump sum. Officers outlined the checks made, including safeguards such as ensuring paperwork provided was checked against signatures on file. Officers acknowledged that there were risks of fraud from both external and internal sources, but advised that there were limitations on what could be done from both a GDPR perspective (e.g. asking for sight of a bank statement), and also in terms of resource constraints. It was agreed that officers would bring back a short statement to update the Committee, including the number of frauds in this area (if any) they were aware of in recent years. **Action required.**

It was resolved unanimously:

1) To approve the Anti-Fraud and Corruption Policy.

177. DIGITAL COMMUNICATIONS STRATEGY

The Committee received a report on the Fund's Digital Communications Strategy. Members were reminded that the Fund's Communication Plan had been approved by the Committee in 2019, at which point it had been agreed that the Digital Communication Strategy would be produced. The Strategy outlined how the Fund planned to use technology to find more engaging methods of communicating with employers and members digitally, which would have the benefit of reducing printing and postage costs, reducing opportunities for fraud and increasing engagement with the pension scheme by scheme members. Any scheme member could opt out of electronic communications, at any time, by informing the Pensions team in writing.

Arising from the report:

- A Member expressed concern about the opportunities for fraud if a member's computer was hacked. It was stressed that communications and information would not be sent by email, but through the portal i.e. a website that the member had to actively log in to. Documents such as pension statements were stored on the portal, it was not necessary to keep paper copies. Officers outlined the measures that were taken to secure the portal. It was noted that some hackers monitored what was on a device's screen, but ultimately members were responsible for those aspects of security.

- A Member asked if any training was available for recently retired members on using the portal. Officers advised that due to the large number of scheme members, and limited resources, it was difficult to target training sessions to members. However, support was always available from the Pensions team through telephone or online. The focus of the Digital Communication Strategy was on active members, and there had been a number of demonstrations of the portal in Council offices. In addition, there was a user guide, featuring screenshots, which showed users how to use the portal. The potential for a webinar was also raised. Ms Brennan advised that Cambridge City Council had digital champions, and it may be worth contacting them to see if they could help support this process;

- In terms of monitoring engagement, a Member asked how the Pensions team could establish if a member never signed in to the portal? Officers advised that an exercise would be carried out later in the year to encourage use of portal, and some employers had asked for help with this. It was reiterated that members always had the option of opting out of electronic communications. It was also pointed out that even when paper pension statements were sent out, there was evidence that these were sometimes discarded or unread. The Member suggested that if there was no engagement at all, it could suggest that the Member was no longer alive;

- It was confirmed that mortality screening in the UK was undertaken by a contractor. However, overseas monitoring was more complex and difficult, as there were many different methods for recording deaths.

It was agreed that future reports would include an estimate of how many members had accessed the portal.

The Chairman thanked both officers and the Pension Fund Board for all their work on this issue.

It was resolved unanimously:

1) To approve the draft digital communications strategy.

178. PENSION FUND ANNUAL BUSINESS PLAN UPDATE REPORT 2019/20

The Committee considered an update on the Pension Fund Business Plan for the period from 1st September to 31st October 2019.

Members noted the following points:

- with regard to the procurement of specialist legal advice, this action had been delayed slightly, as responses to queries were still awaited. However, the start date of the new contract (1st February 2020) was not expected to change;

- for the implementation of the Monthly data collection, this would need to be rescheduled as all actions would not be completed by 31st March 2020;

- the delay in the Monthly data collection project would impact on the Processing of undecided leavers project, one of the largest projects in the Business Plan. Steady progress was being made with the backlog, with the assistance of the contractor, Aon, and the current tranche would be broadly complete by March. It was noted that the "business as usual" numbers were getting higher than officers were comfortable with, with around 4,500 in excess of the usual numbers of undecided leavers. Many of these related to cases where the employer had not advised the Pensions team that an employee had left. More radical changes of process had already been introduced, especially where the employer had moved to monthly processing: once a year's worth of data was available for an employer, there was no need for a formal paper notification (Leaver's Certificate) to be sent;

- due to the delay with Undecided Leavers project, Aon needed to be paid extra fees: the original contract had not been fixed price as there were too many variables. The additional fees were around £100K, and Aon had absorbed a lot of the costs themselves;

- the implementation of online payment platform for employers' contribution payments was listed in the report as 'Red', but since the report had been published, this had been completed. The main delay had related to payment by card functionality, but given that the vast majority of employers paid by BACS, this was not an issue;

- in response to a Member question, it was confirmed that there were measures in place for those employers who failed to send through Leavers' Certificates in a timely manner. A communication had been sent to all employers, and those in breach had been targeted individually, and advised that fines would be incurred in future. The expectations in terms of timeliness of information would be made clear to any employers who were not moving on to monthly processing. The Committee had previously approved, as part of the Administration strategy, the policy on how non performing employers could be dealt with.

It was resolved unanimously:

1) To note the Pension Fund Business Plan update for the period ending 31st October 2019 of the 2019-20 financial year.

179. ADMINISTRATION PERFORMANCE REPORT

The Committee considered a report which set out a number of key areas of administration performance during the period 1st September to 31st October 2019.

There had been no material or non-materials breaches during the period.

With regard to Data Improvement, the independent data audit had recently been concluded for 2019, and there was little change in the scores. There had been an increase in unprocessed leavers as a direct consequence of over 1500 suspected leavers being identified through year end processing, as well as automation issues around the switch-over to monthly data submission. All of those unprocessed leavers had been counted as data fails.

The reconciliation of contracted-out liabilities had been going on for some considerable time, and it had been hoped that it would be concluded by March 2020. However, a recent HMRC bulletin had confirmed that there would be a delay in issuing the final data file that would allow the rectification of errors to begin. HMRC were due to issue a bulletin update the following week and were arranging sessions to talk to Pension Funds. There was no indication from HMRC on when this was likely to be completed, but it may become clearer following the next bulletin. Members' pensions could not be rectified without this information from HMRC being finalised, and it was unlikely that the costs to the Fund as a result of HMRC's delay could be recovered. It was confirmed that the Pensions team had to purchase specialist software to undertake the rectification, and it was likely that a software licence for a further year would be required due to the HMRC delay. It was estimated that around 400 pensions had either been over or underpaid.

It was noted that the verification process for members with a new address should conclude in March 2020.

Members noted the positive results for the CIPFA Benchmarking exercise, which was a very useful analysis of unit costs. Regrettably, the numbers of LGPS pension funds participating had fallen, with only 29 out of a potential 87 taking part. The results indicated that the net administration costs were slightly lower than average (£14.09 compared to £21.34). It was noted how this figure was composed. It was anticipated that the net administration costs for Cambridgeshire would increase in 2020 as there were more projects taking place. It was confirmed that the resources required to participate in the Benchmarking exercise were minimal, with much of the data already available. However, if the number of participants fell further, it would be necessary to review whether continued involvement was useful.

With regard to Appendix 1 to the report (variances to forecast administration expenses), it was noted that most variances related to Management Expenses. Officers outlined how these figures could be skewed by issues in one quarter, and how they would like to control variances better.

It was noted that the payment of retirement benefits from active employment (Appendix 2) had not met its target, but a Member commented that this was an external factor beyond the Pension team's control. Whilst agreeing to some extent, officers responded that they would ideally have sufficient resource in place to deal with such variations in workload. The Chairman commented that variations were acceptable as long as they were not ongoing.

A Member observed that the increase in net assets available for benefits had increased by more than pensions paid, which was highly commendable, and would benefit the Fund when it became cash negative. He expressed concern that investment income only totalled around 1.5%. Officers commented that the Committee would be aware from the Investment Strategy, and the Strategic Asset Allocation in particular, that some asset classes were not held to generate a lot of investment income, and were held for other reasons. It was also likely that not all investment income was reflected in these figures. Officers agreed to respond to Councillor Shellens directly on this issue. **Action required.**

With regard to the contracted out liabilities rectification, it was noted that even if HMRC provided the Pensions team with the information in February, the team could not realistically complete this project until the end of the second quarter, due to the busy March-May period.

It was resolved unanimously:

> To note the Administration Performance Report.

180. GOVERNANCE AND COMPLIANCE REPORT

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

Officers had recently emailed Committee Members, requesting feedback on the Good Governance Review report recommendations. Attention was drawn to the most notable recommendations, listed in the report. Whilst officers were happy with most of these, they had issues with F1 and F2, which related to compliance and improvement, specifically a biennial Independent Governance Review (IGR). It was suggested that strong guidance would be required as to exactly what 'independence' entailed.

The Scheme Advisory Board had issued a consultation on Responsible Investment guidance in early December 2019, with a deadline for responses extended to the end of January. A number of Funds had flagged up issues, specifically around Fiduciary Responsibility in terms of Committees' decision making powers. The Fund's final response to the consultation, would be shared with the Chairman and Vice-Chairman for approval. Officers agreed to send details of the consultation to Liz Brennan. **Action required.**

With regard to the Good Governance Review, specifically the MHCLG's production of statutory guidance establishing new governance requirements for funds, a Member asked what input Funds would have in to this statutory guidance. Officers expected there would be a consultation, and it was noted that the ACCESS funds were looking to meet with Hymans collectively to talk to them about the next stages.

Members' attention was drawn to the list of training events. It was noted that many events quickly became fully booked, so Members were encouraged to express an interest as soon as possible.

It was resolved unanimously:

To note the content of the report.

181. EMPLOYERS ADMISSIONS AND CESSATIONS REPORT

The Committee received a report on the admission of six admission bodies and one scheduled body, and the cessation of four bodies.

It was noted that all the admission bodes related to catering and cleaning functions previously coming under the remit of the Council service CCS. There had been some difficulties getting them to sign on in time, but the regulations did allow backdating. The Scheduled Body being admitted was an Academy, which could not be refused.

Observing that seven bodies had been admitted and four had left, a Member commented that this reflected the continuing trend of increasing numbers of employers, which meant more administration and costs for the Pension Fund.

It was noted the some of the schools listed in the report as primaries should be listed as special schools.

It was resolved unanimously to note:

1. the admission of the following admitted bodies to the Cambridgeshire Pension Fund and approves the sealing of the admission agreements:

- ABM Catering Limited;
- Caterlink
- Easy Clean
- Hertfordshire Catering Service (HCL)
- Nightingale Cleaning Limited
- Pabulum Limited

2. the admission of the following scheduled bodies to the Cambridgeshire Pension Fund:

- Our Lady of Walsingham MAT

3. the cessation of the following admission agreements with the Cambridgeshire Pension Fund:

- Aspens (The Weatherall's Primary School)
- Edwards and Blake (New Road Primary School)

- Pabulum (Downham Feoffees Primary)
- YMCA Trinity Group

182. EXCLUSION OF PRESS AND PUBLIC

It was resolved unanimously that the press and public be excluded from the meeting for the next report on the grounds that it contained exempt information under Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended (information relating to the financial or business affairs of any particular person (including the authority holding that information)) and that it would not be in the public interest for this information to be disclosed as they contained commercially sensitive information.

183. ASSET POOLING

Members considered a report on ACCESS Asset Pooling.

It was resolved unanimously to:

Note the asset pooling update.

Chairman

CAMBRIDGESHIRE PENSION FUND

Pension Fund Committee

<u>Agenda Item: 2</u>

Action log from previous meetings

This log captures the actions from the Pension Fund Committee of the 14th January 2020 together with any carried forward items from previous meetings and updates members on the progress on compliance in delivering the necessary actions. This is the updated action log as at 6th March 2020.

Outstanding actions from 13th June 2019 meeting of the Pension Fund Committee

Item No.	Item	Action to be taken by	Issue	Action/Status
138.	Administration and Performance Report	Michelle Oakensen	With regards to Key Performance Indicators (KPIs) it has been requested that a report is brought to Quarter 3 which would include the customer's full journey, as currently the KPIs do not cover this.	**Completed** – This is a quarter 4 activity and is reflected in the Business Plan update.

Outstanding actions from 10th October 2019 meeting of the Pension Fund Committee

Item No.	Item	Action to be taken by	Issue	Action/Status
167.	Data Improvement Plan Progress Report	Joanne Walton	In relation to the address tracing exercise, there was a discussion around carrying out an activity, similar to that which had been carried out with Overseas Pensioners, where a lack of response resulted in pensions being suspended. It was suggested that this may be stretching the Anti-Fraud and Corruption Policy, but officers were asked to consider how a sample exercise could be carried out. Officers agreed that they would review what could be undertaken within available resources.	**Completed –** There is an activity in the 2021/22 Business Plan to address overseas tracing.

Outstanding actions from 14th January 2020 meeting of the Pension Fund Committee

Item No.	Item	Action to be taken by	Issue	Action/Status
176.	Anti-Fraud and Corruption Policy Review	Michelle Oakensen	A Member noted that the deterrent value of the Policy was alluded to in the "Purpose" section of the report, and suggested that this should be emphasised in the Policy.	**Completed.**
176.	Anti-Fraud and Corruption Policy Review	Michelle Oakensen	A Member asked about verifying bank account details of pensioners, especially those about to be paid a lump sum. Officers outlined the checks made, including safeguards such as ensuring paperwork provided was checked against signatures on file. Officers acknowledged that there were risks of fraud from both external and internal sources, but advised that there were limitations on what could be done from both a GDPR perspective (e.g. asking for sight of a bank statement), and also in terms of resource constraints. It was agreed that officers would bring back a short statement to update the Committee, including the number of frauds in this area (if any) they were aware of in recent years.	**Completed** – Officers advised verbally at the meeting that it was believed that banks perform checks on payments to ensure that the bank and sort-code matched the name on the account before a payment was credited to that account. The number of identified "frauds" recorded in recent years is zero.
177.	Digital Communications Strategy	Cory Blose	In terms of monitoring engagement, it was agreed that future reports would include an estimate of how many members had accessed the portal.	**Completed** – A report will be presented at the June meeting which will include the uptake of Member Self Service.
179.	Administration Performance Report	Joanne Walton	A Member observed that the increase in net assets available for benefits had increased by more than pensions paid, which was highly commendable, and would benefit the Fund when it became cash negative. He expressed concern that investment income only totalled around 1.5%. Officers commented that the Committee would be aware from the Investment Strategy, and the Strategic Asset Allocation in particular, that some asset classes were not held to generate a lot of investment income, and were held for other reasons. It was also likely that not all investment income was reflected in these figures.	**Completed** – Officers responded directly to member.

180.	Governance and Compliance Report	Joanne Walton	The Scheme Advisory Board had issued a consultation on Responsible Investment guidance in early December 2019, with a deadline for responses extended to the end of January. A number of Funds had flagged up issues, specifically around Fiduciary Responsibility in terms of Committees' decision making powers. The Fund's final response to the consultation, would be shared with the Chairman and Vice-Chairman for approval.	**Completed** – Email sent 15/1/2020.

Agenda Item No: 3

CAMBRIDGESHIRE PENSION FUND

Pension Fund Committee

19th March 2020

Report by: Head of Pensions

Subject:	Valuation of the Pension Fund
Purpose of the Report:	To introduce an oral presentation from the Fund Actuary providing a final update on the valuation of the Pension Fund
Recommendations:	1. To note the contents of the verbal update 2. To note the amendments to the Funding Strategy Statement made in consultation with the Fund Actuary
Enquiries to:	Name - Cory Blose – Employer Services and Systems Manager Tel – 07990560829 E-mail – cblose@northamptonshire.gov.uk

1. Background

1.1 Fund officers have been working with the Fund Actuary to complete the valuation of the Pension Fund. This work has been carried out throughout the 2019/2020 scheme year, culminating with the publishing of the valuation report and rates and adjustments certificate by 31 March 2020.

1.2 Various activities have been carried out and the purpose of this paper is to provide a final update on the valuation and to seek approval of the final Funding Strategy Statement.

1.3 At the time of writing this report, all activities were on track for completion by 31 March 2020, the deadline for completing the valuation.

1.4 The Fund Actuary will be providing a presentation to the Committee which will provide a final verbal update, including summaries of the actuary's official valuation report and the final draft Funding Strategy Statement.

2. Valuation Report

2.1 The valuation report records the high level outcomes of the valuation and is prepared by the Actuary. Publication of this document represents the completion of the valuation process.

2.2 The valuation report provides the following information:

- The approach taken to carry out the valuation;
- The assumptions used when calculating results
- The Funding level of the Whole Fund
- Summary of the movement in the Funding position between the last and current valuation
- The Whole Fund contribution rates, e.g. the payroll weighted average of the underlying individual employer results
- Risk Assessment
- Related issues to be considered alongside the report

2.3 The valuation report also contains the Rates and Adjustments certificate. This is the official document certifying the minimum contribution rates that each employer should pay in each of the next three years. It is a legislative requirement to publish this document by 31 March 2020.

2.4 At the time of publication the valuation report has not been finalised. A summary of the report will be provided as a verbal update, by the Fund Actuary.

3. Funding Strategy Statement – Final Draft

3.1 The draft Funding Strategy Statement was approved for consultation, by the Pension Fund Committee in October. The document was released for consultation, alongside employers' individual results, in December and was open until 17 January. No responses were received to the consultation.

3.2 The final draft of the Funding Strategy Statement is included as appendix 1. As discussed at the meeting in January there are some slight amendments from the version signed off by the Pension Fund Committee. These are standard items that were identified as subject to change at that time.

3.3 To summarise, the key changes are as follows:

- The Funding target for Community Admissions bodies without a guarantor has been changed to the low risk exit basis with a 50% probability of success requirement not the ongoing participation basis with an 80% probability requirement. This is to ensure increased transparency and avoid large shocks when the employer ceases participation in the Fund.
- The probability of success required for Academies contribution strategies was increased from 66% to 70% to match that used for local authorities.
- The probability of success required for Transferee admission bodies was reduced to 55% to recognise the short term nature and strong covenant of these employers, which have a guarantee from a local authority employer.
- The time horizon used for Further Education colleges has been reduced from 20 years to 15 years to recognise the increased risk to the Fund as a result of the removal of the Government guarantee for their pension liabilities.
- The base rate for the stabilised Academy contribution rates for 2020-21 has been increased by 1% not held at the same rate as 2019-20. This gives a base rate of 24%.

4. Relevant Pension Fund Objectives

Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance. *(Objective no 1)*
Manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers. *(Objective 2)*
Ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment. *(Objective no 3)*
Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate. *(Objective no 5)*
Ensure employer contributions are as stable as possible, recognising the characteristics, circumstances and affordability constraints of each employer. *(Objective no 9)*
Seek and review regular feedback from all stakeholders and use the feedback appropriately to shape the administration of the Fund. *(Objective no 15)*

5. Finance and Resources Implications

5.1 None

6. Risk Management

6.1 The Actuary's Valuation report includes the Rates and Adjustments certificate which certifies the minimum contribution rates for each employer.

6.2 The risks that employers may not be able to pay increased contribution rates has been captured in the Fund's risk register as detailed below.

6.3 In order to mitigate this risks, officers have met with employers to discuss the affordability of contribution rates and have agreed alternative rates where appropriate.

Risk No	Risk mitigated	Residual risk
1	Employers unable to pay increased contribution rates	Amber

6.4 A full version of the Fund risk register can be found at the following link – http://pensions.cambridgeshire.gov.uk/governance/key-documents/cambridgeshire/

7. Communication Implications

Direct Communications	A communication will be issued to inform employers that the valuation report and final funding strategy statement have been published
Website	The valuation report and final funding strategy statement will be published on the Fund's website

8. Legal Implications

8.1 Not applicable

9 Consultation with Key Advisers

9.1 Consultation with the Fund Actuary was undertaken for this report.

10. Alternative Options Considered

10.1 Not applicable

11. Background Papers

11.1 Appendix 1 – Funding Strategy Statement – Final draft

Checklist of Key Approvals	
Is this decision included in the Business Plan?	N/A
Will further decisions be required? If so, please outline the timetable here	N/A
Is this report proposing an amendment to the budget and/or policy framework?	No
Has this report been cleared by Chief Finance Officer/Section 151 Officer?	Sarah Heywood – 27th February 2020
Has this report been cleared by Head of Pensions?	Mark Whitby – 14th February 2020
Has the Chairman of the Pension Fund Committee been consulted?	Councillor Rogers – 4th March 2020
Has this report been cleared by Legal Services?	Fiona McMillan – 25th February 2020

Cambridgeshire
Pension Fund

Funding Strategy Statement 2020

LGSS

Contents

Funding Strategy Statement Page

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Cambridgeshire Pension Fund ("the Fund"), which is administered by Cambridgeshire County Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 31 March 2020.

1.2 What is the Cambridgeshire Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Cambridgeshire Fund, in effect the LGPS for the Cambridgeshire area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A, which can be summarised as:

- *"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 framework to maintain as nearly constant employer contribution rates as possible; and*
- *to take a prudent longer-term view of funding those liabilities."*

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (see Section 4)

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;

- to ensure that employer contribution rates are reasonably stable where appropriate;

- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);

- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

- 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.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact the Employer Services and Systems Team Manager in the first instance at e-mail address penemployers@Cambridgeshire.gov.uk or on telephone number 01604 364621.

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

1. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;

2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;

3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including al allowance for administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary rate". In broad terms, payment of the Secondary rateis in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate paid will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the MHCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the calculated contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies).If an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;

2. The **time horizon** required is the period over whichthe funding target is achieved. Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The **likelihood of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, then the required likelihood will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

2.5 How is a funding level calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the funding level and ddficit/surplus are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, funding levels and deficits are shorter-term, high-level risk measures, whereas contribution setting is a longer-term issue.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower likelihood of achieving their funding target. Such options will perhaps temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter time horizon relative to other employers, and/or a higher likelihood of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of writing, the Ministry of Housing, Communities and Local Government (MHCLG) has not provided any details of changes as a result of the case. However it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

The LGPS Scheme Advisory Board (SAB) issued advice to LGPS funds in May 2019. As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. As the benefit structure changes that will arise from the McCloud judgement are uncertain, the Fund has elected to make an approximate allowance for the potential impact in the assessment of employer contribution rates at the 2019 valuation: this will be achieved by building in a slightly higher required likelihood of reaching funding target, all other things being equal.

Once the outcome of the McCloud case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate.

The Fund has also considered the McCloud judgement in its approach to cessation valuations. Please see note (j) to table 3.3 for further information.

2.8 When will the next actuarial valuation be?

On 8 May 2019 MHCLG issued a consultation seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle.

The Fund intends to carry out its next actuarial valuation in 2022 (3 years after the 2019 valuation date) in line with MHCLG's desired approach in the consultation. The Fund has therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What likehihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future . Higher likelihood "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority reserves the right to direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required likelihood of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;

- lower contributions in the short term will result in lower level future investment returns on the employer's asset share. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies		Designating Employers	Transferee Admission Bodies
Sub-type	**Local Authorities, Police and Fire**	**Colleges**	**Academies**	**Individual, open to new entrants**	**Individual, closed to new entrants**	**Individual and pooled**	**(all)**
Funding Target Basis used	Ongoing participation basis, assumes long-term Fund participation (see Appendix E)			Ongoing participation basis	"Gilts exit basis" – see Note (a)	Ongoing participation basis, but may move to "gilts exit basis" – see Note (a)	Contractor exit basis, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)						
Stabilised contribution rate?	Yes – see Note (b)	No	Yes - see Note (b)	No	No	No	No
Maximum time horizon – Note (c)	20 years	15 years	20 years	15 or 10 years (with or without a guarantor, respectively)	Average expected future working lifetime	15 years	Outstanding contract term (or average expected future working lifetime if less)
Secondary rate – Note (d)	Monetary amount	Monetary amount	% of payroll	Monetary amount	Monetary amount	% of payroll	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Reduce contributions by spreading the surplus over 15 years	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Admin. Authority		Reduce contributions by spreading the surplus over 15 years	Reduce contributions by spreading the surplus over the remaining contract term
Likelihood of achieving target – Note (e)	70%	75%	70%	80%	50%	70%	55% (however, can depend on outstanding contract term)
Phasing of contribution changes	Covered by stabilisation arrangement	3 years	Covered by stabilisation arrangement	3 years	3 years	3 years	3 years (or outstanding contract term if less)
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations						Reviewed annually by request in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)		Note (h)	Notes (h) & (i)
Cessation of participation: exit debt/credit payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt/surplus principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Exit debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see Note (j)		The cessation debt/surplus principles applied would be as per Note (j)	Participation is assumed to expire at the end of the contract. Cessation debt/credit (if any) calculated on the contractor exit basis (unless the admission agreement is terminated early by the contractor in which case the low risk exit basis would apply). Awarding Authority will be liable for future deficits and contributions arising.

* Where the Administering Authority recognises a fixed contribution rate agreement between a letting authority and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the letting employer with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in note (i)

As indicated in section 3.1, the Administering Authority may, if it considers the circumstances appropriate, direct the actuary to take alternative approaches for assessing contributions for specific employers.

Note (a) (Gilts exit basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. based on the return on long term gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2019 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	**Council, Police, Fire**	**Academy**
Base cont rate	Actual 2019-20 rate	23.0%
2020-21 rate	Same as 2019-20*	24.0%***
Thereafter: **Max cont increase**	2% of pay**	1% of pay***
Max cont decrease	2% of pay**	1% of pay***

*The split in total contribution rate between Primary and Secondary elements may change from 1 April 2020, compared to the split between percentage and monetary amounts in 2019-20, in accordance with LGPS Regulatory requirements. On the basis of current pensionable payroll in , the total contribution would be unaffected.

**The modelling carried out in 2019 has determined whether each given employer requires nil, 1.0% or 2.0% stabilised annual steps, and this has been discussed with the employers.

***In line with the stabilisation previously enjoyed by academies (where contribution rate increases were limited to 1% of pay each year), any reduction in contribution from 2021 is similarly limited to 1% of pay each year. Any reduction in contribution is limited such that the contribution paid is no lower than the calculated Primary rate. However, if the academy's calculated rate exceeds 24.0%, 25.0% and 26.0% of pay in each of the years 2020/21, 2021/22 and 2022/23 respectively, the academy has the option to pay this rate instead.

The stabilisation criteria and limits will be reviewed at the next formal valuation. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

The Administering Authority has a policy of aiming to secure the stabilised rates for two years (as opposed to one year) after each future valuation date, to provide sufficient advance notice to such employers regarding possible changes in their contribution rates. This is subject to market conditions not making it unsafe to do so.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020for the 2019 valuation). The Administering Authority would normally expect the same period to be used at successive formal valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the period until the next formal valuation will often be set as a monetary sum as opposed to a percentage of salaries. However, where a percentage of salaries approach is adopted, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Likelihood of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum likelihood. A higher required likelihood bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different likelihoods are set for different employers depending on their nature and circumstances: in broad terms, a higher likelihood will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

In addition the Fund reserves the right to amend the likelihood of achieving funding target for Transferee Admission Bodies who have longer term expected participation periods (for example, over 6 years).

