

# *Annual Business Plan 2014-15*

## Quarter 1 Update Report

Welcome to the LGSS Pensions Service Business Plan update for the first quarter of 2014-15.

This update will provide a progress report on the specific work areas contained within Key Service Challenges of the Annual Business Plan, together with other Pensions Service developments or initiatives.

You will also find in this document:

- Pension Fund News
- Regulations & Consultations Update
- Investment Information
- Update on Key Service Challenges
- Service Key Performance Indicators
- The Forward Plan of Business

The intention is to present this information in a concise, meaningful manner and to incorporate information that would have otherwise constituted a Board report into this regular update. We continue to welcome feedback on the format and layout of this document.

Steve Dainty  
Head of LGSS Pensions Service

## **Pension Fund News**

### **Year End Accounts 2013-14**

LGSS Pensions Service is pleased to report that draft accounts have been completed one month earlier than in previous years. The draft accounts are currently being audited by PwC. The final accounts will be presented at the 24th July Annual General Meeting.

The Annual Report for 2013-14 will also be presented at this meeting for the Board to approve.

### **Triennial Actuarial Valuation of the Fund**

The triennial valuation of the Pension Fund was completed in March 2014. The full valuation report has been circulated to the Board and can be found on the Governance pages of the LGSS Pensions Service website at the link below;

<http://pensions.cambridgeshire.gov.uk>

A review of the process and the quality of the data is underway both internally and by the Fund's actuary, Hymans Robertson.

A full report, detailing the processes and data quality will be presented to the Board in October.

## Regulations and Consultations Update

### New Regulations

The Local Government Pension Scheme (Transitional Protection) Regulations were laid before Parliament on 10th March 2014 and came into force with effect from 1st April 2014. These regulations generally speaking, set out provisions for those with membership of the LGPS before and after 1st April 2014. The regulations can be found here;

<http://www.lgpsregs.org/index.php/regs-legislation/timeline-transitional-regulations-2014>

2014/839 Public Service Pensions Act 2013 (Commencement No.4) Order 2014, made 26 March 2014. Provides for the commencement of certain sections of the Public Service Pensions Act 2013

[http://www.legislation.gov.uk/uksi/2014/839/pdfs/ukxi\\_20140839\\_en.pdf](http://www.legislation.gov.uk/uksi/2014/839/pdfs/ukxi_20140839_en.pdf)

2014/575 The Public Service Pensions (Employer Cost Cap) Regulations 2014, made 10 March 2014, coming into force on 1 April 2014. These Regulations provided that the specified margins in which scheme costs must remain, before corrective action is taken to rebalance the costs of the scheme, are set at 2 percentage points above and below the employer cost cap. They further provided that the target cost of a scheme, for cases where the cost would otherwise go beyond these margins, is the same as the employer cost cap. The target cost is the rate to which the costs of the scheme must return as a result of any corrective action.

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/289364/The\\_Public\\_Service\\_Pensions\\_Employer\\_Cost\\_Cap\\_Regulations\\_2014.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/289364/The_Public_Service_Pensions_Employer_Cost_Cap_Regulations_2014.pdf)

2014/668 Pensions Increase (Review) Order 2014, made 13 March 2014 coming into force on 7 April 2014. Provided the basis for cost of living increase of deferred pensions and pensions in payment in excess of Guaranteed Minimum Pensions in payment. Increase of 2.7% provided.

[http://www.legislation.gov.uk/uksi/2014/668/pdfs/ukxi\\_20140668\\_en.pdf](http://www.legislation.gov.uk/uksi/2014/668/pdfs/ukxi_20140668_en.pdf)

2014/623 The Automatic Enrolment (Earnings Trigger and Qualifying Earnings Band) Order 2014 made 12 March 2014 coming into force on 6 April 2014. Provided revised parameters in connection with automatic enrolment requirements.

[http://www.legislation.gov.uk/uksi/2014/623/pdfs/ukxi\\_20140623\\_en.pdf](http://www.legislation.gov.uk/uksi/2014/623/pdfs/ukxi_20140623_en.pdf)

2014/515 The Guaranteed Minimum Pensions Increase Order 2014, made 10 March 2014 coming into force on 6 April 2014. Provided the basis for cost of living increase of Guaranteed Minimum Pensions in payment. Increase of 2.7% provided.

[http://www.legislation.gov.uk/uksi/2014/515/pdfs/ukxi\\_20140515\\_en.pdf?page=2](http://www.legislation.gov.uk/uksi/2014/515/pdfs/ukxi_20140515_en.pdf?page=2)

The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014. Direction made 11 March 2014 and coming into force on the same date. Set out details of when Valuations are to take place, the methodology and assumptions to be used and contents to be included in the Valuation Report.

