

CAMBRIDGESHIRE PENSION FUND

Agenda Item No: 6

Pension Fund Board

Date: 23 April 2021

Report by: Head of Pensions

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| Subject: | Pension Fund Annual Business Plan Update report 2020/21 |
| Purpose of the Report | To present the Business Plan Update for the 2020/21 financial year |
| Recommendations | The Pension Fund Board is asked to note the Business Plan Update to 31 March 2021 |
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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 2020/21 financial year and details where activities are continuing into the new financial year.
- 1.2 All activities that are carried over into 2021/22 are explained in full within the 2021/22 Business Plan and Medium Term Strategy as approved by the Pension Fund Committee on 25 March 2021 and is a further agenda item at this meeting for noting by the Pension Fund Board.
- 1.3 A full list of the key fund activities for the 2020/21 financial year can be found in appendix 1 of this report.

2. Variances against the forecast of investments and administration expenses

- 2.1 The tables in appendix 2 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 June 2020.

3. Key Pension Fund Activities

3.1 Service Delivery (SD)

- 3.1.1 Undertake a review of the Business Continuity Plan (SD1)

Action: The Business Continuity Plan (BCP) 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 West Northamptonshire Council on 1 April 2021 and incorporate any learning points from the pandemic.

Year-end status: Carried over to 2021/22

Comments: Full details of this activity are held in the 2021/22 Business Plan and Medium Term Strategy.

3.1.2 Undertake an analysis of the risks faced by the Fund as a result of cyber-crime and out in place appropriate mitigations (SD2)

Action: 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.

Year-end status: Analysis completed. Actions carried over to 2021/22.

Comments: The analysis of the risks faced by the Fund was completed. The next stage is to develop a cyber-resilience strategy and map the Fund's flow of data. Full details are in the 2021/22 Business Plan and Medium Term Strategy.

3.1.3 Retender/extend contract for actuarial, benefits and governance consultancy services (SD3)

Action: 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.

Year-end status: On target to start June 2021

Comments: Full details of this activity are held in the 2021/22 Business Plan and Medium Term Strategy.

3.1.4 Extension of existing pensions administration and payroll software contract (SD4)

Action: The Fund currently uses Aquila Heywood Ltd's Altair as its pensions administration and payroll software and payroll platform. The contract with Aquila Heywood Ltd is due to expire on 30 September 2021 and includes the option of a fixed 3-year extension. A framework has been launched by the National LGPS Framework for pensions administration and payroll software that operates from April 2020 to April 2024. The framework has 3 suppliers on it – Aquila Heywood Ltd, Civica UK Ltd, and Equiniti and contracts are for 7 years plus a maximum of 3 years.

Year-end status: Completed.

Comments: Contract extended to September 2024 as agreed by the Pension Fund Committee. The actions required to carry out the re-tender in time for the end of the extended contract is detailed in the 2021/22 Business Plan and Medium Term Strategy.

3.1.5 Re-tender/extend contracts for mortality screening and address tracing services (SD5)

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

Year-end status: Completed.

Comments: Decision made to extend the mortality contract for 2 years and to continue address tracing on an ad hoc basis for 2 years.

3.2 Governance and Compliance (GC)

3.2.1 Complete the Guaranteed Minimum Pension Rectification (GC1)

Action: 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.

Year-end status: Continuing into 2021/22

Comments: Full details of this activity are held in the 2021/22 Business Plan and Medium Term Strategy.

3.2.2 Obtain Pensions Administration Standards Association (PASA) accreditation (GC2)

Action: 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.

Year-end status: On target to start April 2022.

Comments: Full details of this activity are held in the 2021/22 Business Plan.

3.2.3 Conduct market testing and procure a supplier of independent data auditing services (GC3)

Action: 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 inform the necessary procurement route on a joint basis with Northamptonshire Pension Fund.

Year-end status: Completed.

Comments: Decision has been made to use the Altair pensions administration platform facility to carry out data scoring for the 2021 Pension Regulator's mandatory scheme return.

3.3 Communications, Systems and Employer Management (CSEM)

3.3.1 Undertake a digital strategy review (CSEM1)

Action: 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.

Year-end status: Completed as reported in the March 2021 Business Plan update report.