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy conversions)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with, for the purpose of setting contribution rates, those of the other academies in the MAT;

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The assets allocated to the academy will be limited if necessary so that its initial funding level is subject to a maximum of 100%. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

iv. The new academy's calculated contribution rate will be based on the time horizon and likelihood of achieving funding target outlined for Academies in the table in Section 3.3 above

v. As an alternative to (iv), the academy will have the option to elect to pay a stabilised rate of contributions described in in Note (b) above. This has been calculated to be broadly in line with the ceding Local Authority. However, this election will not alter the academy's asset or liability allocation as per (ii) and (iii) above. Ultimately, all academies remain responsible for their own allocated assets and liabilities.

vi. It is possible for an academy to leave one MAT and join another. If this occurs, all active, deferred and pensioner members of the academy transfer to the new MAT.

The Fund's policies on academies are subject to change in the light of any amendments to MHCLG and/or DfE guidance (or removal of the formal guarantee currently provided to the academies by the DfE). Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (iv) and (v) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk greater than expected rise in liabilities;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, or a Central Government department, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits.

The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit (or would be entitled to any cessation surplus) at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate throughout its participation in the Fund and on cessation does not pay any deficit or receive any exit credit. In other words, the pension risks “pass through” to the letting employer.

The Administering Authority is willing to consider any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement.

The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active

Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);

- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body, where there is a surplus, an exit credit will be paid to the Admission Body within three months of the cessation date (or another date agreed between the Administering Authority and the Admission Body).

If:

- there is an admission agreement between the Admission Body and the Fund, backed by a commercial agreement between the Admission Body and the Awarding Authority, limiting the Admission Body's obligation for Fund contributions, and
- this includes confirmation that no cessation debt will be payable by the Admission Body (or that any payments made by the Admission Body will be reimbursed by the Awarding Authority, as a result of an agreement external to the Fund),

then on cessation no deficit amount will be sought from either the Admission Body or the Awarding Authority, and no exit credit surplus amount will be paid to either party. For the avoidance of doubt, the Fund will follow the terms of the admission agreement (i.e.. relating to payment of cessation debt), but will follow this section of the FSS where the admission agreement is silent in relation to the payment of an exit credit.

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will apply an adjustment to the ceasing employer's post 2014 benefit accrual value, as an estimate of the possible impact of resulting benefit changes.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

(a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final surplus/deficit will normally be calculated using a "gilts exit basis", which is more prudent than the ongoing participation basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing participation basis as described in Appendix E;

(c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit or surplus. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund may spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit on the gilts exit basis, and would carry out the cessation valuation on the ongoing participation basis: secondary contributions would be derived from this cessation debt. This approach would be monitored as part of each formal valuation and secondary contributions would be reassessed as required. The Admission Body may terminate the agrteement only via payment of the outstanding debt assessed on the gilts exit basis. Furthermore, the Fund reserves the right to revert to the "gilts exit basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Admission Body would have no contributing members.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. The current pools in place within the Fund are as follows:

- Town and Parish Councils (as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service).
- Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.
- Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

The intention of the pool is to minimise contribution rate volatility which would otherwise occur when members join, leave, take early retirement, receive pay rises markedly different from expectations, etc. Such events can cause large changes in contribution rates for very small employers in particular, unless these are smoothed out for instance by pooling across a number of employers.

On the other hand, it should be noted that the employers in the pool will still have their own individual funding positions tracked by the Actuary, so that some employers will be much better funded, and others much more poorly funded, than the pool average. This therefore means that if any given employer was funding on a stand-alone basis, as opposed to being in the pool, then its contribution rate could be much higher or lower than the pool contribution rate.

It should also be noted that, if an employer is considering ceasing from the Fund, its required contributions would be based on its own funding position (rather than the pool average), and the cessation terms would also apply: this would mean potentially very different (and in particular possibly much higher) contributions would be required from the employer in that situation.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

Employers who are permitted to enter (or remain in) a pool at the 2019 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

Payment of non-ill health strain costs will be payable immediately; however, in exceptional circumstances, with the agreement of the Administering Authority the payment may be spread as follows:

Major Employing bodies	-up to 3 years
Community Admission Bodies and Designating Employers	-up to 3 years
Academies	-up to 3 years
Transferee Admission Bodies	-payable immediately.

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by a Fund operated ill-health risk management solution (see 3.8 below).

3.8 Ill health risk management

The Fund currently operates a form of cost-sharing between employers whereby all ill health early retirement strain costs are spread across all employers.

When a member retires on ill health early retirement the strain cost is spread across employers in proportion to their size (i.e. versus the total of all employers receiving the risk protection). The asset share of the employer whose member has retired on ill health grounds, will then be credited with the strain cost amount.

3.9 Employers with no remaining active members

In general, an employer ceasing in the Fund due to the departure of the last active member, will pay a cessation debt or receive an exit credit on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

c) In exceptional circumstances, the Fund may permit an employer with no remaining active members and a cessation deficit to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

The Fund has a separate written policy which covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- Where a subset of an employer's membership is transferring (in or out), the Fund's general approach will be to arrange for bulk payments calculated as the sum of Cash Equivalent Transfer Values for the members concerned, using Government Actuary's Department standard CETV factors;
- Where an entire employer is transferring in or out of the Fund the bulk transfers should equal the asset share of the employer in the transferring Fundregardless of whether this is greater or lesser than the value of past service liabilities for members;
- The Fund will not grant added benefits to members bringing in entitlements from outside the LGPS unless the asset transfer is sufficient to meet the added liabilities; and

- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers. However, this is approach is reviewed from time-to-time to ensure each employer's investment strategy is appropriate given their funding objective and current funding position.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The actuary's assumptions for future investment returns (described further in Appendix E) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the fund's three funding bases include a margin for prudence, and are therefore also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

In the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pensions Committee meetings, and also to employers through Employers Forums.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each formal actuarial valuation, report to the MHCLG on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional MHCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under "relative considerations" above compares to the estimated future return being targeted by the Fund's current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds' actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Ministry of Housing, Communities and Local Government (MHCLG) has stated that the purpose of the FSS 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 framework to maintain as nearly constant employer contribution rates as possible; and*
- *to take a prudent longer-term view of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund's actuary carries out formal valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers in 29 November 2019 for comment;

b) Comments were requested within 6 weeks;

c) There was an Employers Forum on 4 December 2019 at which questions regarding the FSS could be raised and answered;

d) Following the end of the consultation period the FSS was updated where required and then published, in March 2020.

A3 How is the FSS published?

The FSS is made available through the following routes:

Published on the website, at http://pensions.cambridgeshire.gov.uk

A copy sent by e-mail to each participating employer in the Fund;

A full copy linked from the annual report and accounts of the Fund;

Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the formal valuation (which may move to every four years in the future – see Section 2.8. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles/Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at [FUND URL].

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and a ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Individual Employer should:-

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;
2. the ACCESS Pool, investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. the MHCLG (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk.

Risk	Summary of Control Mechanisms
	Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).
Effect of possible asset underperformance as a result of climate change	This is addressed via the Fund's Risk Register, with the appropriate steps described there.

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision.The Fund currently operates a form of internal insurance whereby any ill-health

Risk	Summary of Control Mechanisms
	early retirement strain costs are in effect spread among all employers.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The Administering Authority is monitoring the progress on the McCloud court case and its approach is described in 2.7. The government's long term preferred solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits - was built into the 2019 valuation.
Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.

Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	**Summary of Control Mechanisms**
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between formal valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by:

Risk	Summary of Control Mechanisms
	Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).
An employer ceasing to exist resulting in an exit credit being payable	The Administering Authority regularly monitors admission bodies coming up to cessation The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three-step process:

1. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in 3.3 Note (e) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's assets, liabilities and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details),
3. with a sufficiently highlikelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller (the "Economic Scenario Service") developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the requiredlikelihood.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The Fund aims for the employer to have assets sufficient to meet 100% of its accrued liabilities at the end of its funding time horizon based on the employer's funding target assumptions (see Appendix E).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total contribution rate is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
2. at the end of the determined time horizon (see 3.3 Note (c) for further details)
3. with a sufficiently highlikelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required likelihood.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities at the end of the time horizon;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required likelihood of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore it cannot account for each employer's assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

1) A technique known as "analysis of surplus" in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.

2) A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31 March 2016 the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

The Fund Actuary uses the Hymans Robertson's proprietary "HEAT" system to track employer assets on a monthly basis. Starting with each employer's assets from the previous month end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the month are added to calculate an asset value at the month end.

The Fund is satisfied that this new approach provides the most accurate asset allocations between employers that is reasonably possible at present.

D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash Equivalent Transfer Value (CETV) as advised by the Fund's administrators.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions used to calculate employer contribution rates?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities") and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

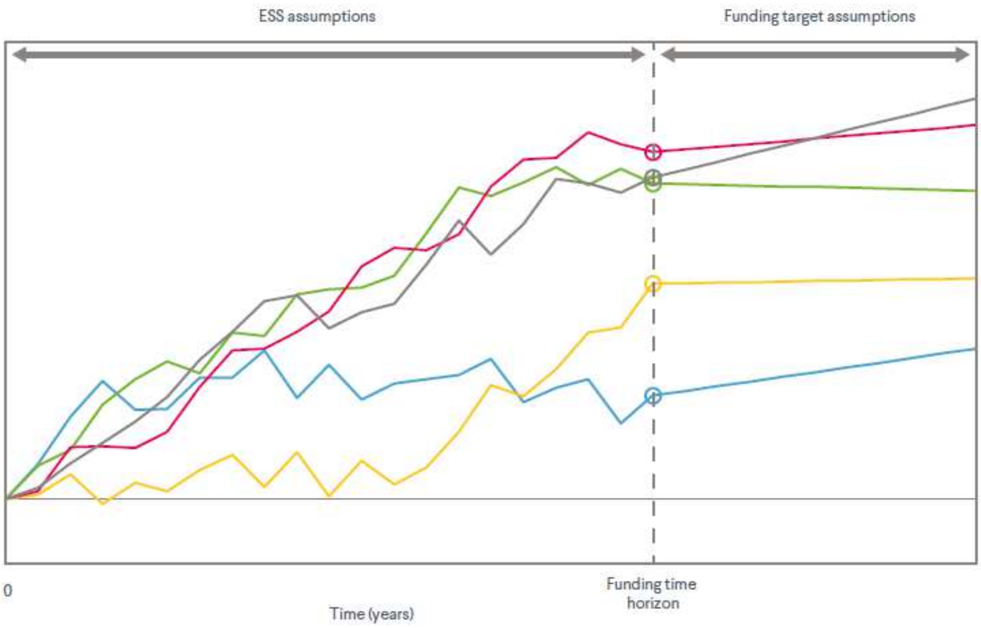
Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary's approach to calculating employer contribution rates involves the projection of each employer's future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer's assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer's required likelihood) being successful at the end of the employer's time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer's assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson's proprietary stochastic economic model - the Economic Scenario Service ("ESS").

2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the funding target is calculated in each of the 5,000 projected scenarios, using market conditions appropriate to each of those scenarios.



Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).

E2 What assumptions are used in the ESS?

The actuary uses Hymans Robertson's ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

		Annualised total returns									
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)	RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
5 years	16th %'ile	-0.4%	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th %'ile	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th %'ile	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th %'ile	-0.2%	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th %'ile	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th %'ile	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th %'ile	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th %'ile	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th %'ile	4.5%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
	Volatility (Disp) (1 yr)	1%	7%	10%	17%	17%	14%	11%	1%		

E3 Whatassumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

1. Benefit increases and CARE revaluation
2. Salary growth
3. Investment returns (the "discount rate")

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding target.

Funding basis	**Ongoing participation basis**	**Contractor exit basis**	**Low risk exit basis**
Employer type	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants
Investment return assumption underlying the employer's funding target (at the end of its time horizon)	Long term government bond yields plus an asset outperformance assumption (AOA) of 1.8% p.a.	Long term government bond yields plus an AOA of 1.8% (appropriate to the method used to allocate assets to the employer on joining the Fund)	Long term government bond yields with no allowance for outperformance on the Fund's assets

E4 What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding target.

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.8% per annum greater than gilt yields at the time of the valuation (this is higher than the 1.6% used at the 2013 valuation, i.e. produces a lower funding target all other things being equal). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

a) Salary growth

After discussion with Fund officers, the salary increase assumption at the 2019 valuation has been set to be a blended rate combined of:

1. 2% p.a. until 31 March 2020, followed by
2. Increases in line with the retail prices index (RPI) less 0.5% each year thereafter.

The blended rate equals RPI less 0.6% p.a., which isa change from the previous valuation, which assumed a blended rate of RPI less 0.7% per annum. The change has led to a small increase in the funding target (all other things being equal).

b) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

At this valuation, we have continued to assume that CPI is 1.0% per annum lower than RPI.

c) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced funding target (all other things being equal).

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

d) General

The same financial assumptions are adopted for most employers (on the ongoing participation basis identified above), in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Funding basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target** at the end of the employer's time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but are also used in funding as an objective measure of a risk free rate of return.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.

Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed.

Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employees in the Fund.
Valuation	A risk management exercise to review the liabilities, Primary and Secondary contribution rate, and any other statutory information for a Fund, and usually individual employers too.

CAMBRIDGESHIRE PENSION FUND

Pension Fund Committee

Date: 19th March 2020

Report by: Head of Pensions

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

1. Background

1.1 Good governance requires that updates to the pre-agreed Annual Business Plan and Medium-Term Strategy are provided to the Committee on a regular basis. This update highlights the progress made on the key activities for the period up to the end of 2019/20 financial year.

1.2 A full list of the key activities for the 2019/20 financial year can be found in appendix 1 of this report.

2. Key Pension Fund Activities

2.1 Service Delivery (SD)

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

2.1.1 SD1 - Monitor staffing levels in line with organisational reform

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

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

Key Milestones:

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

2.2 Governance and compliance (GC)

<table>
<tr><th rowspan="2">Reference</th><th rowspan="2">Key action/task</th><th colspan="4">2019/20</th><th colspan="2">Medium term</th></tr>
<tr><th>Q1</th><th>Q2</th><th>Q3</th><th>Q4</th><th>2020/21</th><th>2021/22</th></tr>
<tr><td>GC1</td><td>Procure a supplier of specialist legal advice</td><td></td><td colspan="3">✓G</td><td></td><td></td></tr>
<tr><td>GC6</td><td>Scope potential liability reduction exercises</td><td></td><td></td><td></td><td colspan="2">✓A</td><td></td></tr>
<tr><td>GC7</td><td>Complete the Guaranteed Minimum Pension reconciliation project with rectification of members records</td><td colspan="5">✓R</td><td></td></tr>
</table>

2.2.1 GC1 – Procure a supplier of specialist legal advice

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

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

Key Milestones:

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

2.2.2 GC6 - Scope potential liability reduction exercises

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

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

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

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

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

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

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

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

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

2.3 Communications, Systems and Employer Management (CSEM)

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

2.3.1 CSEM3 – Review cyber resilience

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

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

Key Milestones:

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

2.3.2 CSEM4 – Implement monthly data collection for all employers

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

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

Key Milestones:

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

2.3.3 CSEM5 – Manage the valuation

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

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

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

2.4 Operations (OPS)

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

2.4.1 OPS1 – Processing of undecided leavers

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

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

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

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

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

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

Key Milestones:

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

2.5 Investments and fund accountancy (IA)

<table>
<tr><th rowspan="2">Reference</th><th rowspan="2">Key action/task</th><th colspan="4">2019/20</th><th colspan="2">Medium term</th></tr>
<tr><th>Q1</th><th>Q2</th><th>Q3</th><th>Q4</th><th>2020/21</th><th>2021/22</th></tr>
<tr><td>IA1</td><td>Continue development of the asset pool</td><td colspan="4">✓G</td><td></td><td></td></tr>
<tr><td>IA2</td><td>Implement the strategic asset allocation</td><td></td><td colspan="2">✓G</td><td></td><td></td><td></td></tr>
<tr><td>IA4</td><td>Extend global custody contract for 2 years</td><td></td><td colspan="2"></td><td>✓A</td><td></td><td></td></tr>
<tr><td>IA6</td><td>Implement online payment platform for employers' contribution payments</td><td></td><td colspan="3">✓A</td><td></td><td></td></tr>
<tr><td>IA7</td><td>Re-tender for investment consultancy services</td><td></td><td></td><td></td><td colspan="2">✓G</td><td></td></tr>
<tr><td>IA8</td><td>Re-tender for the independent adviser role</td><td></td><td></td><td colspan="2">✓A</td><td></td><td></td></tr>
<tr><td>IA9</td><td>Complete sign up to the responsible investment stewardship code</td><td></td><td></td><td></td><td>✓G</td><td></td><td></td></tr>
<tr><td>IA10</td><td>Consider multi-fund investment strategies</td><td>✓G</td><td></td><td></td><td colspan="3">✓G</td></tr>
</table>

2.5.1 IA1 – Continue development of the asset pool

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

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

Key Milestones:

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

2.5.2 IA2 – Implement the strategic asset allocation

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

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

Key Milestones:

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

2.5.3 IA4 - Extend global custody contract for 2 years

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

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

Key Milestones:

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

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

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

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

The online form will be launched in April 2020.

Key Milestones:

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

2.5.5 IA7 - Re-tender for investment consultancy services

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

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

Key Milestones:

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

2.5.6 IA8 - Tender for an independent adviser

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

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

Key milestones:

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

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

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

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

Key Milestones:

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

2.5.8 IA10 – Consider multi-fund investment strategies

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

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

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

Key milestones:

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

3. Relevant Fund objectives

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

4. Risk Management

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

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

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

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

5. Communication Implications

Direct Communications	The Business Plan Update will be presented to the Pension Fund Committee at each meeting.

6. Finance & Resources Implications

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

7. Legal Implications

7.1 Not applicable

8. Consultation with Key Advisers

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

9. Alternative Options Considered

9.1 Not applicable

10. Background Papers

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

11. Appendices

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

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

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

Service Delivery

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

Governance and Compliance

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

Communications, Systems and Employer Management

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

Operations

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

Investments and fund accountancy

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

Agenda Item no.5

CAMBRIDGESHIRE PENSION FUND

Pension Fund Committee

19th March 2020

Report by: Head of Pensions

Subject:	ACCESS Asset Pooling
Purpose of the Report:	To seek approval of the 2020-21 ACCESS Business Plan and to update the Pension Fund Committee on the asset pooling project.
Recommendations:	The Pension Fund Committee are asked to: 1) Approve the 2020-21 ACCESS Business Plan and associated budget; and 2) Note the verbal asset pooling update.
Enquiries to:	Name – Paul Tysoe, Investment Manager Tel – 01604 368671 E-mail – phtysoe@northamptonshire.gov.uk

1. Background

1.1 The Pension Fund has been working collaboratively with ten other Funds in the ACCESS pool to jointly meet the Government's published criteria on asset pooling.

1.2 This report seeks the Pension Committee's approval for the 2020-21 ACCESS Business Plan and associated budget and provides an asset pooling update.

2. The 2020-21 ACCESS Business Plan

2.1 The 2020-21 ACCESS Business Plan was approved by Members at the ACCESS Joint Committee (AJC) meeting of 9th December 2019. The AJC recommended the Business Plan for approval to ACCESS partner funds. The ACCESS Business Plan is attached at Appendix 1.

2.2 The central costs associated with the 2020-21 Business Plan amounted to £1.080m, which represents approximately £98k per partner Fund. Note these costs exclude Operator and Depository fees that are deducted directly from ACCESS sub-funds.

2.3 The governance arrangements of the ACCESS pool means that the Business Plan must now be approved by each partner fund. It was also noted at the AJC meeting that s151 officers of the ACCESS Authorities had already lent their support to the Business Plan and associated costs.

2.4 It should be noted that £100k of ACCESS costs have been included in the Cambridgeshire Fund's local Business Plan for the 2020-21 scheme year.

3. Verbal asset pooling update

3.1 Officers will update the Pension Committee verbally on the AJC meeting of the 9th March 2020, which occurred after the report deadline for this Pensions Committee meeting.

4. Recommendations

4.1 The Pension Committee is recommended to:

4.1.1 Approve the 2020-21 ACCESS Business Plan and associated budget; and

4.1.2 Note the verbal asset pooling update.

5. Relevant Pension Fund Objectives

Continually monitor and measure clearly articulated objectives through business planning.
Put in place a Strategic Asset Allocation ensuring it is appropriately maintained taking into account the Funding Strategy.
Maximise investment returns over the long term within agreed risk tolerances.

6. Finance & Resources Implications

6.1 The ACCESS Joint Committee in its meeting of the 9th December 2019 recommended that ACCESS partner funds approve the 2020/2021 ACCESS Business Plan and associated budget of £1.080m, which equates to approximately £98k per partner fund.

6. Risk Management

6.1 The Pension Fund Committee and Pension Fund Board has a responsibility to ensure the ACCESS pool meets the Government's published criteria on asset pooling with in the Local Government Pension Scheme universe.

6.2 The risks associated with this report have been captured in the Fund's risk register as detailed below.

Risk No	Risk	Residual risk rating
16	Failure to provide relevant information to the Pension Fund Committee/Pension Board to enable informed decision making	Green

6.3 The risk register covers other risks that are directly associated to Cambridgeshireshire Pension Fund's investments.

6.4 The full version of the Fund risk register can be found – https://pensions.cambridgeshire.gov.uk/governance/key-documents/cambridgeshire/

7. Communication Implications

7.1 Not applicable.

8. Legal Implications

8.1 Not applicable.

9. Consultation with Key Advisers

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

10. Equality Screening

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

Reason that no Equal is required	**✓ as appropriate**
The paper is for information only	
The proposal/activity/decision has no impact on customers (scheme members) 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)	

11. Alternative Options Considered

11.1 Not applicable.

12. Background Papers

12.1 Not applicable.

13. Appendices

13.1 Appendix 1 – 2020-21 ACCESS Business Plan

Checklist of Key Approvals	
Is this decision included in the Business Plan?	No
Will further decisions be required? If so, please outline the timetable here	No
Is this report proposing an amendment to the budget and/or policy framework?	No
Has this report been cleared by Section 151 Officer?	Sarah Heywood – 27th February 2020
Has this report been cleared by Head of Pensions?	Mark Whitby – 24th February 2020
Has the Chairman of the Pension Committee been consulted?	Councillor Rogers – 4th March 2020
Has this report been cleared by Legal Services?	Fiona McMillan – 25th February 2020

Business Plan, Budget & Risk Summary

Quarterly Update

ACCESS Joint Committee

Date: 9 September 2019

Report by: Officer Working Group

Subject:	**2019/20 Business Plan Update and revised outturn** **2020/21 Proposed Business plan and budget**
Purpose of the Report:	To provide an update on the activities undertaken since the last Joint Committee, associated spend and risk summary. To propose a business plan and budget for 2020/21
Recommendations:	The Committee is asked to note the 2019/20 updated business plan, the ASU workstream progress report, the revised outturn and summary risk register. The Committee is also asked to consider the proposed business plan and budget for 2020/21 and • recommend the 2020/21 business plan to the ACCESS Authorities; and • accepts the recommendation of the s151 Officers from ACCESS Authorities to determine the 2020/21 budget totalling £1.080m to support the proposed business plan.
Enquiries to:	Kevin McDonald (kevin.mcdonald@accesspool.co.uk 07712 356217

1. Purpose

1.1 The Joint Committee is required to make recommendations to the ACCESS Authorities about the annual strategic business plan for the Pool. The strategic plan was agreed by the Joint Committee in March 2019 and referred to the relevant ACCESS Authorities.

1.2 The Joint Committee also determined the budget necessary to implement the business plan during 2019/20 (insofar as the costs will not be paid by ACCESS Authorities direct to the Operator) at their meeting in March 2019 and this has been charged to the relevant ACCESS Authorities.

1.3 This report updates the Joint Committee on the work undertaken to date and costs incurred in 2019/20. It also sets out the proposed business plan and budget for 2020/21. In addition, a summary of the risk register is included.

2. 2019/20 Business Plan Update

2.1 The key activities either undertaken or to be undertaken in 2019/20 are as follows:

- ACCESS Support Unit (ASU) recruitment completes
- ASU functions mainly undertaken by ASU officers and technical leads
- Review of the IAA completes
- Tranches 3, 4 and 5 sub funds onboarding
- Consideration of non-listed / illiquid assets
- Procurement of legal advisor for ACCESS
- Collective custodian procurement on behalf of ACCESS Authorities
- Review of ESG / RI guidelines commences

2.2 The table overleaf shows progress against key items delivered since the last Joint Committee as well as the proposed activity in 2020-21.

2.3 As previously advised, in 2019-20 ASU Officers employed by Essex as the Host Authority, together with the Technical Leads, will be taking over most of the functions of the ASU from the third-party providers.

2.4 Some external advisors have been engaged in relation to the work on the Governance arrangements for the ACCESS pool, and others have commenced work on the approach towards pooling illiquid assets.