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/289360/The\\_Public\\_Service\\_Pensions\\_Valuations\\_and\\_Employer\\_Cost\\_Cap\\_Directions\\_2014.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/289360/The_Public_Service_Pensions_Valuations_and_Employer_Cost_Cap_Directions_2014.pdf)

The Public Service Pensions (Information about Benefits) Directions 2014 Direction made 11 March 2014 and coming into force on 1 April 2015. Sets out information to be included in, and manner in which Benefit Information Statements are to be provided to scheme members. (new terminology for Annual Benefit Statements)

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/290178/public\\_service\\_pensions\\_information\\_about\\_benefits\\_directions\\_2014.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/290178/public_service_pensions_information_about_benefits_directions_2014.pdf)

## New Consultations

On the 1<sup>st</sup> May 2014, the Department of Communities and Local Government issued a consultation entitled, Local Government Pension Scheme: opportunities for collaboration, cost savings and efficiencies. The consultation focuses on opportunities for cost savings and efficiency in investment management, with Fund merger not being the government's preferred option. Instead, the consultation proposes to leave decisions on asset allocation with the local authorities and is consulting on the use of collective investment vehicles and the greater use of passive management.

The consultation closes on 11<sup>th</sup> July 2014. Full details of the consultation can be found at the following link.

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/307923/Consultation\\_LGPS\\_structural\\_reform.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/307923/Consultation_LGPS_structural_reform.pdf)

Hymans Robertson were commissioned by DCLG to quantify and compare the costs and benefits of fund merger and asset pooling to help inform further this consultation. Hymans Robertson have conducted this research for the benefit of the LGPS community and as part of the remit of this work for DCLG, they have not provided a recommendation.

Hymans Robertson research can be found at the following link;

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/307926/Hymans\\_Robertson\\_report.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/307926/Hymans_Robertson_report.pdf)

A draft response to this consultation will be presented to the Board on 26 June 2014.

## **Investments Update**

### **Asset Allocation Strategy**

Following the discussion of the review of the strategic asset allocation for each fund at the Pension Fund Boards in March and April, work is ongoing to produce plans and timescales in which changes to the Fund's investment allocations will be implemented.

Further proposals will be discussed at the Investment Sub Committee meetings for each fund during September.

### **Efficient Foreign Exchange Transaction**

At the start of February, the first set of investment managers for each fund implemented the netting platform for Foreign Exchange transactions the two funds helped set up with Russell specifically for the rest of the LGPS. We will be transitioning another manager during the quarter. The remaining managers will be transitioned later in the quarter based on future forecasted benefits.

### **National Frameworks call off**

Both Cambridgeshire and Northamptonshire Funds have called off the National Custodian framework that we helped set up with other LGPS Funds and the preferred bidder was Northern Trust to be custodian to the two Funds. For Northamptonshire this is a continuation of the existing arrangement but for Cambridgeshire we will be working with Northern Trust to migrate service from the incumbent provider BNY Mellon by 1st October 2014.

Both Cambridgeshire and Northamptonshire Funds are calling off the National Investment Consultancy services frameworks. Responses to the ITTs (Invitations to Tender) for Investment Consultancy services from the six firms of advisers appointed to the framework are due in early July and will be evaluated on their written submissions and by interview by a combined panel of Cambridgeshire and Northamptonshire elected members and the respective s151 Officers.

The full process is due to complete during September 2014.

### **Future Plans**

The Cambridgeshire and Northamptonshire Funds are working collaboratively to:-

- Further explore alternative passive indices
- Explore vehicles to facilitate joint investments, e.g.
- Common Investment Funds (CIF)
- Tax Transparent Funds (TTF)
- Authorised Contractual Schemes (ACS)

## Key Service Challenges

The 2014-15 Business Plan laid out the key challenges facing the Pensions Service. The following table provides an update on the progress made against each challenge.

Key Service Challenges				Quarter 1 Update
		Lead Officer	2014-15 Time frames	
Implementing the 2014 and 2015 Governance changes.	In particular the revised structures and Code of Practice.  Incorporating LGPS, Police and Fire.	Funding and Governance	Quarter 4 (LGPS)  2015 (Police & Fire)	Pending draft regulations which are due for issue late May/early June 2014.  Final regulations expected September 2014.
Develop the Skills and Knowledge programme.	Evaluating the first full cycle and considering the Code of Practice implications.	Funding and Governance	Quarter 3	Final CIPFA Skills and Knowledge modules (Pensions Legislation and Governance Context and Pensions Accounting and Auditing Standards) held on 10 <sup>th</sup> June 2014 in conjunction with Bedfordshire Pension Fund.  A full review of the 6 modules is underway and will form a Board report to review the CIPFA framework, the Pensions Regulator's Code of Practice and the current Knowledge Management Training Policy. This report is scheduled to be presented at the September Pension Fund Board meetings.
Implementation of the 2014 Regulations (LGPS).	Impacted with delays in receiving regulations such as the transition protection	Operations and Technical  And	2014 (LGPS)	75% of Local Government Pension Scheme 2014 forms and packs for both members and employers have been designed and are now on the LGSS Pensions Service website.