2.5 Activities shown in the business plan below that are also the subject of separate items on the Committee's agenda include:

- Governance update
- MHCLG return
- Risk Register
- Contract Management Update
- Sub-Fund implementation and development of illiquid pooling option

Key Milestone	Planned 2019-20	Anticipated 2020-21	Change from previous reports
Complete Governance Manual Work with external advisers to reflect decision making principles, communication strategy, policies and procedures, code of conduct etc in the Governance Manual	Will have residual cost relating to training. Governance manual update to be completed once IAA agreed.	N/A	No change
Complete Review of Inter Authority Agreement Work with external advisers to reflect any changes resulting from the completion of the Governance Manual and review	At the time of writing one matter required the consideration of further drafting. This matter is limited to ensuring that references to Operator Agreement(s) are generic rather than specific.	N/A	change
Agree and establish ACCESS Support Unit Identify ASU resource requirements, roles and responsibilities for activities, scope and run recruitment activity and appoint	With effect from 1 April 19 ASU functions have been mainly undertaken by ASU Officers and Technical Leads. Hymans Robertson no longer provide project management support.	BAU established	change
ASU Operation and Business as usual (BAU) ASU Operation plus professional advice and support	ASU support officer recruited April 19 and ASU Interim Director recruited August 19	BAU established	No change
Determination of Reporting Framework Reflecting investments within the sub-funds work with Link to ensure that reporting meets Authority, Pool, CIPFA and Government requirements	Work continues, led by Technical Leads, to develop reporting arrangements as required by Authorities' annual reports.	Framework established & monitored	Change
Development of Reporting for the Joint Committee in respect of funds in the ACS - Quarterly investment performance - Information on investment and operational costs including the annual review of investment manager costs	ASU officers and Technical Leads are developing ACS reporting.	BAU established	change
Agreement to joint policies	Work to be undertaken by the		

& guidelines Including communication, environmental social and governance and responsible investment.	ASU Officers on developing joint guidelines re ESG / RI in H1 2020	Work continuing to finalise joint guidelines re ESG / RI in H1 2020	No change
Approval and launch of Tranche 3 Sub-Funds Ensure sub-fund meets Link's due diligence requirements and ACCESS Authorities' value for money criteria (including transition activity). Work with Link to submit application to the FCA for approval of the sub-fund set-up. Launch.	2 sub-funds - transition completed May 2019		No change
Approval and launch of Tranche 3a Sub-Fund As above	1 sub-fund - transition completed September 2019		No change
Determine, approve and launch tranche 4a Sub-Funds As above	6 sub-funds – 1 transition completed November 2019, 2 sub-funds due to transition December 2019, remaining sub-fund to early 2020		Change
Determine, approve and launch tranche 4b Sub-Funds As above	1 sub-fund – transition activity February 2020	1 sub-fund – transition activity February 2020	Change
Determine, approve and launch tranche 5a Sub-Funds As above	5 sub-funds – transition activity May 2020	5 sub-funds – transition activity May 2020	Change
Determine, approve and launch tranche 5b Sub-Funds As above	3 sub-funds – transition activity July 2020	3 sub-funds – transition activity July 2020	Change
Determine, approve and launch tranche 6 Sub-Funds As above but to also include manager search and selection activity	ACCESS Authorities to determine further local requirements for equity / fixed income sub-fund	Timing for approval and launch TBC	Change
Sub-funds (all)	Establish arrangements		New

	enabling transitions between sub-funds within the ACS.	BAU expected to in place	
Consideration of approach to illiquid investments Consideration of requirements and implementation options for ACCESS Authorities' current and proposed investments in illiquid asset classes, including infrastructure.	Work to be undertaken by the ASU using third party suppliers as required. bFinance were appointed as advisor re suitable pooled structure in October. Dialogue began in November with a timeline agreed to report to the March 2020 JC.	Work to be undertaken by the ASU and Technical Leads using third party suppliers as required	Change
Communication with MCHLG Providing updates to Government and responding to consultations	Meeting with MHCLG July 19. New draft reporting requirements under consideration. No date yet published for formal pooling consultation. Work to be undertaken by the ASU using third party suppliers as required. First report submitted under new MHCLG reporting template in October.	Work to be undertaken by the ASU using third party suppliers as required	Change
Pool Wide Activities Professional support in relation to ACCESS Governance Structure includes JC, S151, OWG and workstream meetings	Procurement of legal advisor for ACCESS Collective custodian procurement on behalf of ACCESS Authorities Work to be undertaken by the ASU using third party suppliers as required	Work to be undertaken by the ASU using third party suppliers as required	Change

2.6 Stemming from the Business Plan a series of workstreams have been identified. These are highlighted in Appendix 1, along with progress since the Committee's last meeting. The nature of the work involved means that some workstreams in Appendix 1 feature in other items on this agenda.

3. 2019-20 Budget Update

3.1 In agreeing the strategic business plan for 2019/20 the Joint Committee determined the budget necessary to implement the outcomes of the plan and meet the expenses of undertaking the Specified Functions. The costs set out in the 2019/20 budget were indicative based on the understanding of the resource requirements at the time.

3.2 For the Committee's information the original budget for 2019/20 and latest forecast based on actual costs for Q1 April – November 2019 are included in the table overleaf.

3.3 The 2019/20 business plan and budget anticipated that with the establishment of the ASU work would transfer with effect from April 2019 from Hymans Robertson to the ASU. Additional governance work has been required re the update of the IAA however these higher costs have been offset by the delayed recruitment of the ACCESS Director and a lower than forecast Technical Lead recharge.

3.4 In September 2019 one Technical Lead indicated that it would no longer possible for them to continue in that role. Their responsibilities have been assumed by the Interim Director. The work undertaken by the Technical Leads since April 2019 as detailed in the report in Appendix 1 is expected to cost £78k for the year.

3.5 The external professional costs cover Hymans Robertson, Squire Patton Boggs and *bFinance* support for the ACCESS pool through strategic, technical and legal advice. This includes advice in relation to the establishment of a pooled structure for illiquid assets and the completion of the IAA review and Governance manual as well as the delivery of governance training.

	Final Outturn 2018/2019	Agreed Budget 2019/2020 £	November forecast 2019/2020 £	Overspend / (Underspend) 2019/2020 £
ASU				
Interim ASU Support	328,734	-	81,082	81,082
ASU Salaries (incl. on cost)	31,649	295,000	228,797	(66,203)
ASU Operational	53,375	20,500	14,301	(6,199)
ASU Host Authority Recharge	7,830	42,000	42,000	-
ASU JC Secretariat Support	-	-	-	-
Technical Lead Recharge Costs	9,599	93,000	78,067	(14,933)
Interim ASU / ASU Total	**431,187**	**450,500**	**444,247**	**(6,253)**
Professional Costs				
Internal Professional Costs				
Internal Professional Costs	20,018	24,800	22,102	(2,698)
External Professional Costs				
Strategic & Technical	286,115	364,000	271,131	(92,869)
Legal & Governance	341,680	207,250	189,127	(18,123)
Project Management	168,500	156,000	91,536	(64,464)
External Professional Costs	796,295	727,250	551,794	(175,456)
Professional Costs Total	**816,313**	**752,050**	**573,896**	**(178,154)**
Total Costs per 2019/2020	**1,247,500**	**1,202,550**	**1,018,143**	**(184,407)**

4. Summary risk register

4.1 The Pool's key risks are considered on a quarterly basis. An overview of the current (as proposed) and previous quarters' risks is set out below:

	September 19	December 19
Total Risk Score	**84**	**83**
Red	2	2
Amber	9	8
Green	6	7

4.2 Full details are set out in agenda item 9 (Risk Register) on this agenda.

5. 2020/21 Business Plan and budget

5.1 It is anticipated that 2020/21 will see key activities within the following themes:

Actively managed listed assets: the completion of pooling active listed assets within the Authorised Contractual Scheme (ACS).

Alternative / non listed assets: the initial implementation of pooled alternative assets.

Passive assets: ongoing monitoring and engagement with UBS.

Governance: the application of appropriate forms of governance throughout ACCESS.

ACCESS Support Unit (ASU): the size and scope of the ASU will be reviewed.

5.2 The full business plan is set out in Appendix 2. This includes milestones for each theme along with details of the key activities.

5.3 A draft budget totalling £1.080m 2020/21 is also included within Appendix 2. The assumptions underpinning the budget include:

- the first Full Year Effect of a fully staffed ACCESS Support Unit along with four Technical Leads;
- the absence of external project management support;
- the use of external consultancy in the establishment phase of pooling illiquid assets;
- the requirement for external technical support in procuring illiquid asset vehicles;
- legal advice on illiquids and BAU.

5.4 The draft budget was discussed at the s151 Officer meeting on 25 November who agreed that it should be recommended to the Joint Committee.

6. Recommendations

6.1 The Committee notes the 2019/20 updated business plan, the ASU workstream progress report, the revised outturn and summary risk register.

6.2 The Committee considers the proposed business plan and budget for 2020/21 and

- recommends the 2020/21 business plan to the ACCESS Authorities; and
- accepts the recommendation of the s151 Officers from ACCESS Authorities to determines the 2020/21 budget totalling £1.080m to support the proposed business plan.

7. Consultation with Key Advisers

7.1 Hymans Robertson have provided general / project support and technical advice to the ACCESS pool.

7.2 Squire Patton Boggs provide legal advice to the ACCESS pool.

8. Background Papers

8.1 None

Agenda Item No: 6

Cambridgeshire Pension Fund

Pension Fund Committee

Date: 19th March 2020

Report by: Head of Pensions

Subject:	Pension Fund Annual Business Plan and Medium-Term Strategy 2019/20 to 2021/22
Purpose of the Report:	To present the Annual Business Plan and Medium-Term Strategy which details the Fund's key areas of activity over the period 2020/21 to 2022/23
Recommendations:	The Committee are asked to approve the attached Business Plan and Medium-Term Strategy
Enquiries to:	Jo Walton – Governance and Regulations Manager Email: jwalton@northamptonshire.gov.uk

1. Background

1.1 It is considered good governance for the Cambridgeshire Pension Fund to adopt a Business Plan and Medium-Term Strategy that:

- Sets out the objectives of Cambridgeshire County Council (the administering authority) with regards to the management of the Fund;
- Documents the priorities and improvements to be implemented during the next three years to help achieve those objectives;
- Enables progress and performance to be monitored in relation to those priorities; and
- Provides a clear vision for the next three years.

1.2 The proposed Business Plan and Medium-Term Strategy for the Cambridgeshire Pension Fund for the period 2020/21 to 2022/23 is in **Appendix 1**.

2. The Business Plan and Medium-Term Strategy

2.1 The Business Plan and Medium-Term Strategy concentrates on activities that are not considered business as usual, identifying key milestones and budget requirements. It is split into the following core areas:

- Service delivery
- Governance and compliance
- Communications, systems and employer management
- Operations
- Investments

2.2 Progress made against the Business Plan will continue to be reported to the Committee at each meeting via the Business Plan Update report or other relevant report (where appropriate). Where progress against the Business Plan has fallen behind schedule further detail will be provided.

2.3 Estimated costs for the non-business as usual activities in Appendix 1 have been detailed alongside the activity and within the financial forecasting for the relevant years. Where further costs become known during the course of the new financial year these will be notified to the Pension Fund Committee via the Business Plan Update report.

3. Relevant Fund objectives

Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance.
Continually monitor and measure clearly articulated objectives through business planning. Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.

4. Finance & Resources Implications

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

5. Risk Management

5.1 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 Local Pension Board at every meeting.

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

5.3 The risks associated with failing to monitor progress made against the Business Plan and Medium-Term Strategy have been captured in the Fund's risk register as detailed below.

Risk register	Risk mitigated	Residual risk
Governance (risk 1)	The scheme would not be administered in line with regulations and policies	Green
Governance (risk 2)	Those charged with the governance of the Fund and scheme are unable to fulfil their responsibilities effectively	Amber

5.4 The full risk register can be found on the Fund's website at the following link:

https://pensions.cambridgeshire.gov.uk/app/uploads/2019/10/RiskRegisterCPF.pdf

6. Communication Implications

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

7. Legal Implications

7.1 Not applicable.

8. Consultation with Key Advisers

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

9. Alternative Options Considered

9.1 Not applicable.

10. Background Papers

10.1 Not applicable.

11. Appendices

11.1 Appendix 1 – Appendix 1 Annual Business Plan and Medium-Term Strategy 2020/21 to 2022/23

Checklist of Key Approvals	
Is this decision included in the Business Plan?	Not applicable
Will further decisions be required? If so, please outline the timetable here	Not applicable
Is this report proposing an amendment to the budget and/or policy framework?	No
Has this report been cleared by Section 151 Officer?	Sarah Heywood – 27th February 2020
Has this report been cleared by Head of Pensions?	Mark Whitby – 24th February 2020
Has the Chairman of the Pension Fund Committee been consulted?	Councillor Rogers – 4th March 2020
Has this report been cleared by Legal Services?	Fiona McMillan – 25th February 2020

Annual Business Plan and Medium Term Strategy

2020/21 to 2022/23

Cambridgeshire Pension Fund

Introduction

This is the business plan for the Cambridgeshire Pension Fund which is managed and administered by LGSS Pensions on behalf of Cambridgeshire County Council. The business plan details the priorities and areas of key focus in relation to the Cambridgeshire Pension Fund for 2020/21, 2021/22 and 2022/23. The business plan was approved at the Cambridgeshire Pension Fund Committee meeting on X March 2020. The business plan is monitored throughout the year and the Pension Fund Committee may be asked to agree changes to it.

The purpose of the business plan is to:

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

In addition, the business plan includes a budget for expected payments to and from the Cambridgeshire Pension Fund during 2020/21 including the resources required to manage the Fund.

Further information

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

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

Background to the Cambridgeshire Pension Fund

The Cambridgeshire Pension Fund is a £3.19bn Local Government Pension Fund which provides retirement and death benefits for local government employees (other than teachers) in Cambridgeshire and employees of other qualifying bodies which provide similar services.

The Fund's total membership is approximately 90,000 of which 29,000 are active members from 254 individual contributing employers and approximately 61,000 retired, survivor, deferred and other members.

Governance and management of the Fund

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

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

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

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

The governance structure is detailed below:

Cambridgeshire County Council

Pension Fund Committee | Investment Sub-Committee | Local Pension Board | Joint Committee (ACCESS pool)

Section 151 Officer

Head of Pensions

Administration of the Fund

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

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

During the 2020-21 year the administration of the Funds is expected to transition from the current model to a lead authority shared service model, with the lead authority being Northamptonshire County Council.

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

- The Operations Team is responsible for providing the full range of pension administration services. The team delivers a service that includes the calculation of retirement, deferred, death and survivor benefits, transfers in and out, refunds and member record maintenance.

- The Systems Team is responsible for maintaining the pension administration, payroll, employer and member self-service systems, reconciling membership data received from employers and the production of annual benefit statements.

- The Employers Team provide support to employers being admitted to and leaving the scheme, managing the triennial actuarial valuation process and liaison with scheme employers with regards to the responsibilities required of them. Scheme member and employer communications form a significant part of the team's function which ranges from the design and management of the Fund's website, presentations, workshops, newsletters and written communications.

- The Governance and Regulations Team is responsible for managing agendas, producing reports and delivering training to the Pension Fund Committee and Local Pension Board. In addition the team takes the lead in the development of strategic policies relating to the operation, governance and management of the Fund and monitors compliance with prevailing LGPS specific and overriding legislation. The team specialises in data quality, information governance and pension taxation.

- The Investments Team is responsible for liaison with the ACCESS asset pool and governance over the Fund's investments, including development of the Investment Strategy Statement, whether held directly or by the ACCESS pool, reporting to the Investment Sub-Committee and other Committees as required.

- The Fund Accounting Team provide the financial control function to the Fund. It manages and accounts for the receipt of contributions from employers, processes the Fund's financial transactions and oversees the production and audit of the Annual Report and Statement of Accounts.

The structure of LGSS Pensions, which provides administration services to both the Cambridgeshire Pension Fund and the Northamptonshire Pension Fund, as at 31 March 2020 is illustrated below:

Head of Pensions

Governance and Regulations Manager	Employer Service and Systems Manager		Fund Accounting Manager	Operations Manager	Investment Manager
1 Governance Officer 2 Principal Regulation Officers 3 Pensions Officers	2 Employer Liaison Officers 1 Communications Officer 2 Pensions Officers	2 Pensions Systems Analysts 1 Team Leader 6 Pensions Officers	1 Pensions Service Financial Manager 3 Principal Finance Technicians 6 Finance Technicians	1 Quality Assurance Officer 6 Team Leaders 25 Pensions Officers 4 Administrators	1 Pensions Service Financial Manager 1 Principal Finance Technician

Objectives for the management of the Fund

The Fund's agreed objectives are detailed as follows;

- To have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance.
- To manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers.
- To ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment.
- To continually monitor and measure clearly articulated objectives through business planning.
- To continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.
- To ensure regular monitoring of employer covenants, putting in place mitigations of adequate strength to protect the Fund.
- To ensure appropriate exit strategies are put in place both in the lead up to and termination of a scheme employer.
- To put in place performance standards for the Fund and its employers and ensure these are monitored and developed as necessary.
- To ensure employer contributions are as stable as possible, recognising the characteristics, circumstances and affordability constraints of each employer.
- To administer the Fund in a professional and efficient manner, utilising technological solutions and collaboration.
- To maintain accurate records and ensure data is protected and used for authorised purposes only.
- To promote the scheme as a valuable benefit.
- To deliver consistent plain English communications to stakeholders.

- To provide scheme members with up to date information about the scheme in order that they can make informed decisions about their benefits.
- To seek and review regular feedback from all stakeholders and use the feedback appropriately to shape the administration of the Fund.
- To ensure cash flows in to and out of the Fund are timely and of the correct amount.
- To ensure the long-term solvency of the Fund, taking a prudent long term view, so that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment.
- To put in place a Strategic Asset Allocation ensuring it is appropriately maintained taking into account the Funding Strategy.
- To maximise investment returns over the long term within agreed risk tolerances.
- To ensure an appropriate cash management strategy is in place so that net cash outgoings can be met as and when required.

Business as usual

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

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

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

Governance

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

Accountancy

- Preparing and publishing the Fund's annual report.
- Completing the annual accounts and assisting with external auditors.
- Preparing the annual budget and monitoring quarterly.

- Preparation of statutory and non-statutory returns as required.
- Conducting monthly bank reconciliations.
- Quarterly cash flow and treasury management.
- Monthly monitoring of income and expenditure including employer and scheme member contributions.
- Invoicing of employers for pensions strain and unfunded benefits.

Funding

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

Investments

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

Administration

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

Payroll

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

Communication

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

Technical

- Maintaining and updating the pensions administration system.
- Ensuring presence, accuracy and regular review of scheme member data in line with the expectations of the Pensions Regulator and to comply with the General Data Protection Regulations.
- Providing guidance on changes in processes following new or amending legislation.
- Reporting on progress against key performance indicators and daily work management.
- Providing reports and extracts for the Government's Actuary Department and other government departments.
- Reporting and making payments to HMRC.
- Processing bulk updates to member records such as new joiners and leavers, pensions increase and year-end or monthly contributions.

The plan for the next three years

Key challenges and influences

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

- The increased oversight by the Pensions Regulator and the issuance of the new singular code of practice where compliance must be achieved within 12 months.
- New and amending regulations affecting the Local Government Pension Scheme including the £95k exit cap, the remedy resulting from the McCloud high court ruling and the paused national LGPS cost control review.
- The requirement to rectify member contracted out data held by the Scheme with that held by HMRC following delays in HMRC issuing the final data.
- The increasing number of scheme members affected by the government's pensions tax regime and reducing allowances on pension savings.
- The ongoing implementation of the government's requirements to pool LGPS pension fund assets with other Funds.
- Maintaining the skills and knowledge of officers, Committee and Board members to comply with the requirements of MIFIDII, CIPFA's new skills and knowledge framework and new statutory guidance stemming from the Scheme Advisory Board's Good Governance Review.
- The increasing number of scheme employers due to alternative provision models within the local government universe.
- Finding innovative and digital ways of working for the benefit of the Fund, the member and the scheme employer to achieve the Fund's strategies on administration, communication and employer engagement.
- The increasing scrutiny and transparency on data quality.
- To stay ahead of the increasingly sophisticated challenges presented by cyber-crime.
- Evidencing savings and improved investment governance arising from asset pooling.
- The move to a lead authority shared service model.
- The risk of members being exposed to potential scams and the increasing requirements of the Fund to provide protection against this.

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

- Service delivery
- Governance and compliance
- Communications, systems and employer management
- Operations
- Investments

Budget

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

Cash flow projection 2019/20 to 2022/23

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

	2019/20 Estimate	2019/20 Forecast	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
	£000	**£000**	**£000**	**£000**	**£000**
Contributions[1]	131,000	128,000	130,000	132,000	134,000
Transfers in from other pension funds[2]	4,200	6,000	5,200	5,200	5,200
TOTAL INCOME	**135,200**	**134,000**	**135,200**	**137,200**	**139,200**
Benefits payable	(105,000)	(109,000)	(114,000)	(119,000)	(124,000)
Payments to and on account of leavers[2]	(9,100)	(11,500)	(10,200)	(10,200)	(10,200)
TOTAL PAYMENTS	**(114,100)**	**(120,500)**	**(124,200)**	**(129,200)**	**(134,200)**
	21,000	**13,500**	**11,000**	**8,000**	**5,000**
Management expenses	(10,040)	(6,833)	(5,147)	(3,959)	(3,959)
TOTAL INCOME LESS EXPENDITURE	**11,060**	**6,667**	**5,853**	**4,041**	**1,041**
Investment income	36,000	39,000	40,000	41,000	42,000
Taxes on income	-	-	-	-	-
Profit and (losses) on disposal of investments and changes in the market value of investments[3]	84,000	171,000	69,000	69,000	69,000
NET RETURN ON INVESTMENTS	**120,000**	**210,000**	**109,000**	**110,000**	**111,000**
Net increase/(decrease) in net assets available for benefits during the year	**131,060**	**216,667**	**114,845**	**114,041**	**112,041**

Notes: [1]*Contributions and benefits are based upon underlying trends in membership and contribution rates, pensions in payment and expected increases.*
[2]*Future estimated transfers in and out have been based upon the average of individual transfers in and out of the scheme over the period 201/18 to 2019/20.*
[3]*Return on Investments have been calculated by applying the assumption of 2% investment growth.*

Management expenses

	2019/20 Estimate	2019/20 Forecast	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
	£000	£000	£000	£000	£000
Total administration expenses	(2,930)	(2,998)	(2,642)	(2,285)	(2,285)
Total governance expenses	(550)	(555)	(784)	(784)	(784)
Total investment expenses[4]	(6,560)	(3,280)	(1,721)	(890)	(890)
TOTAL MANAGEMENT EXPENSES	**(10,040)**	**(6,833)**	**(5,147)**	**(3,959)**	**(3,959)**

Notes:[4]*Investment expenses are mainly driven by (invoiced) fees paid to managers and are based upon the actuary's assumption of asset growth for the coming year. They do not include investment management fees paid in pooled funds, including the ACCESS pool.*

Administration expenses

	2019/20 Estimate	2019/20 Forecast	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
	£000	£000	£000	£000	£000
Staff related	(1,400)	(1,348)	(1,423)	(1,423)	(1,423)
Altair administration and payroll system	(310)	(325)	(336)	(336)	(336)
Data improvement projects[5]	(440)	(540)	(311)	-	-
Communications	(30)	(13)	(71)	(25)	(25)
Other non pay and income	(120)	(107)	(16)	(16)	(16)
County Council overhead recovery	(630)	(665)	(485)	(485)	(485)
TOTAL ADMINISTRATION EXPENSES	**(2,930)**	**(2,998)**	**(2,642)**	**(2,285)**	**(2,285)**

Notes:[5]*Data Improvement Projects include several initiatives to improve data and include GMP rectification costs, Address Tracing and Mortality screening and outsourcing the processing of existing backlogs.*

Delivering the business plan

Monitoring and reporting

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

The updates will:

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

Risk Management

The Cambridgeshire Pension Fund has embedded risk management into the governance of the Fund. The Pension Fund Committee has approved a Risk Strategy and a detailed Risk Register is maintained and reviewed by the Local Pension Board at every meeting. Changes to the level of risk are reported to the Pension Fund Committee at every other meeting, or more frequently if necessary.

To follow are the Fund's current highest rated risks. The full risk register can be found on the LGSS Pensions website at the following link:

https://pensions.cambridgeshire.gov.uk/app/uploads/2019/10/RiskRegisterCPF.pdf

Risk	Residual risk rating
Employers are unable to pay increased contribution rates.	Amber
Failure to respond to changes in economic conditions.	Amber
As long-term investors, the Fund believes climate risk has the potential to significantly alter the value of the Fund's investments.	Amber
Contributions to the Fund are not received on the correct dates and/or for the correct amount.	Amber
Fund assets are not sufficient to meet obligations and liabilities.	Amber

Appendix 1 – Business Plan 2020/21 to 2022/23

Service delivery

Reference	Key action/task	2020/21				Medium term	
		Q1	Q2	Q3	Q4	2021/22	2022/23
SD1	Undertake a review of the Business Continuity Plan	✓	✓	✓			
SD2	Undertake an analysis of the risks faced by the Fund as a result of cyber-crime and put in place appropriate mitigations	✓	✓	✓	✓		
SD3	Retender/extend contract for actuarial, benefits and governance consultancy services					✓	
SD4	Re-procurement of pensions administration and payroll platform		✓				
SD5	Re-tender/extend contract for mortality screening and address tracing services			✓	✓	✓	

SD1 – Undertake a review of the Business Continuity Plan

The Business Continuity Plan covering the Fund's governance and administration is now due for a full review. This review will help ensure appropriate arrangements are being put in place to facilitate the seamless transition of shared service administration from Northamptonshire County Council to one of the two new Northamptonshire Unitary authorities.

Timescale	Key Milestone	Dates
	Investigate current business continuity arrangements with key partners	April to June 2020
	Update Business Continuity Plan	June to August 2020
	Scrutiny of Business Continuity arrangements by Local Pension Board	October 2020
	Update Pension Fund Committee on Business Continuity arrangements	December 2020

Budget required: All costs will be met by the existing administration budget

SD2 – Undertake an analysis of the risks faced by the Fund as a result of cyber-crime and put in place appropriate mitigations

Cyber-crime is posing increasingly sophisticated threats to the administration of the Fund. At the same time the Fund is trying to implement its digital strategy in an effective, efficient and equitable manner. This activity is therefore to analyse the risks to the Fund in the digital space and implement any appropriate actions arising from that analysis.

Timescale	Key Milestone	Dates
	Obtain specialist advice in connection with cyber-crime	April 2020
	Investigate current security and other measures designed to mitigate cyber-crime	April to June 2020
	Develop action plan	July to September 2020
	Implement action plan	From October 2020

Budget required: The cost of obtaining specialist advice, from one of our existing suppliers, will be agreed between the Head of Pensions and Chairman of the Pension Fund Committee and reported to the Pension Fund Committee via the Business Plan update.

SD3 - Retender/extend contract for actuarial, benefits and governance consultancy services

The existing contracts for actuarial, benefits and governance consultancy services are due to expire on 1 April 2022 with the option of a 2 year extension. The Fund will need to consider whether the contracts should be extended for a further 2 years or if it is appropriate to conduct a procurement on a joint basis with the Northamptonshire Pension Fund using the National LGPS Framework.