2015 Regulations (Police and Fire).	<p>regulations.</p> <p>Greater sensitivity and compliance of data provided by employers.</p> <p>Recognition by employers of their responsibilities and ownership.</p> <p>Accommodating the growth of employers in the Fund.</p> <p>Data quality risks.</p> <p>Incorporating LGPS, Police and Fire.</p> <p>DWP Disclosure Regulations (2015).</p>	Employers and Systems	<p>2015 (Police &amp; Fire)</p> <p>NB: This is dependent upon release by DCLG.</p>	<p><a href="http://pensions.cambridgeshire.gov.uk/index.php/forms/">http://pensions.cambridgeshire.gov.uk/index.php/forms/</a></p> <p>60% of all the internal processes/letters/forms have been reviewed to reflect the LGPS 2014 scheme changes. We have been impacted by the late issuance of Transitional Regulations and GAD guidance. The remaining processes, letters and forms are progressing well despite delays incurred following the late issuing of the final regulations.</p>
Managing the legacy pre 2014 regulations.	<p>Complexities of managing multiple regulations and maintaining data in accordance.</p> <p>Data quality risks – data quality comparison against</p>	<p>Operations and Technical</p> <p>And</p> <p>Employers and Systems</p>	<p>Quarter 4</p> <p>[NB: Police and Fire will fall into 2015-16.]</p>	<p>This is an added layer of complexity from April 2014 – our process re-engineering is taking account of the legacy requirements.</p>

	other Funds.  Incorporating LGPS, Police and Fire.			
Implementation of Member Self Service.	Promote engagement by scheme members.  Aids data quality intelligence.  Incorporating LGPS, Police and Fire.	Employers and Systems	Quarter 4	Member Self Service has now been rolled out to members of <b>197</b> employers across both Funds ( <b>18,713</b> active pension scheme members) between the period 10 <sup>th</sup> November 2013 to 18 <sup>th</sup> May 2014. Of the <b>18,713</b> active pension scheme members who have received activation keys, <b>3,154</b> have accessed the Member Self Service facility ( <b>16.85%</b> ).  The roll out and promotion of Member Self Service will continue and the uptake will be reported within each Business Plan update. 100% roll out is anticipated to be achieved in quarter 4.
Procurement of Fund Specific investment advisers.	Undertake procurement process through the National Framework and conduct a mini competition to select investment consultants for both Funds.	Investments Team	Quarter 3	Both Cambridgeshire and Northamptonshire Funds are calling off the National Investment Consultancy services frameworks. Responses to the ITTs (Invitations to Tender) for Investment Consultancy services from the six firms of advisers appointed to the framework are due in early July and will be evaluated on their written submissions and by interview by a combined panel of Cambridgeshire and Northamptonshire elected members and the respective s151 Officers. The full process is due to complete during September 2014.
Procurement of a LGSS joint custodian.	Undertake procurement process through the National Framework and select a joint	Investments Team	Quarter 2/3	Both Cambridgeshire and Northamptonshire Funds have called off the National Custodian framework that we helped set up with other LGPS Funds and the preferred bidder was Northern Trust.



	custodian for the two funds. Migration of the fund/funds to the winning custodian.			For Northamptonshire this is a continuation of the existing arrangement but for Cambridgeshire we will be working with Northern Trust to migrate the £2bn worth of assets from the incumbent provider BNY Mellon by 1 <sup>st</sup> October 2014.
Procurement of a LGSS joint Actuary.	Undertake procurement process through the National Framework.	Funding and Governance	Quarter 4	Work for this deliverable will commence in quarter 4.
Embedding the Fund Administration Strategy.	Engage with existing employers to adopt ensure compliance with performance standards. Note: Requirement for all new employers.	Employers and Systems	Quarter 4	Fund/employer performance will be published in time for discussion at Autumn Employer Forum (date to be confirmed).
Seek collaboration opportunities.	Continued development of LGSS Pension Services as a business unit.	Head of Pension Services	Quarter 4	Work for this deliverable is already in progress.
Engagement on and implementation of the structural reform of how Local Government Pension	Understanding and implementing the outcome of the Call for Evidence initiative, with likely requirement to adopt a Common Investment Vehicle approach.	Investments Team	Quarter 2/3/4	<p>DCLG consultation paper issued on 1<sup>st</sup> May 2014. Consultation response to be written by LGSS Pensions Services by 11<sup>th</sup> July 2014.</p> <p>The discussions around the future structure of the LGPS and whether funds should merge (or at least have their assets invested jointly) is ongoing.</p> <p>On the 1<sup>st</sup> May 2014, the Department of Communities</p>