Timescale	Key Milestone	Dates
	Decision over whether to procure or extend	June 2021

Budget required: All internal costs in the procurement process will be met by the existing administration and governance budgets. External costs are immaterial if the National Frameworks are utilised.

SD4 - Re-procurement of pensions administration and payroll platform

The Fund currently uses Aquila Heywood's Altair as its pensions administration and payroll platform. The contract is due to expire on 30 September 2021 with the option of a 3 year extension. A framework is currently being developed by the National LGPS Framework but the completion of this may not be in time for the actions required by the Fund and so a full OJEU process may be required instead. A decision needs to be made to begin a joint procurement exercise with Northamptonshire Pension Fund at this time or extend the existing contract with a view to procuring a new contract during the extension period.

Timescale	Key Milestone	Dates
	Decision over whether to procure or extend	July 2020

Budget required: All internal costs in the procurement process will be met by the existing administration and governance budgets. External costs are immaterial if the National Frameworks are utilised.

SD5 - Re-tender/extend contract for mortality screening and address tracing services

The existing contract for mortality screening and address tracing services is due to expire in June 2021 with the option of a 2 year extension. The Fund will need to consider whether the contracts should be extended for a further 2 years or if it is appropriate to conduct a procurement on a joint basis with the Northamptonshire Pension Fund using the National LGPS Framework.

Timescale	Key Milestone	Dates
	Decision over whether to procure or extend	December 2020

Budget required: All internal costs in the procurement process will be met by the existing administration and governance budgets. External costs are immaterial if the National Frameworks are utilised.

Governance and Compliance

Reference	Key action/task	2020/21				Medium term	
		Q1	Q2	Q3	Q4	2021/22	2022/23
GC1	Complete the Guaranteed Minimum Pension rectification	✓	✓	✓	✓		
GC2	Scope and conduct potential liability reduction exercises				✓	✓	
GC3	Obtain Pensions Administration Standards Association (PASA) accreditation						✓
GC4	Conduct market testing and procure a supplier of independent data auditing services				✓	✓	

GC1 - Complete the Guaranteed Minimum Pension rectification

Following the end of contracting-out on 6 April 2016 it has been necessary for all pension schemes to reconcile their scheme members' contracted out liability against that recorded by HMRC. The Fund outsourced the majority of the reconciliation and rectification exercise to ITM Limited. The reconciliation stage of this completed in 2019/20 however following the delay in HMRC issuing the final file of data, the rectification stage has not been able to fully commence. It is currently unknown when HMRC will be releasing the final data files or the additional costs that may be incurred by the Fund under the existing contract with ITM Limited.

Timescale	Key Milestone	Dates (earliest estimated)
	Receipt of final data file from HMRC	April 2020
	ITM Limited to supply data files to automatically upload data into the pensions administration system	June 2020
	ITM Limited to supply details of pension in payment records that require rectification	June 2020
	Rectification of pension in payment records	June 2020 to March 2021

Budget required: Estimated additional project management costs of £1,750 charged by ITM Limited as a result of the delayed HMRC file have been added to the administration budget for 2020/21. Should the final file of data not be received by 31 October 2020 it will be necessary to purchase an additional year's license from the Fund's pensions administration and payroll platform provider to automatically upload data to members records which is estimated to be approximately £17,500.

GC2 - Scope and conduct potential liability reduction exercises

The Fund has an increasing number of records belonging to members that are due a refund of pension contributions (due to having insufficient membership within the LGPS to be awarded a pension entitlement) and also a large number of pensions in payment of a very low value that could be fully commuted into a one-off payment, extinguishing the Fund from any future liability.

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

Timescale	Key Milestone	Dates (earliest estimated)
	Scope exercise	February 2021
	Conduct exercise	2021/2022

Budget required: All costs will be met by the existing administration budget.

GC3 - Obtain Pensions Administration Standards Association (PASA) accreditation

Obtaining the PASA accreditation will demonstrate to stakeholders that the Fund has in place quality operations, where the performance and capabilities of the administration and governance functions are in line with those of higher quality organisations providing pensions' administration services. Once achieved the accreditation is granted for a three year period subject to an annual certification process.

Timescale	Key Milestone	Dates (earliest estimated)
	Commence preparation and collation of assessment material	April 2022
	Provide information to PASA for assessment	March 2023
	Hold site visit and receive assessment results	2023/24

Budget required: Anticipated accreditation costs of £6K will be met by an addition to the administration and governance budget.

GC4 - Conduct market testing and procure a supplier of independent data auditing services

The Pensions Regulator issues an annual mandatory scheme return within which the Fund's common and scheme-specific data scores must be included. The Fund is in its final year of a 3 year contract with ITM Limited for the provision of this service with no option to extend. In order to achieve value for money for the most appropriate service it will be necessary to conduct market testing which will in turn to inform the necessary procurement route on a joint basis with Northamptonshire Pension Fund.

Timescale	Key Milestone	Dates
	Conduct soft market testing	January 2021
	Begin procurement process	March 2021
	Contract to commence	1 August 2021

Budget required: All internal costs in the procurement process will be met by the existing administration and governance budgets. External costs are immaterial if the National Frameworks are utilised.

Communications, Systems and Employer Management

Reference	Key action/task	2020/21				Medium term	
		Q1	Q2	Q3	Q4	2021/22	2022/23
CSEM1	Undertake a digital strategy review	✓	✓	✓	✓		
CSEM2	Scope requirements for data collection in respect of the LGPS Transitional Protections			✓	✓		
CSEM3	Prepare for the 2022 Valuation of the Pension Fund					✓	✓
CSEM4	Implement multiple investment strategies	✓	✓	✓	✓	✓	

CSEM1 – Undertake a digital strategy review

The Fund is committed to delivering a service where communication is digital by default to provide an excellent customer experience for all stakeholders and to ensure that technology is used appropriately to create a high quality, efficient and modern pensions service. The review will be carried out over a 3 year period and will focus on the use of digital services across a range of work streams including member experience, communications, data collection and data processing. This will begin with a review of the current use of digital solutions and identify where digital solutions will be beneficial. A plan will then be developed, identifying priorities and setting out a schedule for introducing further digital improvements.

Some activities have already been identified and will start to be implemented in the current year. These included completion of the implementation of monthly data provision by scheme employers, ensuring the Fund's website is compliant with Central Government accessibility requirements by October 2020 and moving to digital communications as standard when communicating with scheme members.

Timescale	Key Milestone	Dates
	Complete roll out of monthly employer data collection	2020/21
	Investigate potential for procuring customer relationship management software	June 2020
	Undertake website accessibility review	April 2020 to October 2020
	Formulate digital processing plan	April 2020 to October 2020
	Investigate the feasibility of using e-forms	April 2020 to December 2020

Budget required: All internal costs will be met by the existing administration budget. Anticipated costs of £10,000 for the website accessibility review will be met by an addition to the administration budget for 2020/21.

Anticipated costs of £36,000 for moving to digital communications as standard will be met by an addition to the Communications budget for 2020/21. This should produce small savings per annum by reducing printing and postage costs, but will enable the Fund to issue more targeted communications than it would otherwise be able to do so.

Other costs are anticipated throughout the project and these will be assessed and reported as part of the digital review and development plan.

CSEM2 - Scope requirements for data collection in respect of the LGPS Transitional Protections

As a result of the ruling in the McCloud/Sargent cases determining that the transitional protections in the Firefighters and Judges' pension schemes were age discriminatory, it was confirmed that this judgement will also apply to the LGPS. The remedy is awaited but it is assumed that the protections will be extended to at least cover all members in the scheme when the protections were introduced. As a result, there may be an exercise required to collect data relevant to the transitional protection.

Employers are only required to keep membership data for 7 years, it is therefore important that this issue is raised with employers to ensure that the required data is retained beyond that period. This activity relates to assessing the Fund's data requirements and developing a plan for completion. This could be a very extensive process and the Fund may or may not be able to determine which members this information is needed for.

Timescale	Key Milestone	Dates
	Develop requirements and plan for data collection activities	October 2020 to March 2021

Budget required: No costs at this time. Any costs will be identified as part of the scoping activity.

CSEM3 – Prepare for the 2022 Valuation of the Pension Fund

The Fund must be valued on a triennial basis with employer contribution rates set for the following 3 years. The next valuation is due to be carried out as at 31 March 2022 with whole Fund results to be issued in the summer of 2020 and individual employer results in the winter of 2022. New employer rates would come into effect from 1 April 2023.

Timescale	Key Milestone	Dates
	Develop requirements and plan for data collection activities	2021/22
	Undertake valuation of Fund	2022/23

Budget required: The cost of completing the 2022 valuation will be provided in the business plan at that time.

CSEM4 – Implement multiple investment strategies

With an increasing number and variety of employers participating in the Fund, more flexibility is required to meet the different funding needs of employers. This project will look to create a small number of "investment buckets" based on the Fund's current asset allocation.

Timescale	Key Milestone	Dates
	Work with the Fund's advisors to assess possible appropriate options	April 2020 to May 2020
	Present report to the Pension Fund Committee on recommended options and seek approval to consult with employers	June 2020
	Publish proposed options for consultation with employers	July 2020 to August 2020
	Agree appropriate strategy for each employer	September 2020 to December 2020
	Implement multiple investment strategies	2021/22

Budget required: All costs will be met by the existing administration budget.

Operations

		2020/21				Medium term	
Reference	**Key action/task**	**Q1**	**Q2**	**Q3**	**Q4**	**2021/22**	**2022/23**
OPS1	Resolution of unprocessed leaver records	✓	✓	✓	✓		

OPS1 – Resolution of unprocessed leaver records

The Fund has a number of unprocessed leaver records where a member has left a period of pensionable employment, is not entitled to immediate payment of pension benefits, but is entitled to either a refund of contributions, aggregation with another period of pensionable membership and/or a deferred pension award. The number of these cases has historically grown due to 1) scheme employers not notifying the Fund that members of the scheme have left their employment or 2) scheme employers providing late monthly reporting.

The roll out of i-connect in expected to significantly reduce instances of scheme employers failing to report leavers, but does increase, due to the technical design, the number of cases that may initially report as an unprocessed leaver. The volume of backlog cases, after allowing for an expected business as usual baseline of 3,000, is approximately 7,000. This number includes any backlog remaining from the project running in 2019-20. The ambition of this activity is to bring unprocessed leaver volumes down to circa 5,000 cases in total by the end of 2020/21.

Timescale	Key Milestone	Dates
	Baseline backlog cases for reporting purposes	April 2020

Aon clearance of approximately 1,250 cases	March 2021
Internal clearance of remaining cases	March 2021

Budget required: All internal costs will be met by the existing administration budget. Anticipated external costs of £300k will be met by an addition to the administration budget for 2020/21.

Investments

Reference	Key action/task	2020/21				Medium term	
		Q1	Q2	Q3	Q4	2021/22	2022/23
INV1	Implement strategic allocation to Fixed Income	✓	✓	✓	✓		
INV2	Re-tender for investment consultancy services	✓	✓				
INV3	Continue development of the asset pool	✓	✓	✓	✓	✓	✓
INV4	Tender for an independent investment adviser	✓					
INV5	Review the Fund's Responsible Investment Policy	✓	✓	✓	✓	✓	
INV6	Review the Real Estate strategy			✓	✓		
INV7	Re-tender collaboratively with ACCESS partners to procure a global custody services provider	✓	✓	✓	✓	✓	

INV1 - Implement strategic allocation to Fixed Income

This continues the work undertaken in 2019/20 looking at Multi Asset Credit managers, reviewing both managers in the asset pool and alternative best in class managers, with a view to recommending an allocation(s) for Pension Fund Committee approval and subsequent implementation.

Timescale	Key Milestone	Dates
	Agree scope and allocation(s)	May 2020
	Undertake manager selection	November 2020
	Implementation	March 2021

Budget required: All internal costs will be met by existing resources and are included within the Fund's budget. Investment management and Operator/Depository fees are included in the sub-fund costs charged to the relevant ACCESS sub-fund. Any further financial implications will be included in Pension Fund Committee reports as required.

INV2 – Re-tender for investment consultancy services

The investment consultancy contract with Mercer LLC was extended in September 2017 for three years to 30 September 2020 and requires re-tendering in 2020/21 through the National LGPS Frameworks. This will be a joint procurement with the Northamptonshire Pension Fund for a single supplier to benefit from the efficiencies of a shared service. Each Fund will have separate contractual arrangements.

Timescale	Key Milestone	Dates
	Commence re-tender process	April 2020
	Arrange selection day	June/July 2020
	Complete procurement	September 2020

Budget required: All internal costs will be met by existing resources, other costs such as the fee for the use of the National Framework, procurement support and external legal support are estimated as £20k and have been provided for within the 2020/21 budget.

INV3 – Continue development of the asset pool

The ACCESS asset pool development is a long-term project. 2020/21 will see the Fund's final liquid assets transfer into the pool as the remaining tranches of sub-funds are established in the asset pool. In parallel, ACCESS is developing a pool level solution for investing in illiquid assets, a continuation of the project that commenced during 2019/20, which is expected to continue throughout 2020/21 and beyond. Finally, officers are supporting the launch of an Emerging Markets equities sub-fund.

Timescale	Key Milestone	Dates
	Liquid Assets - Complete remaining tranches as they arise	March 2021
	Liquid Assets - Support the establishment of an Emerging Markets equities sub-fund	November 2020
	Illiquid Assets – Continue to support the illiquid assets pooling solution	2020/21 to 2021/22

Budget required: All internal costs will be met by existing resources and are included within the 2020/21 budget. A budget of £98k has been included in the 2020/21 Fund budget to cover ACCESS asset pooling costs rechargeable to the Fund, managed by the ACCESS Administration Support Unit. Investment management and Operator/Depository fees are included in the sub-fund costs charged to the relevant ACCESS sub-fund.

INV4 – Tender for an independent investment advisor

In September 2019 the Investment Sub-Committee resolved to procure an independent investment advisor for the Fund.. The procurement commenced in quarter 4 of 2019/20 to facilitate an award of contract in time for the 2020/21 financial year.

Timescale	Key Milestone	Dates
	Complete tender	May 2020

Budget required: All internal costs will be met by existing resources and the estimated cost of service provision are included within the 2020/21 budget. External legal costs and procurement costs are estimated as £10k have been provided for within the 2020/21 budget.

INV5 - Review the Fund's Responsible Investment Policy

Following significant developments in stakeholder expectation with regards to Responsible Investment (RI), the Fund will undertake training on current issues and best practice and reassess the RI beliefs of the current Pension Fund Committee and Local Pension Board. This will inform the development of the Fund's RI Policy and subsequent incorporation of this Policy into the Fund's Investment Strategy. The amended Investment Strategy will then be subject to consultation with stakeholders.

Concurrently the Fund will obtain an RI report to understand where the Fund benchmarks across the spectrum of RI matters, including environmental impact.

Timescale	Key Milestone	Dates
	Production of Responsible Investment benchmarking report	April to July 2020
	Deliver Responsible Investment Training (Information Day)	July 2020
	Undertake Responsible Investment beliefs survey	July 2020
	Develop Responsible Investment Policy	August 2020 to December 2020
	Incorporate Responsible Investment Policy into Investment Strategy	March 2021
	Consultation on revised Investment Strategy	April 2021 to June 2021

Budget required: All internal costs will be met by existing resources and are included within the 2020/21 budget. Any further financial implications will be included in Pension Fund Committee reports as required.

INV6 – Review the Real Estate Strategy

The Fund's Real Estate investments comprise a multi manager mandate managed by CBRE and a Residential Private Rented Sector Fund managed by M & G, which mainly comprise UK based assets. A periodic review of these mandates will be undertaken, considering the underlying investment funds and their performance with a focus on the appropriateness of the allocations both geographically and by sector and the relevance of the performance benchmarks and targets. This review will include consideration of possible enhancements to the property strategy, especially considering the expected benefits falling out of the pooling agenda.

Timescale	Key Milestone	Dates
	Commence the review	November 2020
	Complete the review and submit report to the Investment Sub Committee	May 2021

Budget required: All internal costs will be met by existing resources and are included within the 2020/21 budget. Any further financial implications will be included in Pension Fund Committee reports as required.

INV7 - Re-tender collaboratively with ACCESS partners to procure a global custody services provider

The Pension Fund Committee approved in principle the collective procurement of a global custodian, alongside ACCESS partners, in time to transition the Fund's custody arrangements to the chosen provider (if not the existing provider) before the expiry of the Fund's extended contract with Northern Trust. Delivery of this activity is firstly, dependent upon collaboration with fellow LGPS funds in the creation of a procurement framework and secondly with ACCESS partners in calling off the new framework. Note the Fund has extended its existing global custody arrangements until 30th September 2021.

Timescale	Key Milestone	Dates
	Work with other LGPS funds to create a framework	April 2020 to January 2021
	Work with ACCESS partners to call off a common custodian	July 2020 to June 2021
	Complete transition to the new Custodian (if required)	July 2021 to September 2021

Budget required: All internal costs will be met by existing resources and are included within the Fund's budget. The costs to be a founder on the framework (which is dependent on the number of founders) will be offset over time by other users calling off the framework. Any central ACCESS costs will be included in the ACCESS budget. Any further financial implications will be included in Pension Fund Committee reports as required.

Agenda Item no. 7

Cambridgeshire Pension Fund

Pension Fund Committee

19th March 2020

Report by: Head of Pensions

Subject:	Cambridgeshire Pension Fund - 2020-21 Communications Strategy
Purpose of the report:	To present the Cambridgeshire Pension Fund Communications Strategy for 2020-21
Recommendations:	The Committee is asked to approve the Communications Strategy
Enquiries to:	Cory Blose – Employer Services and Systems Manager cblose@northamptonshire.gov.uk

1. Background

1.1 The Local Government Pension Scheme Regulations 2013 requires the Pension Fund to prepare, maintain and publish a written statement setting out its policy concerning communications with members and scheme employers.

61. (1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with:

(a) members;
(b) representatives of members;
(c) prospective members; and
(d) scheme employers.

(2) In particular the statement must set out its policy on:

(a) the provision of information and publicity about the scheme to members, representatives of members and scheme employers;
(b) the format, frequency and method of distributing such information or publicity; and
(c) the promotion of the Scheme to prospective members and their employers.

(3) The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph (2).

1.2 The Communications Strategy forms part of that policy as required by regulation 61 above.

1.3 The Communications Strategy has been reviewed and updated and the Committee is asked to approve the Strategy. The main changes are summarised in the following section of this report and the draft document has been included as **Appendix 1**.

2. Summary of changes

2.1 The Communications Strategy has been updated with some minor changes to ensure that current membership figures, Fund objectives, stakeholders and date references are up to date.

2.2 The Fund's Digital Communication Strategy, which was approved by the Pensions Committee on 14th January 2020, has also been incorporated.

2.3 The table below highlights the key changes to the strategy:

Section	Change	Detail
2	Final paragraph of regulatory framework is new	Funds need to write to members informing them of their intention to move to digital communications and offer them the option to opt out.
2	Disclosure updated with a digital example	Using secure portals to exchange data with third parties. Highlights where to find our full privacy notice.
2	Equality expanded to cover accessibility	Provides examples of how we provide communications in different formats and details how our website is accessible.
2	New section added on digital communications	Details the rationale and benefits of moving towards digital communications.
2	New column added to table under 'Implementation of communication key objectives'	Shows the ways in which we're implementing our communication objectives digitally.
2	Three new subheadings have been added under 'Methods of communication and key messages for stakeholders'	This has been expanded to provide details on how we're using electronic notifications, skype and secure web portals as part of our communications strategy.

3. Relevant Pension Fund objectives

Promote the scheme as a valuable benefit.*(Objective no 12)*
Deliver consistent Plain English communications to stakeholders. *(Objective no 13)*
Provide scheme members with up to date information about the scheme so they can make informed decisions about their benefits. *(Objective no 14)*

4. Finance & resources implications

4.1 There are no direct finance and resource implications of approving this strategy, however, the communication activities themselves will have costs and resource application which will depend entirely on the final specification of each communication activity. Any project related costs associated with delivering these activities have been built into the business plan and ongoing communication costs are picked up in the administration budget.

4.2 A move towards electronic communications should save costs in the long run.

5. Risk management

5.1 The Fund is required by legislation to prepare, maintain and publish a written statement setting out its policy concerning communications with members and scheme employers.

5.2 The risks associated with not having a communications strategy have been captured in the Fund's risk register as detailed below.

Risk No	Risk mitigated	Residual risk
6	Information may not be provided to stakeholders as required.	Green
14	Failure to administer the scheme in line with regulations and guidance	Green

5.3 The full risk register can be found at the following link;

https://pensions.cambridgeshire.gov.uk/app/uploads/2019/10/RiskRegisterCPF.pdf

6. Communication implications

Direct communications	Not applicable
Website	The approved communications strategy will be published on our website
Internal communications	The approved communications strategy will be distributed internally to officers.

7. Legal implications

7.1 Not applicable

8 Consultation with key advisers

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

9. Alternative options considered

9.1 Not applicable

10. Background papers

10.1 Our Digital Communications Strategy was shared with the committee on the 12 December 2019.

11. Appendices

11.1 Appendix 1 – Cambridgeshire Pension Fund – 2020-21 Communications Strategy.

Checklist of Key Approvals	
Is this decision included in the Business Plan?	
Will further decisions be required? If so, please outline the timetable here	
Is this report proposing an amendment to the budget and/or policy framework?	
Has this report been cleared by Section 151 Officer?	Sarah Heywood – 27th February 2020
Has this report been cleared by Head of Pensions?	Mark Whitby – 14th February 2020
Has the Chairman of the Pension Fund Committee been consulted?	Councillor Rogers – 4th March 2020
Has this report been cleared by Legal Services?	Fiona McMillan – 25th February 2020

Cambridgeshire
Pension Fund

Cambridgeshire Pension Fund

Communications Strategy 2020

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LGSS

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1. Introduction

This is the communications strategy for the Cambridgeshire Local Government Pension Fund managed by Cambridgeshire County Council (the administering authority). The administration of the fund is carried out by the LGSS Pensions Service.

The fund has around 178 employers with contributing members and a total membership of over 75,000 scheme members. These members are split into the following categories and with the following approximate numbers of members in each category:

Category	Cambridgeshire Pension Fund
Active scheme members	28,976
Deferred scheme members	27,659
Pensioner members	18,775

This document outlines our strategic approach to communications and is effective from 1 April 2020. It also provides detail of how we're moving towards more digital based communications and how we plan to use technology to enhance our service and reduce costs where appropriate.

2. Communication strategy

Regulatory framework

This document has been produced in accordance with regulation 61 of the Local Government Pension Scheme regulations 2013. The regulation requires administering authorities to:

- Prepare, maintain and publish a written statement setting out their policy concerning communications with:
    - scheme members (active, deferred, retired and dependant)
    - representatives of scheme members
    - prospective scheme members
    - scheme employers
- Set out their policy on:
    - the provision of information and publicity about the scheme
    - the format, frequency and method of distributing such information or publicity
    - the promotion of the scheme to prospective scheme members and their employers.
- Keep the statement under review and make such revisions as are appropriate following a material change in the policy on any of the matters included. If revisions are made, a revised statement must be published.

The regulations also state that, before ceasing postal communications, funds are required to write to members by post on multiple occasions informing them of their intention to move to digital communications as standard and offering them the option of opting out of receiving digital communications.

Key objectives

The communications of Cambridgeshire Pension Fund will be delivered in line with the following objectives as outlined in our business plan:

- Objective 12. Promote the scheme as a valuable benefit
- Objective 13. Deliver consistent plain English communications to stakeholders
- Objective 14. Provide scheme members with up to date information about the scheme so they can make informed decisions about their benefits.

Measurements are in place to determine if these objectives are being met – see 'Implementation of Communication Key Objectives'.

It also helps to deliver these further objectives:

- Objective 2. Manage the fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers.
- Objective 10. Administer the fund in a professional and efficient manner, utilising technological solutions and collaboration.

Stakeholders of the fund

There are several categories of stakeholder as detailed below:

- Active scheme members
- Prospective scheme members
- Deferred scheme members
- Retired and dependant scheme members
- Scheme employers
- Fund staff
- Pension fund committee
- Cambridgeshire tax payers
- Members of the public
- Scheme advisory board
- Local pension board
- External bodies:
    - Trades Unions
    - Her Majesty's Revenue & Customs (HMRC)
    - Ministry of Housing, Communities and Local Government (MHCLG)
    - The Pensions Regulator (TPR)
    - National Fraud Initiative (NFI)
    - Audit Commission
    - HM Treasury
    - Department of Work and Pensions (DWP)

Brand identity

The fund recognises that our visual identification is one of our most powerful assets. It tells people who we are and influences how they remember and relate to us. Our branding increases our reputation whilst uniting us visually. When branding our communications, it is important that:

- We have an individual fund identity that is distinct from the County Council/LGSS identities.
- The look and feel of a communication should be identical where possible, but with separate fund branding – e.g. newsletters should be identical where possible but would clearly display separate fund branding on the front cover and only refer to the relevant fund throughout the text.
- If it is unreasonable to produce different materials (e.g. cost difference, logistical challenges, etc) a joint brand is to be considered.
- The pension fund board will be required to sign off high-level branding decisions.
- The brand will need to be adaptable to other funds that may become part of LGSS in the future

Confidentiality

The fund is registered under the Data Protection Act 1998 as part of Cambridgeshire County Council. Information will be shared between Cambridgeshire County Council and Northamptonshire County Council for the purposes of pensions' administration. Information regarding scheme members and organisations is treated with respect by all our staff.

Disclosure

The Fund may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund, for example, the Fund's notification providers. When exchanging data with third parties we use secure portals. Our full privacy notice is published on our website:

- pensions.cambridgeshire.gov.uk

by clicking on Governance and then Key Documents.

Cyber security

We take the security of personal information very seriously. Most pension records are held electronically, and many pension scheme members can now access their own pension records online. The Data Protection Act 2018, along with guidance from The Pensions Regulator, sets out rules that pension funds must follow to make sure that they have good cyber security (protection for computers and communications networks).

We work closely with our suppliers to make sure the systems that hold personal information are protected. We have procedures in place to check that processes and people are kept up to date. We also regularly and thoroughly test systems to make sure that they stay secure and that the risk of a security incident is reduced. We make sure that our suppliers have certificates which prove they meet the expected cyber-security standards and that the certificates are kept up to date.

Equality and Accessibility

We are committed to ensuring our communications are accessible to everyone. We give all members the option to opt out of electronic communications or to receive them in the best format for them eg braille, audio CD, alternative languages or other reasonable adjustments. We also make sure that our communications are easy to understand through use of Plain English accreditation and readability scores.

A scheme member can opt out of electronic communications, at any time, by informing us in writing or by email that they wish to do so.

In addition; for web based communications:

- Our website navigation works in a consistent way throughout our website.
- We use a standard web font to make it easy to read.
- Any images we use also include a text description to explain what they are, unless they're only descriptive.
- We never use colour as the only way to convey information.
- We write our links so that they make sense when screen readers analyse them.

Freedom of information

This communications strategy identifies the classes of information that the fund publishes or intends to publish in compliance with the Freedom of Information Act. Anyone has a right under the Freedom of Information Act to request any information held by the fund which is not already made available. Requests should be made in writing to the head of pensions at the address at the end of this document.

A fee may be charged and the funds reserves the right to refuse a request if the cost of providing the information is disproportionately high; if following prompting the request is unclear; and when the requests are vexatious or repeated.

Digital communications

In an increasingly digital world, it's important for the fund to use the latest technology to adopt new ways of communicating with our stakeholders and ensure:

- stakeholders have a better experience when interacting with the fund
- fund officers have the skills, knowledge and tools available to communicate with stakeholders in the most secure and efficient ways possible
- the fund can deliver on its communications objectives as effectively as possible by using the communication channels most likely to get through to stakeholders
- the cost and time spent communicating with stakeholders is reduced
- communications are secure by default.

This communications strategy provides information about how the fund will use digital communication technologies to implement the communications strategy and meet its communication objectives.

Digital communications offer many benefits over paper:

- environmentally friendly by being paper-free with no printing or physical distribution needed
- quicker, more reliable, more secure and less costly than postal communication
- information is easily available to stakeholders whenever they need it
- documents are stored digitally in one place and available at all times eliminating the need to print and store documents
- easier to engage in bulk communications with stakeholders
- increases engagement by mirroring the way that people communicate at home

Implementation of communication key objectives

This table sets out the implementation of the delivery of the fund's key communication objectives.

The agreed objectives with measures for success that form the communication strategy are:

Objective	Digital implementation	Measures of success	Review process

Promote the scheme as a valuable benefit	• Emails (through 3rd party bulk notification systems)
	• Texts (through 3rd party bulk notification systems)
	• Electronic newsletters
	• Self-service portals
	• Digital materials provided to employers for publication via:
	  ○ Intranet communications
	  ○ Website content
	  ○ Video walls (where available)
	  ○ Meeting room pads (where available)
	  ○ Blogs
		• Reduction in number of members
		• opting out of the scheme
		• Positive feedback from stakeholders
		• Communications promote the scheme as a valuable benefit in a way that it understood by the audience
			• Monitor opt our rates annually
			• Surveys and polls on websites
			• Review scheme communications for effectiveness
			• Online rating of document usefulness
			• Obtain Plain English Accreditation
			• Bulk email engagement ratings (% opened & clicked links)

Provide scheme members with up to date information about the scheme so they can make informed decisions about their benefits.	• Emails (through 3rd party bulk notification systems) • Texts (through 3rd party bulk notification systems) • Electronic newsletters • Website content • Self-service portals	• Communication includes information and changes to the scheme that supports all stakeholder understanding • Communication is delivered via the most appropriate media to the audience with a focus on electronic communication where possible	• Surveys and polls (on websites and by email/post). Focus groups • Surveys and polls on websites. Focus groups. Monitor hits on website. Record and review method of communication used. Use appropriate media to convey relevant messages • Bulk email engagement ratings (% opened & clicked links)

		• Effective promotion of new media or change of processes to all stakeholders	• Surveys and polls on websites. Focus groups. Monitor incoming telephone call and email volumes • Bulk email engagement ratings (% opened & clicked links)

Deliver consistent plain English communications to stakeholders	• Emails (through 3rd party bulk notification systems)
	• Texts (through 3rd party bulk notification systems)
	• Electronic newsletters
	• Self-service portals
	• Digital materials provided to employers for publication via:
	  ○ Intranet communications
	  ○ Website content
	  ○ Video walls (where available)
	  ○ Meeting room pads (where available)
	  ○ Blogs
		• Effective and timely communications to be sent to all stakeholders in clear language
		• that is understood and relevant
		
		• Feedback from all audiences on the quality and language used in the communication sent
		
		• Feedback on the simplicity, relevance and impact of the communication sent
			• Monitor enquiries from stakeholders following key events and communications. (Reduced enquiries mean effective delivery)
			• Bulk email engagement ratings (% opened & clicked links)
			
			  • Surveys and polls on websites. Focus groups.
			
			• Surveys and polls on websites. Focus groups.
			
			• Submit all standard communications for plain English assessment with the aim of achieving plain English accreditation.

Methods of communication and key messages/objectives for stakeholders

The fund aims to use the most appropriate method of communication when dealing with stakeholders. This may involve more than one communication method.

Whilst the fund aims to use the most appropriate communication medium for the audience receiving the information, we hope that our website will be the first port of call for all stakeholders where appropriate. The fund is committed to using technology to enhance our service and reduce costs, where appropriate, and have switched to electronic communication as our primary means of contact for most stakeholders. We will continue to explore and develop further use of electronic communications through our website, emails, webinars and self-service.

Self-service

All members of the fund have been offered access to a personal online pension account. This gives members controlled access to their own details, allowing them to review and update their personal information, view information about their pension benefits and carry out benefit projection calculations.

The fund aims to move to a position where most communications are sent to members through their online pension account, with electronic notifications used to inform them that these are available online, replacing postal communications.

Both active and deferred members already receive their annual benefit statements through their online account each year and it is also planned to provide payslips and P60s to pensioner members via their online account.

Electronic notifications

The fund uses bulk notification systems to manage and deliver bulk communication to both members and employers. The fund will use these systems to manage communication campaigns, by email and text message, to provide important information and increase member and employer engagement.

Emails will be used for promotional campaigns and important scheme updates to both members and employers and to notify members that documents and other communications are available through their online pension account. Text messaging will be used solely to notify members and employers that documents and other communications are available through their online pension accounts.

These communication methods will provide a better, more secure experience for both members and employers, increase efficiency and reduce the cost and time of communicating with these particular stakeholders.

We will measure the success of these communications using reporting tools within the notification systems which provides us with valuable information on how many:

- emails were delivered
- emails were opened
- links were clicked on

This enables us to determine how engaging a communication is and to make changes or send follow-up communications where appropriate.

A scheme member can opt out of electronic communications, at any time, by informing us in writing or by email that they wish to do so.

Skype

Skype software allows users to make calls, video calls or engage in chat over the Internet. This application is used widely by the Fund to:

- communicate with team members working remotely
- deliver training webinars to employers
- have conference calls with employers, other pension Funds and other third parties.

The use of Skype enables the Fund to work smarter by eliminating travel time, reducing costs and increasing capacity.

Secure web portals

The fund accepts and shares data with employers and other third parties securely through the use of web based data portals. These include:

- **i-connect –** i-connect facilitates the monthly collection of data from employers either through uploading an i-connect extract through the portal, or direct input via a web-form based within the portal itself. This will improve the experience for employers by providing a streamlined approach to providing data. It also improves the experience for members who will have access to more up to date information through their online account.
- **Tell Us Once** – this site shares registered death information by local authorities on behalf of the Department for Work and Pensions (DWP). The fund receives and provides data for the use of Tell Us Once.
- **National Insurance database** – this enables the Fund to check whether members are entitled to refunds. The fund receives and provides data for use of the database.
- **The National Fraud Initiative (NFI)** this portal helps us to match electronic data within and between public and private sector bodies to prevent and detect fraud.

The table overleaf shows the our main methods of communicating with the different stakeholder groups, other than the 'usual' day to day communications, plus the key messages and objectives we hope to achieve:

Stakeholder	Communication	Key message/objective
Active scheme members	Annual newsletter (electronic) Annual benefit statements (electronic) Calculations and costings (e.g. estimates) Short guide to LGPS Full guide to LGPS Website (in particular 'Latest news' page) Member self service External training sessions as requested by employer Roadshows Direct mailings	Key messages: • Your pension is a valuable benefit • You need to make sure you're saving enough for retirement Objectives: • To improve understanding of how the LGPS works • To inform scheme members of their rights and benefits • For queries and complaints to be reduced • To make pensions information more readily available
Scheme employers	Quarterly newsletters Pension bulletins Ad hoc email alerts Biannual forums Website (in particular 'Latest news' page) Webinars/workshops	Key messages: • You need to be aware of your responsibilities regarding the LGPS • The fund is a valuable benefit for scheme members and is a good tool for retention of staff Objectives:

	Bespoke/targeted ad hoc training sessions Induction packs Fact sheets	• To increase understanding of how the fund works and the effects on scheme members of any legislation changes • To improve relationships • Continue to improve the accuracy of data being provided to us • To make pensions information more readily available
Prospective scheme members **And Opt-Outs**	Information on website Scheme information leaflets Promotional material distributed through employers	Key messages: • The pension benefits are a valuable part of your reward package • The LGPS is still one of the best pension arrangements available Objectives: • To improve take up of the LGPS • To decrease opt out rate and increase understanding of contribution flexibility i.e. 50/50 option • To increase understanding of how the scheme works and what benefits are provided • To make pensions information more readily available
Deferred scheme members	Annual benefit statements (electronic) Annual newsletter (electronic) Calculations and costings (e.g. estimates) Scheme information leaflets	Key messages: • It is important to keep in touch with the LGSS Pensions Service e.g. provide us with address changes • The LGPS is still a valuable part of your retirement package Objective:

	Retirement packs Website	• To improve understanding of how the LGPS works • To make pensions information more readily available
Retired/dependant scheme members	Annual newsletter Payslips (when criteria is met) P60 Lifetime allowance Calculations and costings (e.g. estimates)	Key messages: • It is important to keep in touch with the LGSS Pensions Service e.g. provide us with address changes • The LGPS is still a valuable part of your retirement package Objectives: • To improve understanding of how the LGPS works • To make pensions information more readily available
Fund staff	Monthly service meetings Team meetings Ad hoc meetings Consultations 1:1 / Appraisals Training & development	Objectives: • To ensure staff are kept up to date with important information regarding the service, the employing authority and the wider world of pensions as a whole • For staff to feel a fully integrated member of the team • For management to feedback to staff regarding their individual progress • To give staff a chance to feedback their views and suggestions
Pension Fund Committee	Committee papers Presentations Consultations Agendas	Objectives: • To update on the implementation of a policy • To monitor success against the agreed measures
	Minutes	

External authorities • **Trade Unions** • **Her Majesty's Revenue & Customs (HMRC)** • **Ministry of Housing, Communities and Local Government (MHCLG)** • **The Pensions Regulator (TPR)** • **National Fraud Initiative (NFI)** • **Audit Commission** • **HM Treasury** • **Department of Work and Pensions (DWP)**	Response to enquiries and consultations. Response to changes in legislation.	Objectives: • To respond to enquiries/statutory requirements.

Communications Plan

Our communications plan can be found on our website:

- pensions.cambridgeshire.gov.uk

by clicking on Governance and then Key Documents. This is derived from our communications strategy and updated annually for approval by committee.

3. Further information

If you have any queries about this communications strategy please get in touch:

LGSS Pensions Service
One Angel Square
Angel Street
Northampton
NN1 1ED

01604 366537

pensions@northamptonshire.gov.uk

http://pensions.cambridgeshire.gov.uk

Agenda Item No: 8

Cambridgeshire Pension Fund

Pension Fund Committee

19th March 2020

Report by: Head of Pensions

Subject:	Governance and Compliance Report
Purpose of the Report:	To provide the Pension Fund Committee with information on the activities of : 1) The Scheme Advisory Board (section 2) 2) Local pension issues (section 3) 3) National pension issues and (section 4) 4) Skills and knowledge opportunities (section 5).
Recommendations:	That the Pension Fund Committee notes the content of the report.
Enquiries to:	Jo Walton – Governance and Regulations Manager, LGSS Pensions E-mail: jwalton@northamptonshire.gov.uk

1. Background

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

2. The Scheme Advisory Board

2.1 Guidance on Responsible Investment Guidance

2.1.1 On 22nd November 2019 the Scheme Advisory Board issued the first part of guidance on responsible investment which was open for consultation until 11th January 2020, which can be found in **appendix 2**. The aim of the first part of the guidance is to assist and help investment decision makers to identify the parameters of operation within scheme regulations, statutory guidance, fiduciary duty and the general public law and the scope for integrating ESG (environmental, social and governance) policies as part of investment strategy statements.

2.1.2 The Scheme Advisory Board has made it clear that there is no intention to prescribe the extent to which ESG policies must be adopted as this must remain a matter for local consideration and agreement in accordance with Ministry of Housing, Local Government and Communities' (MHCLG) statutory guidance.

2.1.3 The Scheme Advisory Board has commenced work on drafting part two of the guidance of which the aim is to provide investment decision makers with a toolkit they can use to further integrate ESG policies as part of their investment strategy. It is anticipated that the working draft of the part two guidance will be considered by the Scheme Advisory Board at the meeting of 3rd February 2020.

2.1.4 ACCESS funds collectively sought legal advice on the Draft Guidance which was fed into a joint response to the Scheme Advisory Board which can be found in **private appendix 3.**

3. Transfer of AVC policies from Equitable Life to Utmost Life and Pensions

3.1 Following the High Court hearings on 22 and 25 November 2019, court approval to transfer the business of Equitable Life to Utmost Life and Pensions was received on 4 December 2019 effective 1 January 2020.

3.2 Uplifts have now been applied to with-profits policies and subsequently converted to unit-linked policies. Members with these AVC policies have been written to confirming the transfer has taken place and have been given details of the alternative investment strategies other than the default investment option selected by the Fund.

4. Pension Schemes Bill

4.1 On 19 December, in the Queen's Speech, it was announced that the Pension Schemes Bill will be reintroduced. The Bill will create a legislative framework for the introduction of pension dashboards, to strengthen the Pensions Regulator's powers to take action against employers and introduce regulations covering the right to a pension transfer.

5. Skills and knowledge opportunities – training events

5.1 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 Pension Fund Committee to maintain the necessary skills and knowledge to undertake their role effectively.

5.2 In order to facilitate the acquisition of skills and knowledge for members of the Pension Committee, **Appendix 1** lists the main events that are deemed useful and appropriate.

5.3 Requests to attend events will be facilitated by the Governance Team. It may be necessary to restrict numbers of attendees on some courses through reasons of cost.

6. Relevant Pension Fund Objectives

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

7. Risk Management

7.1 The Pension Fund Committee are required to have the appropriate skills and knowledge to effectively carry out their duties. This report ensures that the Pension Fund Committee is up to date with:

- New or amending legislation affecting the LGPS;
- Relevant activities of the LGPS Scheme Advisory Board and the Pensions Regulator that concern the governance of the (LGPS) on a national and local basis; and
- Skills and knowledge opportunities.

7.2 The risks associated with the Pension Fund Committee not having the required level of knowledge and understanding have been captured in the Fund's risk register as detailed below.

Risk No	Risk	Residual risk rating
7	Those charged with governance of the Fund and Scheme are unable to fulfil their responsibilities effectively.	Green
13	Failure to administer the scheme in line with regulations and guidance.	Green
16	Failure to provide relevant information to the Pension Fund Committee/Pension Board to enable informed decision making.	Green

7.3 The Fund's risk register can be found on the LGSS Pensions website at the following link: https://pensions.cambridgeshire.gov.uk/app/uploads/2019/10/RiskRegisterCPF.pdf

8. Finance & Resources Implications

8.1 There are no financial or resource implications connected to the contents of this report is for information only.

9. 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.

10. Legal Implications

10.1 There are no legal implications connected to the contents of this report as this report is for information only.

11. Consultation with Key Advisers

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

12. Alternative Options Considered

12.1 There are no alternative options to be considered.

13. Background Papers

13.1 None.

14. Appendices

14.1 Appendix 1 – Internal/external training and events 2020-21

14.2 Appendix 2 – Scheme Advisory Board draft responsible investment guidance

14.3 **Private Appendix 3** – ACCESS response to Scheme Advisory Board draft responsible guidance

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

Appendix 1 - Internal/External training and events schedule 2020/21

Date	Event	Training Credits	Location	Host/Website
2 April 2020	ACESS Investors Day	2	London	Details of the event to be confirmed.
18-20 May 2020	PLSA Local Authority Conference	4	Gloucestershire	**Pensions & Lifetime Saving Association** https://www.plsa.co.uk/Events-Local-Authority-Conference At the PLSA Local Authority Conference 2020 you'll learn how to manage them, from policymakers, from your peers and from expert commentators. A varied programme of sessions and networking opportunities in a residential location provide the ideal atmosphere for 400 local authority officers, councillors, members of Local Pension Boards, admitted bodies and their advisers.
19 June 2020	Schroders Trustee Training	2	Birmingham	**Schroders** https://www.schrodersevents.co.uk/schroders/frontend/reg/tOtherPage.csp?pageID=670235&eventID=1825&msID=16786&pd=170451 The programme is designed to equip trustees with knowledge on scheme governance, alongside the planning and implementation of scheme investment strategy for both DB and DC schemes.
24 June 2020	Local Pension Boards' Annual Event	2	London	**Barnett Waddingham** lgps-local-pension-boards-member-annual-full-day-event-20200624-london An opportunity for members of Local Boards to share experiences, to receive updates, to enhance their knowledge, and to discuss the key issues facing them and the LGPS in a professional but informal environment. As well as presentations, there are interactive sessions to facilitate discussion and networking as well as plenty of networking time during the refreshment breaks.
6-8 July 2020	LAPF Strategic Investment Forum	4	Hertfordshire	**DG Publishing** https://www.dgpublishing.com/lapf-strategic-investment-forum-july/ The LAPF Strategic Investment Forum is the leading investment conference and dinner for senior LGPS fund investment officers and their advisers. It is organised by DG Publishing and attracts high quality officers in strong numbers.
TBC	LGC Pension Fund Symposium	4	TBC	**LGC** Details of the event to be confirmed.

Date	Event	Training Credits	Location	Host/Website
15 July 2020	Pensions Information Day	2	TBC	**LGSS Pensions** Responsible Investment
TBC	LGC Investment Summit	4	Leeds	**LGC** https://investmentsummit.lgcplus.com/ To register an interest for 2020.
TBC	Introduction to the LGPS	2	London	Aimed at new or inexperienced officers and elected members this course, based on the CIPFA knowledge and skills framework.
9 October 2020	Schroders Trustee Training	2	London	**Schroders** https://www.schrodersevents.co.uk/schroders/frontend/reg/tOtherPage.csp?pageID=670247&eventID=1825&msID=16786&pd=170451&CSPCHD=000001000000NKkgRxGd7EYncAqg4UgIQSgWr8S8ld6yBehBE8 The programme is designed to equip trustees with knowledge on scheme governance, alongside the planning and implementation of scheme investment strategy for both DB and DC schemes.
14-16 October 2020	PLSA Annual Conference	4	Liverpool	**Pensions & Lifetime Saving Association** https://www.plsa.co.uk/Annual-conference From trustees, pension managers and finance directors who control assets worth billions of pounds to HR specialists responsible for workforces of thousands of people, the delegates are made up of the most important pension decision makers in the country. The conference includes keynote speeches, streamed focus sessions, specialist sessions, a Trustee Learning Zone, exhibition and a conference drinks reception.
4 November 2020	Pensions Information Day	2	TBC	**LGSS Pensions** Details of the event to be confirmed.
2-4 December 2020	LAPFF Annual Conference	4	TBC	**Local Authority Pension Fund Forum** http://www.lapfforum.org/events/lapff-conference/ Details of the event to be confirmed.
10 February 2020	Pensions Information Day	2	TBC	**LGSS Pensions** Details of the event to be confirmed.

Responsible Investment in the Local Government Pension Scheme

A Guide to the duties of Investment Decision Makers in LGPS Administering authorities

Introduction and purpose

1. This guidance has been prepared by the Local Government Scheme Advisory Board (SAB) in England and Wales to assist administering authorities and in particular those individuals delegated to make investment decisions on behalf of the authority. It sets out their duties with regard to developing and maintaining responsible investment (RI) policies according to the relevant scheme regulations, statutory guidance and public law and references developments to private sector pensions legislation In this area.

2. The guidance is further to and should be read in conjunction with the Ministry of Housing, Communities and Local Government's (MHCLG) revised *Guidance on Preparing and Maintaining an Investment Strategy Statement* published in July 2017.

3. This guidance is based on the extant LGPS investment regulations 2016 and associated statutory guidance together with our understanding of related legislation. It does not anticipate or include any work undertaken by the SAB in conjunction with scheme stakeholders to explore the scope for recommending changes to MHCLG to amend the scheme's RI requirements to reflect recent changes made to the regulatory framework applying to schemes based on trust law. If changes to regulations and statutory guidance are made, this guidance will be updated to reflect them and will then be regularly reviewed to ensure that it remains timely and relevant

4. This guidance is intended to be permissive in that it does not seek to provide operational direction but rather seeks to clarify the parameters within which decisions can be made and policies formulated with regard to the integration of ESG considerations into the overall investment strategy of the authority. It is recognised that there will be variation between different administering authorities in terms of their approach to RI and no one guidance document could successfully cover all local situations..

5. The guidance is intended to assist investment decision makers, irrespective of their investment beliefs. In doing so it is recognised that different administering authorities will be at different stages of the RI journey as shown in the "Spectrum of Capital" below :-

The spectrum of capital

* This integration of sustainable practices across an organisation's core business may also be termed Corporate Social Responsibility (CSR), although many organisations have a separate (often philanthropic) CSR 'carve-out' that is distinct from their approach to sustainability

Source: G8 Social Impact Investment Taskforce, Asset Allocation Working Group (2014)

6. The guidance is intended to empower and equip administering authorities and those delegated to make investment decisions on behalf of the authority to meet their obligations in line with the Regulations and statutory guidance. It also sets out our understanding of the relevant fiduciary, general public law and code of conduct duties when making investment decisions based on extant case law and QC opinion.

7. The guidance is also relevant to local pension boards in the context of their statutory duty to assist their administering authority in complying with the policies set out in their Investment Strategy Statement (ISS) and that the ISS has been completed in accordance with MHCLG's statutory guidance on preparing and maintaining an ISS.

8. The guidance will be formally reviewed by the SAB, at least on an annual basis, after consultation with the Cross Pool Collaboration Group Responsible Investment Subcommittee and other key stakeholders.

Part 1 – Definitions

1A. What is Responsible Investment?

9. According to the PRI (Principles for Responsible Investment) established by the United Nations in 2006, responsible investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long term returns.

There are six defined "principles" that signatories to PRI agree to:-

- Incorporate ESG issues into investment analysis and decision-making processes;
- Be active owners and incorporate ESG issues into ownership policies and practices
- Seek appropriate disclosure on ESG issues by the entities in which they invest
- Promote acceptance and implementation of the Principles within the investment industry
- Work together to enhance effectiveness in implementing the Principles
- Report on activities and progress towards implementing the Principles

Further details about PRI's approach to responsible investment can be found at https://www.unpri.org/pri/what-is-responsible-investment

1B. What are ESG factors?

10**.** These are many and varied but according to PRI these typically include:-

Environmental

- Climate change, including physical risk and transition risk
- Resource depletion, including water
- Waste and pollution
- Deforestation

Social

- Working conditions, including slavery and child labour
- Local communities, including indigenous communities
- Conflict
- Health and safety
- Employee relations and diversity

Governance

- Executive pay
- Bribery and corruption
- Political lobbying and donations
- Board diversity and structure
- Tax strategy

11. More examples of ESG factors are given at Appendix 1.

1C. What about climate risk?

12. Authorities will be aware of the growing concerns around the financial risks associated with climate change with particular emphasis both on the risks that are associated with climate change on the sustainability of companies in which pension funds invest and the role of pension funds could play in achieving a net zero carbon economy. In response to such concerns DWP have announced that from October 2019, private sector pension trustees will be required as part of their Statement of Investment Principles to publish their policy on ESG considerations, including the financially material risks associated with climate change.

1D. Financially Material Factors

13. Although statutory guidance refers to financial and non-financial factors it does not define them. Therefore, the definitions in this section are drawn from the private sector pensions world.

14. In their 2014 report, the Law Commission made clear that private sector pension trustees' fiduciary duty is to take account of financially material considerations, whatever their source. Where ESG considerations are financially materially, decision makers should take account of them. The Law Commission went on to say that this applies in exactly the same way as other risks in pension scheme investment, for example, interest rate risk, liquidity risk, market risk, political and counter party risk.

15. More recently, the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 (the 2018 Regulations) that will apply to private sector pension trustees with effect from October 2019 defines financially material considerations as including, but not limited to, environmental, social and governance considerations, including climate change.

1E. Non-Financial Factors

16. Investment decisions will often have a mixture of motivations and therefore a clear non-financial motivation may be difficult to identify. However, for the purpose of this guidance non-financial factors are those which influence investment decisions and are primarily motivated by considerations other than financial. This is taken to mean any decision to disinvest or invest for which the primary motivation excludes consideration of the potential financial outcome. For example, withdrawing from tobacco investments purely on the basis of public health considerations or investing in a local social enterprise purely to achieve societal benefits.

17. Assessing whether a non-financial decision would have a significant financial detriment to the fund will always be a question of fact and degree. Divesting from a sector which makes up of 15% of a fund is likely to represent financial detriment whereas a portfolio of 3% may not.

18. According to the Law Commission, when making an investment decision based on a non-financial consideration, private sector trustees have a duty to ensure that the decision would not involve a risk of significant financial detriment to the fund and that it would be reasonable to assume that the scheme members agree with that decision. A similar provision may be found in LGPS statutory guidance.

1F Asset Stewardship

19. The 2012 UK Stewardship Code defines stewardship as the promotion of long term success of companies in such a way that the ultimate providers of capital also prosper. Effective stewardship benefits companies, investors and the economy as a whole. The UK Stewardship Code is recognised as an effective standard for asset owners and asset managers to comply with and demonstrate best practice in discharging their stewardship responsibilities

Part 2. - Statutory Duties and Responsibilities of administering authorities

20. The duties of administering authorities are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Regulations).

21. Administering authorities are also required by the Regulations to comply with statutory guidance published by MHCLG in July 2017 in preparing and maintaining their Investment Strategy Statement (ISS). Under that guidance, administering authorities are required to set out their policies in a number of key areas including responsible investment, risk, pooling, diversification and asset allocation.