Schemes invest.				<p>and Local Government issued a consultation entitled, <b><i>Local Government Pension Scheme: opportunities for collaboration, cost savings and efficiencies.</i></b></p> <p>The consultation focuses on opportunities for cost savings and efficiency in investment management, with Fund merger not being the government's preferred option. Instead, the consultation proposes to leave decisions on asset allocation with the local authorities and is consulting on the use of collective investment vehicles and the greater use of passive management.</p> <p>The consultation closes on the 11<sup>th</sup> of July 2014 and the Minister has indicated that he will come out with a firm steer re direction of travel by the autumn.</p>
Asset Allocation Review following the 2014 Valuation.	To review and implement changes to the current Asset Allocation Strategy in the light of the 2013 Valuation.	Investments Team	Quarter 2/3/4	Following the completion of the review of the strategic asset allocation for each fund in March/April, work is ongoing to implement the various changes to the Funds investment strategies. There is a 12 month implementation plan to deliver on the various changes to the strategies.

## Key Performance Indicators

Below are the results of how the Pensions Service has performed against the Key Performance Indicators set out in the 2014-15 Business Plan in quarter one.

Function/Task	Indicator	Target	Latest Update
Send welcome letter to new employer.	Welcome letter sent within 15 days of receiving confirmation of conversion from the Academy or from date admission agreement sealed.	90%	66% Target missed due to the exceptional workloads created by the valuation project and LGPS 2014 project being undertaken at the same time, and therefore the catching up taking place in Q1 2014/2015.
Complete internal validation of data for new admissions.	Complete internal validation within the agreed time frame.	90%	44% Target missed due to the exceptional workloads created by the valuation project and LGPS 2014 project being undertaken at the same time, and therefore the catching up taking place in Q1.
Keep up to date the employer website, including procedural guides, scheme guide and all other documents and forms.	20 working days from date of change/amendment	100%	100%
Acknowledge death of active/deferred/pensioner member.	Letter issued within 5 working days following notification of death	100%	98% Target missed due to workloads and training of new staff by Team Leaders.
Notify employees retiring from active membership of benefits award.	Issue award within 5 working days after payable date or date of receiving all necessary information if later.	95%	93% Target missed due to workloads and training of new staff.

Provide a divorce quotation to employees on request.	Provided within 10 working days from receipt of all information	90%	94%
Provide a maximum of one estimate of benefits to employees per year on request.	Estimate in agreed format provided within 10 working days from receipt of all information	90%	87% Target missed due to workloads and training of new staff.
Publish the Pension Fund Annual Report and any report from the auditor.	By 31 August following the year end	100%	On track to deliver.
Provide an FRS17/IAS19 report to employers for their chosen accounting date.	Within one month of the 31 March, 31 July or 31 August (or other) accounting date, providing employer has returned required data to LGSS Pensions Service by the 1 <sup>st</sup> of the month in which the accounting date falls	100%	March 2014 cycle delivered. Delayed issuing of statements due to volume of queries arising. Reviewing for the July/August cycle to reduce/eliminate the number of queries.
Performance of each Fund's assets.	Each Fund's assets performance vs. target on a rolling 3 year basis.  1.6% above gilts [as at March 2013]. Therefore target is currently 4.6%. Actual performance for both funds is currently around 6.2%. That is: 3.2% above gilts.	100%	Annual performance year to date:  Fund: 8.2% Target: 4.6% Benchmark [i.e. if assets had been invested passively]: 5.4%  Rolling 3 year figure:  Fund: 8.2% Target: 4.6% Benchmark [i.e. if assets had been invested passively]: 7%
Fund asset performance in relation to LGPS peers.	Each fund's ranking on annual, independently produced WM ranking. Final figures produced annually as at the 31 December. Target is for both funds to be in the top performing third.	100%	To be presented to the July 2014 Board meeting.

## **Next Board Meeting**

### **Cambridgeshire Pension Fund – Annual General Meeting – 24<sup>th</sup> July 2014**

Final Annual Report and Statement of Accounts 2013-14  
External Audit Assurance Report  
High Level Investment Strategy Review  
WM Annual Performance Report  
Review and Approve Statement of Investment Principles  
Review of Sustainable & Responsible Investment Policies