2A – The Regulations

22. Regulation 7 of the Regulations requires that

(8) The authority must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund.

The Regulations do not define 'investment' beyond clarifying in Regulation 3 a number of items that are included in that term.

(a) a contract entered into in the course of dealing in financial futures, traded options or derivatives;

(b) a contribution to a limited partnership in an unquoted securities investment;

(c) a contract of insurance if it is a contract of a relevant class, and is entered into with a person within paragraph (2) for whom entering into the contract constitutes the carrying on of a regulated activity within the meaning of section 22 of the 2000 Act(7).

Accordingly, investment is assumed to have the commonly understood meaning as set out in the Oxford English Dictionary:

The use of money or capital to purchase an asset or assets (such as property, stocks, bonds, etc.), in the expectation of earning income or profit over time.

23. The Regulations contains the following provisions that relate to RI and which requires policies to be established in accordance with statutory guidance:

"7.— (1) An authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

(2) The authority's investment strategy must include— (a) a requirement to invest fund money in a wide variety of investments;

(b) the authority's assessment of the suitability of particular investments and types of investments;

(c) the authority's approach to risk, including the ways in which risks are to be assessed and managed;

(d) the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;

(e) the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

(f) the authority's policy on the exercise of the rights (including voting rights) attaching to investments.

2B – Statutory Guidance

24. An LGPS administering authority with the assistance of their local pension board, will be principally concerned with ensuring that it meets the legislative requirements of the Regulations (detailed above) and associated statutory guidance published.

25. For the avoidance of doubt under the Regulations, as detailed above, an authority must, after taking proper advice, formulate an investment strategy which <u>must</u> be in accordance with guidance issued by the Secretary of State. It should be noted that this is a sterner test than "have regard to" on which most statutory guidance is based. In the matter of responsible investment, an authority must publish its policies on how ESG considerations are taken into account in the selection, non-selection and realisation of investments and the exercise of the rights, including the voting rights, attaching to investments.

26. To accompany the Regulations, MHCLG published revised statutory guidance in July 2017. The extant statutory guidance entitled 'Preparing and maintaining an investment strategy statement' expands upon earlier guidance, specifically on the regulations that relate to RI.

27. The guidance states that administering authorities will be expected to make their investment decisions within a 'prudential framework' with less central prescription. It goes on to describe a prudent approach to investment as a duty to discharge statutory responsibilities with care, skill, prudence and diligence.

28. In establishing RI policies, the statutory guidance differentiates between things that an authority must do, should do, and may do. The matters shown below that must be done under statutory guidance represents the minimum statutory requirement that authorities must comply with. Where the statutory guidance points to things that should be done, there is a clear expectation that where appropriate, these ought to be done unless the reasons for not doing so can be objectively justified.

2C - An administering authority must;

- Take proper advice when formulating their investment strategy
- Explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments

- Must give reasons for not adopting a policy of exercising rights, including voting rights, attaching to investments

2D - An administering authority should;

- Explain the extent to which the views of their local pension board and other interested parties whom they consider may have an interest will be taken into account when making an investment decision based on non-financial factors
- Explain their approach to social investments
- Where appropriate, explain their policy on stewardship with reference to the Stewardship Code
- Strongly encourage their fund managers, if any, to vote their company shares in line with their policy under regulation 7(2)(f) (of the 2016 Regulations)
- Publish a report of voting activity as part of their pension fund annual report under Regulation 57 of the 2013 Regulations

2E -An administering authority may;

- Wish to appoint independently a voting agent to exercise their proxy voting and monitor the voting activity of the managers, if any, and for reports on voting activity to be submitted annually to the administering authority"

2F Pooling guidance and RI

31. In 'Investment Reform Criteria and Guidance' published by DCLG in November 2015, the section 'strong governance and decision making' (page 6) requires that authorities should;

- Explain how they will act as responsible long term investors through their pool including how the pool will determine and enact stewardship responsibilities

32. The section 'Responsible investment and effective stewardship' (page 17) include provisions that authorities;

- Will want to consider the findings of the Kay review including what governance procedures and mechanisms will be needed to facilitate long term responsible investing and stewardship through the pool
- Will need to determine how their individual investment policies will be reflected in the pool
- Should consider how pooling could facilitate implementation of their ESG policy, for example by sharing best practice, collaborating on social investments to reduce costs or diversify risk, or using scale to improve capability in this area

33. Further guidance on pooling including provisions on responsible investment have been published as a first draft but are subject to further drafting and consultation and therefore have not been included at this time.

Part 3 - Non-statutory duties of investment decision makers

34. Those tasked with making investment decisions on behalf of the administering authority will, in the main, be elected members of that authority. As well as acting within the statutory duties as set out above, decision makers must also act in accordance with a range of non-statutory duties deriving from public law.

35. Unlike private sector trustee who have a clear fiduciary duty to act in the best interests of scheme beneficiaries the position of LGPS investment decision makers is not so easily defined.

3A Duty to local tax payers

36. As set out in CIPFA guidance 'Role of the CFO in the LGPS' there is a fiduciary duty owed by elected members to local tax payers which stems from Roberts v Hopwood (1925). This case upheld sanctions against elected members who had chosen to raise the minimum wage for their lowest paid employees (women) and in doing so had been found to have not taken sufficient account of the interests of local tax payers. In his judgement Lord Atkinson defined the failure of the elected members in their duty as;

'..they put aside all these aids to the ascertainment of what was just and reasonable remuneration to give for the services rendered to them, and allowed themselves to be guided in preference by some eccentric principles of socialistic philanthropy, or by a feminist ambition to secure equality of the sexes in the matter of wages in the world of labour.'

He went on to state that;

'A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than the members of that body, owes a duty to those latter persons to conduct that administration in a fairly businesslike manner with reasonable care, skill and caution, and a due and alert regard to the interests of those contributors who are not members of the body. Towards these latter persons the body stands somewhat in the position of trustees or managers of the property of others.'

And that;

Acts done 'in flagrant violation' of the duty should be held to have been done 'contrary to law' within the meaning of the governing statute.

37. Such a duty was also referenced in Bromley v GLC 1981 as the fiduciary duty owed to all rate payers and council tax payers.

38. CIPFA guidance also references a duty to local taxpayers applying to officers and cites Attorney General v De Winton (1906) where it was established that the

Treasurer is not just a servant of the authority but has a fiduciary duty to local taxpayers.

3B Duty to scheme employers and scheme members

39. In his legal opinion for the SAB dated 25 March 2014 Nigel Griffin QC concluded that those making investment decisions on behalf of the administering authority; *'...owe fiduciary duties both to the scheme employers and to the scheme members...' and cites White v Jones 1995 which held that fiduciary duties exits 'where one person administers the ....financial affairs of another'.*

40. However he importantly caveats this statement as follows

'I rather doubt that the existence of fiduciary duties will in this context make very much difference to what the position would be if analysed simply in terms of the obligations imposed upon administering authority as a matter of public law - notably, the normal Wednesbury type obligations'

This view derives from (amongst others) Charles Terence Estates v Cornwall Council 2013 where the court acknowledged that local authorities owe a fiduciary duty but nevertheless treated the content of that duty as indistinguishable from Wednesbury.

41. He goes on to define the Wednesbury obligations and therefore the duty to employers and scheme members as *the requirement 'to exercise discretionary powers rationally, for a proper purpose and by reference only to legally relevant considerations'*

42. There appears to be a clear distinction between the fiduciary duty of private sector pension trustees to always act in the best interests of scheme beneficiaries and the public law duties applying to LGPS investment decision makers to;

'conduct ... administration in a fairly businesslike manner with reasonable care, skill and caution, and a due and alert regard to the interests of those contributors who are not members of the body'

And;

'*exercise discretionary powers rationally, for a proper purpose and by reference only to legally relevant considerations'*

3C – Elected member code of conduct

43. Councillors are required to adhere to their council's agreed code of conduct for elected members. Each council adopts its own code, but it must be based on the Committee on Standards in Public Life's seven principles of public life (see below). These were developed by the Nolan Committee, which looked at how to improve ethical standards in public life, and are often referred to as the 'Nolan principles'. All public office holders are both servants of the public and stewards of public resources.

44. The principles also apply to everyone in other sectors delivering public services. All councils are required to promote and maintain high standards of conduct by

councillors, but individual councillors must also take responsibility. Holders of public office should uphold the following seven principles:

Selflessness

Holders of public office should act solely in terms of the public interest.

Integrity

Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family or their friends. They must declare and resolve any interests and relationships.

Objectivity

Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

Accountability

Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

Openness

Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for doing so.

Honesty

Holders of public office should be truthful.

Leadership

Holders of public office should exhibit these principles in their own behaviour.

They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

Part 4 – Recent developments in trust based pensions

45. Historically, the LGPS in England and Wales has adopted pension legislation that has been introduced specifically for schemes based on trust law. The following information is provided as a guide to possible developments in LGPS regulation and/or guidance but at the time of publication none of the following applies to the LGPS.

46. To meet the RI challenge, the government has adopted a number of legislative measures but only in relation to those responsible for making investment decisions in trust based schemes (not LGPS). As from October 2019, trustees will be required to include in their Statement of Investment Principles new regulatory requirements including:

- How financially material factors (including, but not limited to, ESG considerations, including climate change, over the time horizon of the scheme, are taken into account in the selection, retention and realisation of investments,
- The extent, if at all, that non-financial factors, for example, members' ethical views, are taken into account, and
- Engagement and voting activities in respect of investments, including stewardship.

47. By October 2020, trustees will be further required to include in their Statement of Investment Principles:

- Their arrangements with asset managers including how they incentivise their appointed investment managers to align investment strategy with their policies and to make investment decisions based on long term performance, and
- A form of implementation statement on their engagement and voting practices

48. Trustees will also be required to publish on a publicly available website both their Statement of Investment Principles and Implementation Statements. To assist trustees comply with the new regulatory requirements, the PLSA has published a made simple guide a copy of which can be found at https://www.plsa.co.uk/Portals/0/Documents/Made-Simple-Guides/2019/ESG-Made-Simple-2019.pdf

Appendix 1 – Example RI issues

NB: this is not intended to be read as an exhaustive list, nor as a prescriptive list.

Environmental	Social	Governance	Other/ sector specific

• Climate change
  ○ Fossil fuel exposure
  ○ Carbon emissions
  ○ Adaptation risks
• Resource & energy management
  ○ Storage
  ○ Fuel source
  ○ Water
  ○ Waste
  ○ Mineral use
  ○ Efficiency
• Planning/ permitting/ operational controls
	• Human/ labour rights
	  ○ Supply chain (UK Human Slavery Act/
	  ○ Child labour
	  ○ Human capital management
	• Employment standards
	• Employee representation
	• Health and safety
	• Community relations
		• Alignment (long term)
		• Board independence
		• Executive remuneration
		• Board composition and effectiveness (conduct and culture)
		• risk management
		• Tax transparency/ Fair tax
		• Auditing & accounts (Reliable accounts/ auditor rotation)
		• Diversity / equality (board, company-wide)
		• Succession planning
		• Disclosure/ transparency e.g. Integrated reporting/FSB TFCD
		• Shareholder protection & rights e.g. say on pay
			• Business strategy & risk management
			• Political change
			• Operating in controversial or challenging locations
			• Cyber security
			• Disruptive technology
			• Nutrition
			• Access to products (medicine/ finance)
			• Bribery & corruption
			• Site security/ terrorism

Appendix 2: Useful responsible investment sources

Memberships of the following organisations might be considered by an administering authority, as part of the responsible investment strategy.

- British Venture Capital Association (BVCA)
- Focusing Capital on the Long Term (FCLT)
- Global Real Estate Sustainability Benchmark (GRESB)
- International Corporate Governance Network (ICGN)
- Investment Association
- Institutional Investors Group on Climate Change (IIGCC)
- Local Authority Pension Fund Forum (LAPFF)
- Pensions and Lifetime Savings Association (PLSA) (formerly National Association of Pension Funds)
- Principles for Responsible Investment (PRI)
- Transition Pathway Initiative (TPI)
- UK Sustainable Investment Forum (UKSIF)
- CDP (formerly the Carbon Disclosure Project)

Further RI Resources

INTRODUCTORY MATERIAL

- PRI's Building the Capacity of Investment Actors to use Environmental, Social, and Governance (ESG) Information
- PRI: Understanding the impact of your investments
- PRI: How asset owners can drive responsible investment
- PLSA: ESG Made Simple Guide
- RIA: Guide to Responsible Investment
- CERES: Blueprint for Sustainable Investing
- Sustainable Returns for Pensions and Society: Responsible Investment and Ownership
- USSIF: The Impact of Sustainable and Responsible Investment
- Willis Towers Watson: Sustainable investing – we need a bigger boat.
- World Economic Forum: Accelerating the Transition towards Sustainable Investing

- World Economic Forum: Global Risks Report 2015PRI: Investment Practices, Asset Owner Insight
- NAPF: Responsible Investment Guidance for Pension Funds
- EUROSIF: Corporate Pension Fund & Sustainable Investment Study
- EUROSIF: Primer for Responsible Investment Management of Endowments (PRIME Toolkit)
- UN Framework Convention on Climate Change
- UN Guiding Principles on Business and Human Rights
- PLSA Guide to Responsible Investment Reporting in Public Equity

ASSET-CLASS-SPECIFIC GUIDANCE

- PRI: A practical guide to ESG integration for equity investing
- PRI: Integrated analysis: How investors are addressing ESG factors in fundamental equity valuation
- PRI: Fixed income investor guide
- PRI: Corporate bonds: Spotlight on ESG risks
- PRI: Responsible investment and hedge funds
- PRI: Responsible investment in private equity: A guide for limited partners
- PRI: Limited partners' responsible investment due diligence questionnaire
- PRI: Responsible investment in infrastructure
- UNEP FI: Implementing responsible property investment strategies
- INCR, IGCC, IIGCC, PRI, UNEP FIand RICS: Sustainable real estate investment, implementing the Paris Climate Agreement: An action framework

PROCUREMENT FRAMEWORK

- National LGPS Stewardship Services Framework

Appendix 3: Bibliography of regulations and guidance

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479562/draft_LGPS__Investment__Regulations_2016.pdf

Guidance on Preparing and Maintaining an Investment Strategy Statement, July 2017 (Department for Local Government and Communities)

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/553342/LGPS_Guidance_on_Preparing_and_Maintaining_an_Investment_Strategy_Statement.pdf

Agenda Item No: 9

CAMBRIDGESHIRE PENSION FUND

Pension Fund Committee

19th March 2020

Report by: Head of Pensions

Subject:	Administration Performance Report
Purpose of the Report:	To present the Administration Performance Report to the Pension Fund Committee
Recommendations:	The Pension Fund Committee is asked to note the Administration Performance Report
Enquiries to:	Joanne Walton, Governance and Regulations Manager jwalton@northamptonshire.gov.uk

1. Background

1.1 One of the core functions of the Pension Fund Committee is to ensure the effective and efficient governance and administration of the scheme. This report demonstrates a number of key areas of administration performance for consideration by the Pension Fund Committee.

2. Variances against the forecast of investments and administration expenses

2.1 The tables in **Appendix 1** provide an update of the Fund account, investment and administration income and expenditure against the cash flow projection outlined in the Annual Business Plan as agreed by the Pension Fund Committee in March 2019.

3. Key Performance Indicators – LGSS Pensions

3.1 The Pension Fund Committee has previously agreed a set of key performance indicators (KPIs) to assess the performance of LGSS Pensions.

3.2 For the period 1st November 2019 to 31st January 2020 the Fund has met 13 out of 18 monthly targets. 2 of the 5 targets missed related to payment of retirement benefits from active status. The team responsible encountered vacancy, sickness and training issues, however, over the period in question volumes of payment of retirement benefits from *deferred* status, not currently reported as a KPI, were also very high, totalling 161 (compared to 135 retirements from active status). The aforementioned team issues have now been resolved, but as retirements from deferred status represent an ever-increasing area of responsibility as the Fund matures, a new KPI for this area of work will be introduced in 2020-21. Full KPI detail can be found in **Appendix 2**.

4. Receipt of Employee and Employer Contributions

4.1 Employers in the Fund have a statutory obligation to arrange for the correct deduction of employee and employer contributions and to ensure payment reaches the Pension Fund by the 19th of the month following the month of deduction. Providing an associated monthly statement/schedule in a format acceptable to the Administering Authority.

4.2 The table in **Appendix 3** shows the percentage of employers in the Cambridgeshire Pension Fund who paid their employee and employer contributions and/or submitted their schedules on time or late for the period 1st January 2018 to 31st December 2019.

4.3 Details of late paying employers for October, November and December 2019 can be found in the **private and confidential appendix (appendix 4)** of the report.

5. Breaches of the Law

5.1 There are many and various laws relating to the Local Government Pension Scheme, with various individuals, including the Pension Fund Board, having a statutory duty to report material breaches of the law to the Regulator. The Cambridgeshire Pension Fund maintains a record of both material breaches that are reported to the Pensions Regulator as well breaches that are deemed not to be of material significance and so are not reported to the Pensions Regulator.

5.2 For the period 1st November 2019 to 31st January 2020, the following breaches occurred:

Type of Breach	Detail of Breach	Course of action
Material Breaches	None	None
Non Material Breaches	Three Stage 2 Internal Dispute Resolution Procedure responses were not issued within the 2 month statutory deadline. The responsibility of stage 2 appeals rests with the Cambridgeshire County Council Monitoring Officer.	Processes have been put in place to ensure reminders are sent at appropriate intervals. The Monitoring Officer should issue an extension letter where justifiable to avoid future breaches of this nature.
	One stage 1 Internal Dispute Resolution Procedure response was not issued within the 2 month statutory deadline by the employer.	The employer has been contacted and reminded of their statutory obligations.
	Six refund of pension contribution payments were claimed by and paid to members outside of the statutory 5 year period.	No further action at this stage, it is likely that the legislation surrounding this will be amended to remove the 5 year requirement.
	Three members were paid a refund of contributions when a pension benefit should have been awarded.	Members are being contacted to rectify the issue.

	There were 803 deferred benefit entitlement letters issued outside of the statutory 2 month period in respect of 2018/19.	Internal procedures have been amended to ensure that the issuing of the entitlement letter is undertaken as part of the process. In addition there will be a report run on a monthly basis to ensure these cases are being addressed.
	One non-payment of annual allowance tax charge to HMRC.	Internal processes have been reviewed to avoid a reoccurrence.

6. Internal Dispute Resolution Procedure

6.1 Members, prospective members and beneficiaries may not always agree with pension decisions that are made, or may be unhappy that decisions have not been made, by either an administering authority or a scheme employer. The Internal Dispute Resolution Procedure (IDRP) is the route by which they may raise their concerns and challenge such decisions.

6.2 In the period November 2019 to January 2020 the following activity occurred:

- One administering authority stage 1 appeal was adjudicated on concerning entitlement to a refund of pension contributions on leaving the scheme before the 2 year vesting point and was not upheld.
- One administering authority stage 2 appeal was adjudicated on concerning a dispute over the recovery of an overpaid pension and was not upheld, having been partially upheld at stage 1.
- One administering authority stage 1 appeal was received regarding a transfer out that was paid to an overseas pension scheme.

7. Data Improvement Plan 2019/20 – progress update

7.1 Resolution of unprocessed leaver records

Purpose of activity: To process all the unprocessed leaver benefits in accordance with the member's entitlement under the LGPS regulations.

Original timescale for action: 01/01/2019 – 31/12/2020

Revised timescale for completion: 01/01/2019 – 31/03/2021

Update: This update only refers to the ring-fenced backlog unprocessed leavers.

From the baseline position 2,484 (43%) backlog unprocessed leaver cases have now been completed.

Category	Total
Baseline (July 2018)	**5,823**
January 2020	**3,339**

Future milestones: Ongoing progress of this activity has been added to the 2020-21 Business Plan.

7.2 Contracted-out liabilities rectification

Purpose of activity: To correct any variances to pensions in payment as a result of any changes notified to the contracted-out earnings included within the pension.

Timescale for action: Amendments to pensions were scheduled to be made in March 2020.

Update: The delay in HMRC issuing the final data file has impacted the completion of this activity. At the time of writing it is unknown as to when the final data file will be received from HMRC to begin the rectification to pensions in payment.

Future milestones: Awaiting further information from HMRC but this activity is now not expected to begin until 2020-21.

7.3 Member tracing and mortality screening

Purpose of activity: To ensure all membership records where a liability is held has a current home address or is marked as gone away where attempts to trace the member have been unsuccessful (excluding active members as the employer is required to update the Fund with changes of address).

Timescale for action: The contract with Accurate Data Services commenced in June 2019. Address tracing was initially expected to complete by 30 November 2019 and mortality screening will be conducted monthly for the duration of the 2 year contract.

Update: A verification process is also currently in progress to ensure those members for whom a new address has been identified but without complete confidence are at the new address supplied. This process involves members being contacted at the new address for them and invited to follow a secure robust process to confirm their identity and address. This process will conclude in March 2020.

8. Relevant Pension Fund Objectives

Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance. *Objective 1*
Manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers. *Objective 2*
Ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment. *Objective 3*
Continually monitor and measure clearly articulated objectives through business planning *Objective 4*

Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate. *Objective 5*
Put in place performance standards for the Fund and its employers and ensure these are monitored and developed as necessary. *Objective 8*
Administer the Fund in a professional and efficient manner, utilising technological solutions and collaboration. *Objective 10*

9. Risk Management

9.1 The Fund's Administration Strategy sets out the performance standards of both the scheme employer and the administering authority. The Pension Fund Committee and Pension Fund Board are expected to monitor performance standards through information contained within the Administration Report which is presented at each meeting.

9.2 The mitigated risks associated with this report has been captured in the Fund's risk register as detailed below -

Risk No.	Risk	Residual risk rating
5	Information may not be provided to stakeholders as required.	Green
7	Those charged with governance are unable to fulfil their responsibilities effectively	Green
16	Failure to provide relevant information to the Pension Committee/Pension Board to enable informed decision making	Green

9.3 The Fund's risk register can be found on the LGSS Pensions website at the following link: https://pensions.cambridgeshire.gov.uk/app/uploads/2019/04/Cambridgeshire-Risk-Register.pdf

10. Communication Implications

Direct communications	The Fund publishes performance against the key performance indicators in the regular reports to the Pension Fund Committee and Pension Fund Board and in the Fund's Annual Report.

11. Finance & Resources Implications

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

12. Legal Implications

12.1 Not applicable

13. Consultation with Key Advisers

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

14. Alternative Options Considered

14.1 Not applicable

15. Background Papers

15.1 Not applicable

16. Appendices

16.1 Appendix 1 Variances against the forecast of investments and administration expenses
16.2 Appendix 2 Key Performance Indicators – LGSS Pensions
16.3 Appendix 3 Receipt of Employee and Employer Contributions
16.4 Appendix 4 Late payments of employee and employer contributions (private and confidential)

Checklist of Key Approvals	
Is this decision included in the Business Plan?	No
Will further decisions be required? If so, please outline the timetable here	No
Is this report proposing an amendment to the budget and/or policy framework?	No
Has this report been cleared by Section 151 Officer?	Sarah Heywood – 27th February 2020
Has this report been cleared by Head of Pensions?	Mark Whitby – 24th February 2020
Has the Chairman of the Pension Committee been consulted?	Councillor Rogers – 4th March 2020
Has this report been cleared by Legal Services?	Fiona McMillan – 25th February 2020

Appendix 1 – LGSS Pensions Administration Report

Variances against the forecast of investments and administration expenses – based on original setting of assumptions

Fund Account	2019-20 Estimate £000	2019-20 Forecast £000	Variance £000	Comments
Contributions	131,000	128,000	-3,000	
Transfers in from other pension funds	4,200	6,000	1,800	
Total income	**135,200**	**134,000**	**-1,200**	
Benefits payable	-105,000	-109,000	-4,000	
Payments to and on account of leavers	-9,100	-11,500	-2,400	
Total Payments	**-114,100**	**-120,500**	**-6,400**	
	21,100	**13,500**	**-7,600**	
Management Expenses	-10,040	-6,833	3,207	See analysis below.
Total income less expenditure	**11,060**	**6,667**	**-4,393**	
Investment income	**36,000**	**39,000**	**3,000**	
Taxes on income	**-**	**-**	**-**	
Profit and (losses) on disposal of investments and changes in the market value of investments	**84,000**	**171,000**	**87,000**	
Net return on investments	**120,000**	**210,000**	**90,000**	
Net increase/(decrease) in the net assets available for benefits during the year	**131,060**	**216,667**	**85,607**	

Management Expenses	2019-20 Estimate	2019-20 Forecast	Variance	Comments
	£000	£000	£000	
Total Administration Expenses	-2,930	-2,998	-68	See analysis below.
Total Governance Expenses	-550	-555	-5	
Total Investment Invoiced Expenses	-6,560	-3,280	3,280	Expenses relating to assets transitioned to the asset pool have now been removed as expenses not invoiced.
Total Management Expenses	**-10,040**	**-6,833**	**3,207**	

Administration Expenses Analysis	2019-20 Estimate	2019-20 Forecast	Variance	Comments
	£000	£000	£000	
Staff Related	-1,400	-1,348	52	
Altair System and payroll system	-310	-325	15	
Data Improvement Projects	-440	-540	-100	Undecided leavers project understated.
Communications	-30	-13	17	
Other Non-Pay and Income	-120	-107	13	
County Council Overhead Recovery	-630	-665	-35	External overheads have increased
Total Administration Expenses	**-2,930**	**-2,998**	**-68**	

.

Appendix 2 - Key Performance Indicators – LGSS Pensions November, December 2019 and January 2020.

Function/Task	Indicator	Target	Completed	Within Target	Over Target	% Within Target	RAG	Comments
Notify leavers of deferred benefit entitlement	Notify leavers of deferred benefit entitlements or concurrent amalgamation within 15 working days of receiving all relevant information.	90%	November: 321 December: 283 January: 437	298 180 304	28 103 133	93 64 70	Green Amber Amber	SLA target met SLA target not met* SLA target not met*
Payment of retirement benefits from active employment	Notify employees retiring from active membership of benefits award, from date payable or date of receiving all necessary information if later within 5 working days.	95%	November: 63 December: 27 January: 45	48 24 44	15 3 1	76 89 98	Amber Amber Green	SLA target not met** SLA target not met** SLA target met
Award dependant benefits – Statutory	Issue award within 5 working days of receiving all necessary information.	95%	November: 15 December: 26 January: 31	15 24 31	0 2 0	100 92 100	Green Amber Green	SLA target met SLA target not met*** SLA target met
Provide a maximum of one estimate of benefits to employees per year on request – Statutory	Estimate in agreed format provided within 10 working days from receipt of all information.	90%	November: 90 December: 89 January: 64	86 84 61	4 5 3	96 94 95	Green Green Green	SLA target met SLA target met SLA target met
Provide transfer-in quote to scheme member – Statutory	Letter issued within 10 working days of receipt of all appropriate information.	95%	November: 42 December: 30 January: 58	41 30 58	1 0 0	98 100 100	Green Green Green	SLA target met SLA target met SLA target met
Payment of transfer out – Statutory	Process transfer out payment – letter issued within 10 working days of receipt of all information needed to calculate transfer out payment.	90%	November: 6 December: 3 January: 6	6 3 6	0 0 0	100 100 100	Green Green Green	SLA target met SLA target met SLA target met

*Notify leavers of deferred benefit entitlement - high volume of work and a backlog of checking has resulted in an amber rating for December and January. More staff have been trained to check work, which has helped check all outstanding work. The team are now up to date with checking and should be able to maintain the correct level of service going forward.

** Payment of retirement benefits from active employment – Please see section 3.2.

*** Award dependents benefits – high volume of checking as a result of increased overall activity within the team has resulted in an amber rating for December. Resource has been reallocated to address the increased volume.

Green:	Equal to or above Service Level Agreement (SLA) target.
Amber:	If there is a statutory target - below SLA target, but all within statutory target. If there is no statutory target - below SLA target, but number completed within target is within 10% of the SLA target.
Red:	If there is a statutory target - below SLA target and not within statutory target. If there is no statutory target - below SLA target and number completed within target is not within 10% of the SLA target.

Appendix 3 - Receipt of Employee and Employer Contributions

Month/Year	% of Employers Paid on Time	% of Employers Paid Late	% of Employers that Submitted Schedule on Time	% of Employers that Submitted Schedule Late
January 2019	99.8	0.2	99.6	0.4
February 2019	100	0	99.6	0.4
March 2019	99.4	0.6	98.4	1.6
April 2019	98.5	1.5	97.0	3.0
May 2019	97.6	2.4	98.0	2.0
June 2019	99.6	0.4	100	0
July 2019	98.7	1.3	95.9	4.1
August 2019	98.3	1.7	99.6	0.4
September 2019	100	0	98.3	1.7
October 2019	100	0	96.9	3.1
November 2019	99.8	0.2	100	0
December 2019	97.1	2.9	97.1	2.9
Average for period	**99.0**	**0.1**	**98.3**	**0.7**

Agenda Item no. 10

Cambridgeshire Pension Fund

Pension Fund Committee

Date: 19th March 2020

Report by: Head of Pensions

Subject:	Risk Monitoring – six monthly review
Purpose of the Report:	To present the Cambridgeshire Pension Fund Risk Monitoring Report
Recommendations:	The Committee is asked to review the current risks facing the Fund
Enquiries to:	Michelle Oakensen, LGSS Governance Officer, moakensen@northamptonshire.gov.uk

1. Background

1.1 The Cambridgeshire Risk Strategy and Risk Register were reviewed and approved by the Pension Fund Committee on 28th March 2019.

1.2 At this time it was agreed that the Pension Fund Board would monitor risks in a quarterly basis and the Pension Fund Committee would review on a bi-annually basis, unless any concerns were raised by the Board prior to this.

1.3 This supports the Pension Regulator's Code of Practice 14 – Governance and administration of public service pension schemes with regards to monitoring and reviewing risks. This code of practice can be found at the following link: https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-14-public-service-pension-code-of-practice

2. Recommendations made by the Pension Fund Board

2.1 At the meetings of the 4th October 2019 and the 31st January 2020, the Pension Fund Board reviewed the risk register and the following changes were subsequently applied -

Meeting	Risk	Risk	Change
4th October 19	3.	As long term investors, the Fund believes climate risk has the potential to significantly alter the value of the Fund's investments.	Risk added.
4th October 19	13.	Pension Fund systems and data may not be secure and appropriately maintained	Including cyber risk has been added to the risk description.

Meeting	Risk	Risk	Change
4th October 19	13.	Pension Fund systems and data may not be secure and appropriately maintained – including cyber risk.	The mitigation of 'training to Officers on cyber resilience' to be enhanced to - **Compulsory** online training for LGSS Officers on Cyber Resilience and Data Protection.
31st January 20	2.	Failure to respond to economic conditions.	The Fund has currency hedging and equity protection arrangements in place has been added to the mitigations.
31st January 20	3.	As long term investors, the Fund believes climate risk has the potential to significantly alter the value of the Fund's investments.	The word 'requested' has been replaced with 'required' in the following mitigation Investment managers are <u>required</u> to take account of both financial and non-financial factors in their investment decisions in the mitigations.
31st January 20	5.	Fund assets are not sufficient to meet obligations and liabilities	The Fund's currency hedging and equity protection arrangements have been added to the mitigations.
31st January 20	6.	Information may not be provided to stakeholders as required.	The following mitigations have been included: • Communications Officer now in place. • Membership of the LGA Communications Working Group. • Membership of the Regional Joint Communications Group. • Communication and Digital Communication Strategy in place.

2.2 The risk of Brexit and potential asset volatility and the McCloud judgement were added to the short term risk section in October 2019 and both risks were included in the January 2020 review.

2.3 At the meeting of the 31st January, the issue of pension funds being ordered by the Pensions Ombudsman to reinstate pension benefits that scheme members have elected to transfer out due to the receiving scheme being a scam or a poor investment was discussed. This will be incorporated into the risk register following receipt of legal advice that the Fund is seeking on this matter. This follows two rulings made by the Pensions Ombudsman in respect of two separate public service pension schemes and increasing enquiries that the Fund is receiving from pension mis-selling companies.

2.4 All of the changes have been updated to the Fund Risk Register which is published on the LGSS Pensions website.

3. Relevant Pension Fund Objectives

Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance.
Manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers.
Ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment.
Continually monitor and measure clearly articulated objectives through business planning.
Deliver consistent plain English communications to stakeholders.
Seek and review regular feedback from all stakeholders and use the feedback appropriately to shape the administration of the Fund.
Ensure cash flows in to and out of the Fund are timely and of the correct amount.

4. Risk Management

4.1 The Pension Fund Committee and Pension Fund Board are expected to monitor risk and compliance and act appropriately where there is a cause for concern.

4.2 The risks associated with not monitoring risk and acting appropriately have been captured in the Fund's risk register as detailed below.

Risk No	Risk mitigated	Residual risk
9	Failure to understand and monitor risk and compliance	Green
16	Failure to provide relevant information to the Pension Committee/Pension Board to enable informed decision making.	Green

4.3 The full risk register can be found in **Appendix 1**.

5. Finance & Resources Implications

5.1 None.

6. Communication Implications

Website	The risk register and risk strategy is on the LGSS Website. The Pension Fund Board will be kept up to date with risks at each meeting and the Pension Fund Committee updated bi-annually.

7. Legal Implications

7.1 Not applicable.

8. Consultation with Key Advisers

8.1 None

9. Alternative Options Considered

9.1 There are no alternative options to be considered

10. Background Papers

10.1 The Cambridgeshire Pension Fund Risk Strategy – https://pensions.cambridgeshire.gov.uk/app/uploads/2019/04/Cambridgeshire-Risk-Strategy.pdf

11. Appendices

11.1 Appendix 1 - The Cambridgeshire Pension Fund Risk Register
11.2 Appendix 2 – Criteria for assessing impact and likelihood

Checklist of Key Approvals	
Is this decision included in the Business Plan?	No
Will further decisions be required? If so, please outline the timetable here	No
Is this report proposing an amendment to the budget and/or policy framework?	No
Has this report been cleared by Section 151 Officer?	Sarah Heywood – 27th February 2020
Has this report been cleared by Head of Pensions?	Mark Whitby – 13th February 2020
Has the Chairman of the Pension Committee been consulted?	Councillor Rogers – 4th March 2020
Has this report been cleared by Legal Services?	Fiona McMillan – 25th February 2020

Appendix 1 – Cambridgeshire Pension Fund Risk Register

Risk	Risk	Relevant objectives	Responsible Lead(s)*	Risk Rating
1	Employers unable to pay increased contribution rates.	9	**E**	12
2	Failure to respond to changes in economic conditions.	15,16	**A**	12
3	Contributions to the Fund are not received on the correct date and/or for the correct amount	1,8,9,16	**A**	8
4	Fund assets are not sufficient to meet obligations and liabilities.	2,16,17,19	**A**	8
5	Information may not be provided to stakeholders as required.	14	**ALL**	6
6	The Investment Strategy's Risk Reward profile does not match the requirements of the Fund.	16, 17,18	**A**	6
7	Those charged with governance are unable to fulfil their responsibilities effectively.	2,3	**G**	6
8	Risk of fraud and error.	2,10	**ALL**	6
9	Failure to understand and monitor risk compliance.	5	**G**	6
10	Lack of understanding of employer responsibilities which could result in statutory and non-statutory deadlines being missed.	8	**E**	6
11	Custody arrangements may not be sufficient to safeguard Pension Fund assets.	1,2,3	**A**	4
12	Pension Fund systems and data may not be secure and appropriately maintained.	10,11	**E**	4
13	Failure to administer the scheme in line with regulations and guidance.	1,2,3,16	**ALL**	4
14	Failure to recognise and manage conflicts of interest.	2,10	**G**	4
15	Pension Fund objectives are not defined and agreed.	4	**G**	4
16	Failure to provide relevant information to the Pension Committee/Pension Board to enable informed decision making.	15	**G**	4
17	Pension Fund investments may not be accurately valued.	2,10,17,18	**A**	4
18	Actual experience materially differs from actuarial assumptions used at each valuation	9, 17,18	**E**	4
19	Failure to act appropriately upon expert advice and/or risk of poor advice.	17,18,19,20	**ALL**	4
20	Failure to assess and monitor the financial strength of an employer covenant to ensure employer liabilities are met.	9,17,18	**E**	4
21	Unable to deliver pension services due to an inadequate business continuity plan.	8	**ALL**	4
22	Unable to deliver pension services due to inadequate recruitment and retention processes.	8	**ALL**	4
23	Investment decisions and portfolio management may not achieve the return required or be performed in accordance with instructions provided.	1,2,3,19	**A**	3
24	Incorrect production of accounts, notices, publications and management reports leading to possible financial and reputational damage.	1,2,10	**ALL**	3
25	Incorrect/poor quality data held on the Pension Administration and Payroll platforms leading to incorrect information being provided to members and stakeholders.	2,8,10,11	**G**	3

*Key

E	Employer Services and Systems Manager
A	Accounting and Investments Manager
G	Governance and Regulations Manager
O	Operations Manager
ALL	All Manager Responsibility

Overall responsibility rests with the Head of Pensions

Potential impact if risk occurred						
	5 Catastrophic	5	10	15	20	25
	4 Major	4	8	12	16	20
	3 Moderate	3	6	9	12	15
	2 Minor	2	4	6	8	10
	1 Insignificant	1	2	3	4	5
		1 Rare (5%)	2 Unlikely (15%)	3 Possible (40%)	4 Likely (65%)	5 Almost certain (80%)

Likelihood of risk occurring

Risk No	Risk	Gross Impact	Gross Likeli-hood	Gross Total	RAG	Controls	Residual Impact	Residual Likeli-hood	Residual Total	RAG
1	Employers unable to pay increased contribution rates.	4	4	16	R	• Provisional contribution rates are consulted on with each scheme employer as part of the valuation process • Review of employer covenant, looking at the terms of the admission agreement and bond/guarantor arrangements. • Negotiate terms of deficit recovery whilst keeping employer contribution rates as stable and affordable as possible.	4	3	12	A
2	Failure to respond to changes in economic conditions	4	4	16	R	• The Fund has established a quarterly Investment Sub Committee dedicated to focus on Investment matters. • The Fund receives quarterly performance reports which consider operational and strategic investment issues. • A formal review of the strategic asset allocation is undertaken on a triennial basis. • The Fund publishes an Investment Strategy Statement which is regularly reviewed. • The Fund has currency hedging arrangements in place.	4	3	12	A
3.	As long-term investors, the Fund believes climate risk has the potential to significantly alter the value of the Fund's investments.	4	4	16	R	• Investment managers are required to take account of both financial and non-financial factors in their investment decisions. • Managers are challenged on their engagement activities in connection with environmental, social and governance (ESG) issues including climate risk • Managers are required to report regularly on their compliance with our ESG policy • It is ensured that the ACCESS asset pool meets the Fund's ESG requirements	3	3	9	A
4.	Contributions to the Fund are not received on the correct date and/or for the correct amount.	4	3	12	A	• Employer contributions are set as stable as possible and the Fund works with employers closely to ensure pragmatic solutions if an employer is unable to meet monthly contributions. • A procedure is in place to identify non-payment and late payment of contributions as defined in the Employee and Employer Late Payment Policy. • The Policy includes a reporting process to report late payments to Committee and the Pensions Regulator • Internal Audit reviews take place on an annual basis and external audit review the accounts annually.	4	2	8	A

Risk No	Risk	Gross Impact	Gross Likeli-hood	Gross Total	RAG	Controls	Residual Impact	Residual Likeli-hood	Residual Total	RAG
5.	Fund assets are not sufficient to meet obligations and liabilities	4	3	12	A	• The Funding Strategy Statement is reviewed every 3 years. • The Fund Actuary considers asset valuations and the Fund Investment Strategy in setting employer contributions rates. • The yearend financial statements record the Funds asset position and is subject to robustly reviewed by external audit, which supports the Funds asset valuation applied to assess fund adequacy. • The Fund has currency hedging arrangements in place.	4	2	8	A
6.	Information may not be provided to stakeholders as required	3	3	9	A	• Officers keep up to date with disclosure regulations and distribute knowledge to teams accordingly using resources such as relevant websites, seminars, professional bodies and working groups. • Letters are generated through task management for consistency and are checked before being sent out. • Communications Officer now in place. • Membership of the Local Government Association (LGA) Communications Working Group. • Membership of the Regional Joint Communications Group. • Communication and Digital Communication Strategy in place.	3	2	6	G
7.	The Investment Strategy's risk reward profile does not match the requirements of the Fund.	3	3	9	A	• Investment Strategy in place which is in accordance with LGPS investment regulations. • A formal review of the strategic asset allocation is undertaken on a triennial basis. • The Fund appoints professional investment advisers to support the Pension Committees investment decisions • At each triennial actuarial valuation the Funding Strategy Statement considers alignment of the investment strategy to employer covenant and affordability. • Members are encouraged to participate in Skills & Knowledge training with respect to Investments and attend relevant industry conferences. Detailed training records are maintained.	3	2	6	G

Risk No	Risk	Gross Impact	Gross Likeli-hood	Gross Total	RAG	Controls	Residual Impact	Residual Likeli-hood	Residual Total	RAG
8.	Those charged with governance are unable to fulfil their responsibilities effectively	3	3	9	A	• Training Strategy in place to facilitate the continual development of both Committee and Board members. • New members are provided with relevant documentation to assist them in their roles. • The Fund subscribes to relevant professional bodies such as Local Authority Pension Fund Forum (LAPFF) and Pension and Lifetime Savings Association (PLSA).	3	2	6	G
9.	Risk of fraud and error	3	3	12	A	• Anti- Fraud and Corruption policy in place. • Fund participates in the National Fraud Initiative and undertakes oversees pensioner existence checks. • Robust processes in place including segregation of duties and authorisation protocols.	3	2	6	G
10.	Failure to understand and monitor risk compliance	3	2	6	G	• Business Continuity plan in place and is updated at least annually. • Active risk register in place, the Committee and Board are updated if there are any risk movements between scheduled reporting timescales. • The Local Pension Board have oversight of risk monitoring to assist the Pensions Committee on decision making.	3	2	6	G
11.	Lack of understanding of employer responsibilities which could result in statutory and non-statutory deadlines being missed.	3	4	12	A	• Employers are made aware of their responsibilities upon admission via the LGSS website and direct employer communication. • Training is provided to employers on a minimum quarterly basis and more often, if required. • The importance of a statutory deadlines is stressed to the employer through all communications and via events such as the employer forums. • Support is also available through the website, dedicated employers help line and templates issued where applicable.	2	3	6	G

Risk No	Risk	Gross Impact	Gross Likeli-hood	Gross Total	RAG	Controls	Residual Impact	Residual Likeli-hood	Residual Total	RAG
12.	Custody arrangements may not be sufficient to safeguard Pension Fund assets.	4	2	8	A	• The Custodian is selected from experienced providers on the LGPS National Framework who have met the quality criteria for the framework. • Complete and authorised agreements are in place with external custodian. • External custodian's compliance with International Standard on Assurance Engagements (ISAE) No. 3402, Assurance Reports on Controls at a Service Organisation. Officers of the Fund engage in quarterly monitoring of custodian performance with a report presented at the annual meeting of the Pensions Committee.	4	1	4	G
13.	Pension Fund systems and data may not be secure and appropriately maintained – including cyber risk.	4	2	8	A	• System user controls are in place including regular password changes. • Access rights are controlled. • Data is backed up. • Audit trails are in place. • Pension system is protected against viruses and other system threats. • The pensions administration system is updated to ensure LGPS requirements are met. • Hosted pensions server and backup server are at separate Bedfordshire sites. • Disaster recovery plans are in place for both Heywood and LGSS. • Compulsory online training for LGSS Officers on Cyber resilience and Data Protection.	4	1	4	G

Risk No	Risk	Gross Impact	Gross Likeli-hood	Gross Total	RAG	Controls	Residual Impact	Residual Likeli-hood	Residual Total	RAG
14.	Failure to administer the scheme in line with regulations and guidance	5	2	10	A	• Policies and strategies are in place and are accessible on the Fund website. • Policies and strategies are subject to review at appropriate intervals and subject to stakeholder consultation where necessary. • A Training Strategy is in place for those charged with governance. • Officers attend working groups (such as EMPOG/SECSOG – East Midlands Pension Officer Group / South Eastern Counties Superannuation Group) and consult with professional advisors where appropriate. • Employers are aware of their responsibilities within the Fund and what information is required, in what format and by when. • The Fund subscribes to relevant professional bodies such as LAPFF and PALSA.	4	1	4	G
15.	Failure to recognise and manage conflicts of interest	4	2	8	A	• Declaration of interests are made at the beginning of all statutory meetings where not held on the County Councillor declaration register. • Conflicts of Interest Policy in place for the Local Pension Board. • Committee and Board members are encouraged to undertake the Pension Regulators Toolkit which includes a conflicts of interest module.	2	2	4	G
16.	Pension Fund objectives are not defined and agreed	4	2	8	A	• Objectives are agreed as part of the Annual Business Plan and Medium Term Strategy by the Pensions Committee. • Relevant objectives are referenced on every committee report. • Objectives are referenced in all policy documents and the risk register to ensure appropriate focus.	2	2	4	G

Risk No	Risk	Gross Impact	Gross Likeli-hood	Gross Total	RAG	Controls	Residual Impact	Residual Likeli-hood	Residual Total	RAG
17.	Failure to provide relevant information to the Pension Committee/Pension Board to enable informed decision making.	3	2	6	G	• Committee and Board papers are provided for each scheduled meeting, providing relevant information to inform decision making. • Papers are subject to appropriate approvals including that of the Monitoring Officer and Section 151 Officer • Yearly effectiveness reviews for Committee and Board members are carried out to identify if any changes need to be made to the information delivered.	2	2	4	G
18.	Pension Fund Investments may not be accurately valued	3	2	6	G	• The Fund employs a custodian to independently review the fund asset values applied by Fund Managers and these valuations are applied in the year-end financial statements. • The year-end financial statements record the Funds asset position and is subject to robust review by external audit. • Officers work closely with the Funds Custodian to ensure accuracy of asset valuations.	2	2	4	G
19.	Actual experience materially differs from actuarial assumptions used at each valuation.	3	3	9	A	• Assumptions and actual experience are analysed through triennial valuations to ensure assumptions remain appropriate. • Early engagement with employers. • The Investment Sub Committee receives quarterly performance reports provided by recognised industry professionals which considers both strategic and operational aspects of investment. • Officers are in partnership with Fund advisers report asset allocation performance quarterly to the Investment Sub Committee.	2	2	4	G

Risk No	Risk	Gross Impact	Gross Likeli-hood	Gross Total	RAG	Controls	Residual Impact	Residual Likeli-hood	Residual Total	RAG
20.	Failure to act appropriately upon expert advice and/or risk of poor advice	4	2	8	A	• Pension Committee decisions and oversight by the Local Pension Board. • Investment consultants and independent advisors appointed via a robust appointment process. • Members are encouraged to participate in Skills & Knowledge training with respect to Investments and attend relevant industry conferences. Detailed training records are maintained.	2	2	4	G
21.	Failure to assess and monitor the financial strength of an employer covenant to ensure employer liabilities are met.	3	3	9	A	• Assessment of the strength of individual employer covenants in conjunction with the actuary and what bond/guarantor arrangements are in place • Close liaison with Employers in managing exit strategy in line with the Admitted bodies, Scheme employers and Transfer Policy. • Ensure individual employers are monitored closely to pre-empt when they are likely to cease and put in arrangements to fund cessation on an appropriate basis.	2	2	4	G
22.	Unable to deliver pension services due to an inadequate business continuity plan	3	2	6	G	• Business continuity plan in place which includes the ability for staff to work remotely to meet the demands of the service. • Multi skilling across the service for flexibility. • Updated at least annually to ensure remains relevant and up to date. • Part of the LGSS business continuity plan.	2	2	4	G
23.	Unable to deliver pension services due to inadequate recruitment and retention processes.	3	2	6	G	• Establishment reporting undertaken monthly to identify any recruitment/retention issues • Recruitment undertaken utilising all available avenues including agency staff • Staff leaving interviewed to understand reason for cessation • Regular performance reporting across all business processes serves as early warning system • Consultancy contracts in place as a backstop	2	2	4	G

Risk No	Risk	Gross Impact	Gross Likeli-hood	Gross Total	RAG	Controls	Residual Impact	Residual Likeli-hood	Residual Total	RAG
24.	Investment decisions and portfolio management may not maximise returns or be performed in accordance with instructions provided	3	2	6	G	• The Fund is compliant with Investment regulations and best practice guidance. • The Fund appoints professional investment advisers to support the Pension Committees investment decisions • The Funds asset allocation is considered by the Actuary when undertaking the triennial valuation. • Investment performance is closely monitored, in particular the Investment Sub Committee receives quarterly performance reports provided by recognised industry professionals highlighting key issues. • The Fund has an appropriate Investment Strategy Statement in place which also addresses Environmental, Social and Governance (ESG) issues.	3	1	3	G
25.	Incorrect production of accounts, notices, publications and management reports leading to possible financial and reputational damage.	3	2	6	G	• Automated extraction of data where viable and agreed procedures for reporting. • Robust authorisation protocols in place. • Internal and External audit reviews. • Contributions are reconciled against employer monthly reports and the bank account, which is subject to both internal and external audit review as part of the year end process. • Membership year end reconciliation and investigate variations from the accounting valuations. • Management and administration are maintained in accordance with the SORP and the Financial Regulations. • Data Improvement Policy and Plan are in place. • Anti-Fraud and Corruption Policy in place.	3	1	3	G
26.	Incorrect/poor quality data held on the Pension Administration and Payroll platforms leading to incorrect information being provided to members and stakeholders.	3	3	9	A	• The Data Improvement Policy and Plan are in place. • The Data Improvement Policy and Plan are reviewed at least annually and material amendments approved by the Pensions Committee. The Local Pension Board have oversight of policy reviews. • The Pension Committee and Local Pension Board receive updates against the plan quarterly.	3	1	3	G

Appendix 2 – Criteria for assessing impact and likelihood

Impact

Description	Risk Appetite
Catastrophic (5)	• Unacceptable level of risk exposure which requires immediate action to be taken. • >£10m. • Section 151 or government intervention or criminal charges. • Critical long term disruption to service delivery. • Significant and sustained local opposition to policies and/or sustained negative media reporting in national media.
Major (4)	• Unacceptable level of risk exposure which requires regular active monitoring (at least quarterly) and measures put in place to reduce exposure. • <£10m. • Major civil litigation setting precedent and/or national public enquiry. • Major disruption to service delivery. • Sustained negative coverage in local media or negative reporting in the national media.
Moderate (3)	• Acceptable level of risk exposure subject to regular active monitoring measures, at least quarterly. • >£5m. • Major civil litigation and/or public enquiry. • Moderate direct effect on service delivery. • Significant negative front page reports/editorial comment in the local media.
Minor (2)	• Acceptable level of risk exposure subject to regular passive monitoring measures, at least half yearly. • >£1m. • Minor regulatory enforcement. • Minor disruption to service delivery. • Minimal negative local media reporting.
Insignificant (1)	• Acceptable level of risk exposure subject to periodic passive monitoring measures, at least annually. • >£0.5m. • Minor civil litigation or regulatory criticism. • Insignificant disruption to service delivery. • No reputational impact

Likelihood

Description	% risk of happening	Or	Potential timescale
Rare (1)	5		Once in 20 or more years
Unlikely (2)	15		Once in 10 to less than 20 years
Possible (3)	40		Once in 3 to less than 10 years
Likely (4)	65		Once in 1 to less than 3 years
Almost certain (5)	80		At least once in a year

Agenda Item No: 11

CAMBRIDGESHIRE PENSION FUND

Pension Fund Committee

Date: 19th March 2020

Report by: LGSS Chief Internal Auditor

Subject:	Internal Audit Report 2019-20
Purpose of the Report:	To present the findings of Internal Audit work during 2019-20.
Recommendations:	The Committee are asked to note the Internal Audit work during 2019-20.
Enquiries to:	Stephen Mangan, Audit and Risk Manager, LGSS Internal Audit Tel: 01604 365921 Email: SMangan@northamptonshire.gov.uk

1. Background

1.1 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

1.2 The work of Internal Audit complements and supports the work of external auditors in forming their opinion on the financial accounts. Internal audit work is coordinated with the external auditors and they place reliance on the work of internal audit to reduce the level of testing they undertake themselves. This reduces overall costs by avoiding unnecessary duplication of effort and supports delivery of an efficient and effective service.

2. Report Content

2.1 During 2019-19, Internal Audit work focused on the annual audit of the administration of the Cambridgeshire Pension Fund.

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

3. Relevant Fund Objectives

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

Manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers. *Objective 2*
Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate. *Objective 5*
Put in place performance standards for the Fund and its employers and ensure these are monitored and developed as necessary. *Objective 8*
Administer the Fund in a professional and efficient manner, utilising technological solutions and collaboration. *Objective 10*
Maintain accurate records and ensure data is protected and used for authorised purposes only. *Objective 11*
Ensure cash flows in to and out of the Fund are timely and of the correct amount. *Objective 16*

4. Risk Management

4.1 Good governance ensures that the Pension Fund is appropriately managed and has oversight by audit to ensure transparency.

4.2 The risks associated with failing to independently assess the Pension Fund has been captured in the Fund's risk register as detailed below.

Risk No	Risk Mitigated	Residual Risk
4	Contributions to the Fund are not received on the correct date and/or for the correct amount	Amber
9	Risk of fraud and error	Green
10	Failure to understand and monitor risk and compliance	Green
14	Failure to administer the scheme in line with regulations and guidance.	Green
26	Incorrect/poor quality data held on the Pension Administration and Payroll platforms leading to incorrect information being provided to members and stakeholders.	Green

4.3 The Fund's full risk register can be found on the Fund's website at the following link: https://pensions.cambridgeshire.gov.uk/app/uploads/2019/04/Northamptonshire-Risk-Register.pdf

5. Finance & Resources Implications

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

6. Communication Implications

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

7. Legal Implications

7.1 The requirement for an Internal Audit function derives from section 151 of the Local Government Act 1972. All principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations 2015 in England should make provision for Internal Audit in accordance with the Code.

8. Consultation with Key Advisers

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

9. Alternative Options Considered

9.1 Not applicable

10. Background Papers

10.1 Not applicable

11. Appendices

11.1 Appendix A – Internal Audit Report: Administration of the Cambridgeshire Pension Fund 2019-20

Checklist of Key Approvals	
Is this decision included in the Business Plan?	No
Will further decisions be required? If so, please outline the timetable here	No
Is this report proposing an amendment to the budget and/or policy framework?	No
Has this report been cleared by Section 151 Officer?	Sarah Heywood – 27th February 2020
Has this report been cleared by Head of Pensions?	Mark Whitby – 14th February 2020
Has the Chairman of the Pension Fund Committee been consulted?	Councillor Rogers – 4th March 2020
Has this report been cleared by Legal Services?	Fiona McMillan – 25th February 2020

Internal Audit & Risk delivering for

Internal Audit Draft Report

Administration of the Cambridgeshire Pension Fund

Governance Opinion

Adequacy of System	Substantial
Compliance	Good
Organisational Impact of findings	Minor

Report Issued	14 February 2020
Audit Committee schedule	24 March 2020
Follow up Date	June 2020

Executive Summary

1. Background

1.1. LGSS Pensions administers the Local Government Pension Scheme on behalf of Northamptonshire County Council and Cambridgeshire County Council. There are 150,000 members of the Northamptonshire and Cambridgeshire Pensions Funds and circa 500 scheme employers, the service holds a portfolio of assets in excess of £5.7 billion.

1.2. The administration of the scheme is subject to an annual audit and provides assurance around arrangements to the employer organisations, the Pensions Committee and also the Pension Fund's External Auditors.

1.3. In the 2018-19 review, substantial assurance was provided around the effectiveness of arrangements in place.

2. Scope of Audit and Approach

2.1. The objectives of the review were to ensure that:

- New members are set up accurately (including transfers in) and on a timely basis.
- The correct contributions are received from employer organisations on a timely basis.
- Appropriate action is taken upon notification that a member has left the scheme.
- Pension payments are made accurately and in accordance with LGPS regulations and in line with relevant administering authority and employing authority discretions.
- Reconciliations related to Pensions are completed on a timely basis, with prompt action taken to clear unreconciled items.

The review also followed up actions agreed in the 2018/2019 review.

2.2. Approach

The audit process involved:

- Undertaking interviews with relevant officers, to ascertain the procedures in place.
- Evaluating whether the procedures in place provided for an adequate and effective level of control.
- Testing, where appropriate, that the controls identified were operating in practice.

- Reviewing procedures for efficiency and, where appropriate, identify opportunities to make improvements to processes.

2.3. Acknowledgements

We would like to thank all the members of staff consulted, for their assistance and co-operation during the course of this review.

3. Internal Audit Opinion and Main Conclusions

3.1. The assurance given to the system design is **Substantial.** The assurance level reflects our view that effective and embedded procedures are in place to support pensions and that the audit identified no control weaknesses in how key activity as defined in section 2.1 of the report was being administered.

3.2. The assurance given for compliance is **Good.** Overall, the review found high levels of compliance with agreed procedures although the review did identify a small number of issues, including that unreconciled items on control accounts are not being cleared on a timely basis.

3.3. The organisational impact of the findings is **Minor.** This reflects the fact that whilst a small number of improvements have been identified, these are considered to have a limited impact on the Cambridgeshire Pension Fund.

3.4. Main recommendations

- For each of the issues identified, we have agreed actions in the action plan. When implemented these will positively improve the control environment. Detailed agreed actions are listed within the Management Action Plan (MAP) at pages 7-8 of this report.

Detailed Findings

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

4.1. Employers are responsible for notifying LGSS Pensions of any employees who wish to join the pension scheme. This information is currently received by LGSS Pensions through a number of mechanisms including:

- Manual forms from employees and employers,
- Electronic data submissions via i-connect, which is a bespoke system which interfaces with the pensions system,
- interface files from employers, and
- Information processed through employer self-service.

4.2. Irrespective of the mechanism, checks are undertake to ensure that only correct and complete records are uploaded into the pensions system (Altair), which are then used to create the member record. This includes:

- Independent checks on manual information input onto the pensions system by Pension Officers, and
- Checks to ensure that electronic data received is accurately transferred to the pensions system. This includes ensuring that all submissions received from employers have been processed and that any rejected data is investigated and resolved.

4.3. New members who wish to transfer in from another pension scheme are able to do so providing they complete the appropriate forms and meet key criteria. Ten transfers into the Cambridgeshire Pension Fund (CPF) were tested and controls were found to be working effectively in that:

- A transfer in request form was on file signed by the member.
- The pension certificate has been provided by the previous pension provider.
- A calculation of the transfer in value was on file which had been subject to independent review and authorisation.
- The payment had been received from the previous pension provider.
- The member's pension record on Altair had been updated accurately.

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

5.1. A clearly defined process is in place to oversee the monthly payment of employer contributions to the CPF. Employers submit details of their contributions each month on a PEN18 electronic return. The PEN18s system checks that employer contributions received agree to actuary percentage rate for pensionable pay for employer's contributions. This system is automated so that when the data is fed into the system it calculates the amount due based on pensionable pay, this is then compared to the amount received. A check is also completed at the same time to compare to monies received. Where variances occur the employer is contacted and they either adjust the next payment or invoice the employer. A review of contribution records for 10 employers found that:

- Contributions reflected in the PEN18 returns (which provide details of summary total employer and employee contributions) were agreed in the main as accurate.
- Where variances existed these were minor in value and had been investigated and resolved with the relevant employer, and future payments were amended as necessary for any under or overpayments.
- Payments were received from employers in line with agreed deadlines.
- Payments received were traced to the Pension Fund bank account.

5.2. In addition to the monthly process, an annual reconciliation of employers and members contributions to monies received takes place. Analysis of the year end reconciliations highlighted the following:

- In respect of the 2017-18 reconciliation, the process was linked to whether the employer submitted data via i-connect. This is considered below:

  - For employers that did not use i-connect, a year end return was made to confirm for each individual member, the employer and employee contributions. This data was then compared to the monthly PEN18 returns and variances above or below an agreed threshold were investigated and resolved with the employer.
  - For those employers that submitted data via i-connect, a year-end report was not submitted and reliance is placed on the checks undertaken as part of the monthly process, although such checks are currently visual and not evidenced or logged.

(See MAP 1)

  Based on the process outlined, the reconciliation has been completed.

- The 2018/2019 reconciliation is still work in progress.

6. Control Objective (3) - Appropriate action is taken upon notification that a member has left his employment and / or the scheme, including transfers out.

6.1. Employers notify the Pensions Team when an employee leaves and the member's pension is then "deferred" until payments are due. Action is taken if a request or event takes place. These are considered below.

6.2. Ten transfers out of the pension scheme were reviewed and testing highlighted that:

- A transfer out request form was on file signed by the member.
- Confirmation from the employer / LGSS Payroll was on file to confirm the member had left their pensionable employment.

- A calculation of the transfer out value was on file which had been subject to review and authorisation by a Team Leader.
- The payment had been made to the appropriate Pension Fund.

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

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

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

7.1. Pension payments can be set up for both new and dependent pensioners. For a new pensioner, the Pensions Team will initially seek confirmation that the member has left their pensionable employment. This information can either be provided by the employer or through LGSS Payroll. The Pensions Team then seek to validate key information including the member's date of birth, length of service and pay details. This information is then used to calculate the pension payment and then the payment is set up on the pension payroll. Both the calculation and setting up on the pension payroll are subject to independent checks for accuracy. Testing of 10 new pensioners highlighted no issues for concern with pensions being paid once all relevant confirmation and documents were received from the respective parties.

7.2. For dependent pensioners, similar checks are undertaken as outlined above apart the initial focus is on seeking official notification that the member has died, and confirming the status of the dependent, and for death in service / pensioner deaths, a calculation of potential death grants was also completed. Testing of 10 new pensioners highlighted no issues for concern with pensions being paid all relevant confirmation and documents were received from the respective parties.

7.3. For all pensioners, the annual payment uplift process is an automated process as pensioner and payroll records are held on the Altair System. Evidence of the uplift process was held and the checking process undertaken to confirm that the correct uplift had been actioned.

8. Control Objective (5) - Reconciliations related to Pensions are completed on a timely basis, with prompt action taken to clear unreconciled items.

8.1. In addition the contribution reconciliation referred to in section 2 of this report, other reconciliations take place of the various Pension Fund bank accounts, the payroll control accounts and also between payroll and Altair. These are considered below.

8.2. Bank Reconciliations – CPF has four bank accounts in place (e.g. Accounts Receivable, Accounts Payable, Liquidities and Salaries). A review of reconciliations undertaken by the LGSS Business Systems Team during 2019-20 found that:

- Reconciliations were being completed on a timely basis. Completed reconciliations were subject to management review although the reconciliation for the salaries account had no evidence of the management check for September 2019.

- A re-performance of all the bank account reconciliations as at the end of September 2019 highlighted no issues of concern and found that unreconciled items were being resolved on a timely basis.

8.3. Payroll Control Accounts – Two key control accounts were reviewed namely net pay and pension payroll suspense. A review of the reconciliations between April and October 2019 highlighted that documentation included a list of unreconciled transactions along with a description of action to be taken. There is no assurance through the current process that the total value of unreconciled items agreed to the balance on the ledger each month as the ledger balance is not included in the working paper. We have been advised by the Payroll Service Delivery Manager that she checks the balance agrees to the ledger as part of the management review.

(See MAP 2)

9.3.1 A review of the reconciliations highlighted the following:

- Net Pay – During the period April to September 2019, there has been little progress in addressing unreconciled items. Whilst the current balance of unreconciled items is just under £500k, the number of unreconciled items has increased in this period from 309 to 397 items. This includes 144 items which relate to transactions dated prior to April 2019.

- Pensions Payroll Suspense – At the end of October 2019, there were 339 items in suspense to the value of £360k. This included 283 items dating back prior to April 2019.

Responsibility for investigating and resolving these items is assigned to Pensions Accounting and discussions indicated that they are progressing with investigating these items although dealing with some of the older transactions are time consuming.

(See MAP 3)

9.4 Reconciliation between pension payroll and Altair - The identification of and resolution of under and over payments following the completion of the reconciliation between the historic pension payroll and Altair records in 2017-18 has now almost been completed, only a small number (8) of queries remain and these are pending where information is awaited from HMRC in order to confirm the precise variance.

Management Action Plan

Likelihood					The Agreed Actions are categorised on the following basis:	
	H	S	I	E	Essential	Action is imperative to ensure that the objectives for the area under review are met.
	M	S	I	E	Important	Requires action to avoid exposure to significant risks in achieving objectives for the area under review.
	L		S	I	Standard	Action recommended enhancing control or improving operational efficiency.
		L	M	H		
		Impact				

Ref	Issue and Risk	*Category*	Agreed Actions & Management Comments	Responsible Manager & Target Date
1.	**Annual Reconciliation of employers / employee Contributions** For those employers that submit data via i-connect, an annual reconciliation is not undertaken and instead reliance is placed on the checks undertaken as part of the monthly process, although such checks are currently visual and not evidenced or logged. **Risk** Errors not detected.	Standard	As part of the monthly review of contributions, documented evidence should be retained, to demonstrate that appropriate checks have taken place.	Fund Accounting Manager May 2020

Ref	Issue and Risk	*Category*	Agreed Actions & Management Comments	Responsible Manager & Target Date
2.	**Payroll Control Accounts** A review of the reconciliations between April and October 2019 highlighted that documentation included a list of unreconciled transactions but no evidence was retained that this agreed to the ledger balance. **Risk** Unreconciled transactions are not reviewed.	Standard	To ensure a complete audit trail of information is included in the control account working papers.	Payroll Service Delivery Manager Implemented
3	**Control Account – Unreconciled Transactions** At the end of October 2019, there were: • 397 unreconciled items in the Net Pay control account to the value of £500k. This included 144 items dating back prior to April 2019. • 339 unreconciled items in the Pension Payroll Suspense to the value of £360k. This included 283 items dating back prior to April 2019. **Risk** Unreconciled transactions are not reviewed. Transactions are not accurately recorded on the general ledger.	**Important**	To take appropriate action to ensure unreconciled items are addressed on a timely basis • Net Pay monthly control process to be reviewed with Payroll, supported by the Quality Assurance Officer, and Net Pay queries reconciled. • Monthly allocation of suspense items to correct codes.	Fund Accounting Manager Net Pay - March 2021 Suspense - March 2020

Internal Audit & Risk delivering for

Distribution List

Full Report Issued for Action:	Mart Whitby – Head of Pensions Joanne Walton - Governance and Regulations Manager Ben Barlow - Fund Accounting Manager Claire Littlejohn – Payroll Service Delivery Manager
Full Report Issued for Information:	Chris Malyon, Deputy Chief Executive and Chief Finance Officer Tom Kelly, Head of Finance Mark Ashton – Managing Director, LGSS

Issue Date:	14th February 2020
Audit Committee Date:	24th March 2020

This audit and report has been prepared in line with the LGSS Internal Audit Manual and has been subject to appropriate review.

LGSS Chief Internal Auditor Approval:	Duncan Wilkinson
Quality Reviewed:	Stephen Mangan
Lead Auditor:	Janette Lynn

CAMBRIDGESHIRE PENSION FUND

Pension Fund Committee

19th March 2020

Report by: Head of Pensions

Subject:	Employer Admissions and Cessations Report
Purpose of the Report:	1. To report the admission of five admitted bodies to the Cambridgeshire Pension Fund 2. To notify the Committee of seven bodies ceasing in the Cambridgeshire Pension Fund
Recommendations:	That the Pension Fund Committee: 1. Notes the admission of the following admitted bodies to the Cambridgeshire Pension Fund and approves the sealing of the admission agreements: • ABM Catering • Busy Bee Cleaning Services • Easy Clean Contractors • Pabulum Ltd • Taylor Shaw 2. Notes the cessation of the following bodies from the Cambridgeshire Pension Fund: • Advanced Cleaning Services (ACS) Ltd • Aspens Ltd • Holmewood and District Internal Drainage Board • Leisure Provisions Ltd, • P3 – People, Potential and Possibilities • VHS Cleaning Service Ltd • Wisbech Grammar School 3. Approves, in principle, the proposal to agree a repayment plan with Wisbech Grammar school
Enquiries to:	Name – Cory Blose, Employer Services and Systems Manager Tel – 07990560829 E-mail – cblose@northamptonshire.gov.uk

1. Background

1.1 The Local Government Pension Scheme Regulations 2013 (as amended) provide for the participation of a number of different types of body in the Local Government Pension Scheme; scheduled bodies, designating bodies, and admission bodies.

1.2 This report provides an update on admissions to and cessations from the Cambridgeshire Pension Fund since the last meeting of the Pension Fund Committee.

2 New Admission Bodies

2.1 Paragraph 1 of Part 3 of Schedule 2 to the Regulations provides for an Administering Authority making an admission agreement with an admission body, enabling employees of the admission body to be active members of the Local Government Pension Scheme.

2.2 A body which falls under paragraph 1(d)(i) of Part 3 of Schedule 2 is an admission body that is providing a service, in connection with the function of a scheme employer, as the result of a transfer of service or assets by means of a contract or other arrangement.

2.3 The Pension Fund Committee is asked to note the admission of the following bodies into the Cambridgeshire Pension Fund under paragraph 1(d)(i) and to approve the sealing of the admission agreements.

Date	New Admission Body	Background information
01/08/2019	ABM Catering (Oakdale Primary School)	Oakdale Primary School has entered into a contract with ABM Catering to provide catering services. Peterborough City Council has agreed to retain the pension risk under a Pass Through agreement.
28/05/2019	Busy Bee Cleaning Services Ltd (St Bedes Inter-Church School Academy)	St Bedes Inter-Church School Academy has entered into a contract with Busy Bee Cleaning Services Limited to provide cleaning services. The Academy has agreed to retain the pension risk under a Pass Through agreement.
01/01/2020	Easy Clean Contractors (Arbury Primary School)	The Arbury Primary School has entered into a contract with Easy Clean Contractors to provide cleaning services. Cambridgeshire County Council has agreed to retain the pension risk under a Pass Through agreement.
01/06/2018	Pabulum Ltd (Cambridge Meridian Academies Trust (CMAT), Lantern Community Primary School)	Cambridge Meridian Academies Trust (CMAT) has entered into a contract with Pabulum Limited to provide catering services. CMAT has agreed to retain the pension risk under a Pass Through agreement.
29/10/2018	Pabulum Ltd (Cambridge Primary Education Trust (CPET)	Cambridge Primary Education Trust (CPET) has entered into a contract with Pabulum Limited to provide catering services. CPET has agreed to retain the pension risk under a Pass Through agreement.
01/09/2019	Taylor Shaw (Abbey College Academy)	The Abbey College Academy, has entered into a contract with Taylor Shaw to provide catering services. The Academy has agreed to retain the pension risk under a Pass Through agreement.

3. Cessations

3.1 Advanced Cleaning Services Ltd (Kettlefields Primary School)

3.1.1 Advanced Cleaning Services were admitted to the Fund under a pass through agreement on 1 October 2018, after entering a contract to provide catering services to Kettlefields Primary School.

3.1.2 On 30 November 2019 the last active member left employment. No exit payment or credit will be required as the pension liabilities were retained within Cambridgeshire County Council.

3.2 Aspens Ltd (Brewster Avenue Infants, Dogsthorpe Infants, Oakdale Primary and St Augustine's CofE Junior Schools)

3.2.1 Aspens Ltd were admitted to the Fund under a pass through agreement on 1 August 2018, after entering a contract to provide catering services to Brewster Avenue Infants, Dogsthorpe Infants, Oakdale Primary and St Augustine's CofE Junior Schools.

3.2.2 Their service contract with the schools ended on 31 July 2019. No exit payment or credit will be required as the pension liabilities were retained within Peterborough City Council.

3.3 Holmewood and District Internal Drainage Board

3.3.1 Holmewood and District Internal Drainage Board is a designating body which passed a resolution to join the Cambridgeshire Pension Fund on 1 April 1988.

3.3.2 On 31 March 2019, the last active member left employment, meaning Holmewood Internal Drainage Board ceased as a Scheme employer in the Fund.

3.4 Leisure Provisions Ltd (Ely St John's School and Monkfiled Park Primary School)

3.4.1 Leisure Provisions Ltd were admitted to the Fund under a pass through agreement on 29 October 2018, after entering a contract to provide cleaning services to Ely St John's School and Monkfield Park School.

3.4.2 Their service contract with the schools ended on 31 March 2019. No exit payment or credit will be required as the pension liabilities were retained within Cambrdigeshire County Council.

3.5 P3 – People, Potential and Possibilities

3.5.1 P3 – People, Potential and Possibilities were admitted to the Fund under a pass through agreement on 1 October 2018, after entering a contract to provide community based services for Cambridgeshire County Council.

3.5.2 On 31 July 2019 their last active member left the organisation. No exit payment or credit will be required as the pension liabilities were retained within Cambrdigeshire County Council.

3.6 **VHS Cleaning Service Ltd (The Netherall School)**

3.6.1 VHS Cleaning Service Ltd were admitted to the Fund under a pass through agreement on 1 September 2016, after entering a contract to provide cleaning services to The Netherall School.

3.6.2 On 31 August 2017, the last active member left employment. No exit payment or credit will be required as the pension liabilities were retained within Anglian Learning Trust.

3.7 **Wisbech Grammar School**

3.7.1 Wisbech Grammar School was admitted to the Fund on 13 March 1987 as a body providing a public service in the United Kingdom otherwise than for gain.

3.7.2 On 31 January 2020, the School was sold to a private entity and the last active members left the Scheme, creating a cessation event. The Trust that was operating the school has no liquid assets available to pay off their pension deficit but does have significant physical assets. We are currently in discussions with the Trust over a potential repayment plan. In return, the Trust will provide security to the Fund in the form of a charge on one of their properties.

3.7.3 A verbal update will be provided at the meeting and the Pension Fund Committee will be asked to approve the proposal, in principle.

4. Relevant Pension Fund Objectives

Manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers. *Objective 2*
Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate. *Objective 5*
Ensure appropriate exit strategies are put in place in both the lead up to and termination of a scheme employer. *Objective 7*

5. Risk Management

5.1 The Pension Fund Committee are responsible for approving some admission bodies into the Fund as well as monitoring all admissions and cessations.

5.2 The risks associated with failing to monitor admissions and cessations have been captured in the Fund's risk register as detailed below.

Risk No	**Risk**	**Residual risk rating**
11	Lack of understanding of employer responsibilities which could result in statutory and non-statutory deadlines being missed.	Green
14	Failure to administer the scheme in line with the regulations.	Green

17	Failure to provide relevant information to the Pension Fund Committee/Pension Board to enable informed decision making	Green
21	Failure to assess and monitor the financial strength of an employer covenant to ensure employer liabilities are met.	Green

5.3 The Fund's full risk register can be found on the Fund's website at the following link: https://pensions.northamptonshire.gov.uk/app/uploads/2019/10/RiskRegisterCPF.pdf

6. Communication Implications

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

7. Legal Implications

7.1 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.

8. Consultation with Key Advisers

8.1 Contribution rate and bond assessments are undertaken by Hymans Robertson, the Fund Actuary.

8.2 A precedent admission agreement has been drafted by Eversheds, specialist pension legal advisers in consultation with LGSS Law.

9. Alternative Options Considered

9.1 None available.

Checklist of Key Approvals	
Is this decision included in the Business Plan?	
Will further decisions be required? If so, please outline the timetable here	
Is this report proposing an amendment to the budget and/or policy framework?	
Has this report been cleared by Section 151 Officer?	Sarah Heywood – 27th February 2020
Has this report been cleared by Head of Pensions?	Mark Whitby – 14th February 2020
Has the Chairman of the Pension Fund Committee been consulted?	Councillor Rogers – 4th March 2020
Has this report been cleared by Legal Services?	Fiona McMillan – 25th February 2020

CAMBRIDGESHIRE PENSION FUND COMMITTEE AGENDA PLAN		Cambridgeshire County Council

Meeting date	Agenda item	Lead officer	Deadline for draft reports	Local Pension Board Review date (where applicable)
19/03/2020	Minutes 14/01/2020 and Action Log	D Cave/ J Walton		
	Administration Report [standing item]	J Walton		
	Business Plan Update [standing item]	M Whitby		
	Governance and Compliance Report [standing item]	J Walton		
	Employers Admissions and Cessations Report [standing item]	C Blose		
	Asset Pooling – ACCESS Strategic Business Plan [current standing item]	P Tysoe		
	Risk Monitoring [standing item bi-annually]	M Oakensen		
	Valuation Update inc Funding Strategy Statement [current standing item]	C Blose		Post review 24/04/2020
	Business Plan and Medium Term Strategy [approval]	J Walton		Post review 24/04/2020
	Communication Strategy [approval]	C Blose		Pre review 24/01/2020
	Internal Audit Report	M Whitby		
19/6/2020	Minutes 19/03/2020 and Action Log	D Cave/ J Walton		
	Administration Report [standing item]	J Walton		

Meeting date	Agenda item	Lead officer	Deadline for draft reports	Local Pension Board Review date (where applicable)
	Business Plan Update [standing item]	M Whitby		
	Governance and Compliance Report [standing item]	J Walton		
	Employers Admissions and Cessations Report [standing item]	C Blose		
	Engagement Report	C Blose		
	Asset Pooling	P Tysoe		
	Administration Strategy [approval]	C Blose		24/04/2020
	Training Strategy [approval]	M Oakensen		03/07/2020
	Effectiveness Review	M Oakensen		
23/7/2020	Minutes 18/06/2020 and Action Log	D Cave/ J Walton		
	Annual Report and Statement of Accounts [approval]	Ben Barlow		Joint feedback.
8/10/2020	Minutes 23/07/2020 and Action Log	D Cave/ J Walton		
	Administration Report [standing item]	J Walton		
	Business Plan Update [standing item]	M Whitby		
	Governance and Compliance Report [standing item]	J Walton		
	Employers Admissions and Cessations Report [standing item]	C Blose		
	Admitted bodies, Scheme Employers and Bulk Transfer Policy [approval]	C Blose		Post review 22/01/2021
	Asset Pooling	P Tysoe		
	Risk Monitoring [standing item bi-annually]	M Oakensen		

Meeting date	Agenda item	Lead officer	Deadline for draft reports	Local Pension Board Review date (where applicable)
3/12/2020	Minutes 8/10/2020 and Action Log	D Cave/ J Walton		
	Administration Report [standing item]	J Walton		
	Business Plan Update [standing item]	M Whitby		
	Governance and Compliance Report [standing item]	J Walton		
	Employers Admissions and Cessations Report [standing item]	C Blose		
	Asset Pooling [standing item]	P Tysoe		