3.3.2 Scope requirements for data collection in respect of the LGPS Transitional Protections (CSEM2)

Action: 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.

Year-end status: Ongoing as awaiting amended regulations and further guidance from MHCLG.

Comments: This activity will continue into 2021/22 and subsequent years and is fully detailed in the 2021/22 Business Plan and Medium Term Strategy.

3.3.3 Prepare for the 2022 Valuation of the Pension Fund (CSEM3)

Action: 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.

Year-end status: On target from April 2021

Comments: Full details of this activity are held in the 2021/22 Business Plan and Medium Term Strategy.

3.3.4 Implement multiple investment strategies (CSEM4)

Action: With an increasing number and variety of scheme employers participating in the Fund it is prudent to consider whether greater flexibility is required to meet the different funding requirements of these scheme employers, who may have different investment risk appetites and whose scheme membership may have vastly differing levels of maturity. This project will look to create a small number of “investment buckets” into which different categories of scheme employer could be allocated.

Year-end status: Continuing into 2021/22

Comments: Full details of this activity are held in the 2021/22 Business Plan and Medium Term Strategy.

3.4 Operations (OPS)

3.4.1 Resolution of undecided leavers (OPS1)

Action: 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 primarily 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.

Year-end status: Continuing into 2021/22

Comments: Full details of this activity are held in the 2021/22 Business Plan and Medium Term Strategy.

3.4.2 Scope and conduct potential liability reduction exercises (OPS2)

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 within the LGPS to be awarded a pension entitlement and with the member not having claimed a refund) 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’s liability.

Year-end status: Continuing into 2021/22.

Comments: Full details of this activity are held in the 2021/22 Business Plan and Medium Term Strategy.

3.5 Investments and fund accountancy (INV)

3.5.1 Implement strategic allocation to fixed income (INV1)

Action: 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. Due to the pandemic flexible dates have been suggested.

Year-end status: Completed.

Comments: Allocations implemented from September 2020.

3.5.2 Re-tender for investment consultancy services (INV2)

Action: 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.

Year-end status: Mercer were reappointed as the Fund's investment consultant following a framework procurement in April 2021. Activity is on target to conclude in September 2021.

Comments: Full details of this activity are held in the 2021/22 Business Plan and Medium Term Strategy.

3.5.3 Continue development of the asset pool (INV3)

Action: 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.

Year-end status: Continuing into 2021/22.

Comments: Full details of this activity are held in the 2021/22 Business Plan and Medium Term Strategy.

3.5.4 Tender for an independent investment advisor (INV4)

Action: 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, however due to the pandemic the award of contract date remains uncertain until face-to-face interviews can be undertaken.

Year-end status: Completed.

Comments: Concluded September 2020 with the successful party introduced to the Investment Sub Committee in November 2020.

3.5.5 Reviews the Fund's Responsible Investment Policy (INV5)

Action: 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 Pension Fund 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.

Year-end status: Continuing into 2021/22.

Comments: Full details of this activity are held in the 2021/22 Business Plan and Medium Term Strategy.

3.5.6 Review the Real Estate Strategy (INV6)

Action: The Fund's Real Estate investments comprise a multi manager mandate managed by Schroders 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.

Year-end status: Continuing into 2021/22.

Comments: Full details of this activity are held in the 2021/22 Business Plan and Medium Term Strategy.

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

Action: 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.

Year-end status: On target to complete by September 2021

Comments: Full details of this activity are held in the 2021/22 Business Plan and Medium Term Strategy.

4. Relevant Fund objectives

4.1 To continually monitor and measure clearly-articulated objectives through business planning.

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 Pension Fund 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:

| Risk No. | Risk | Residual risk rating |
|----------|---|----------------------|
| 8. | Those charged with the governance are unable to fulfil their responsibilities effectively | Green |
| 14. | Failure to administer the scheme in line with regulations and guidance | Green |
| 16. | Pension Fund objectives not defined and agreed | Green |

5.3 A full version of the Fund risk register can be found [here](#).

6. Communication Implications

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

7.1 Any updated financial implications are set out in the relevant activities.

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. Alternative Options Considered

10.1 Not applicable

11. Background Papers

11.1 Annual Business Plan and Medium Term Strategy 2020/21 can be found [here](#).

12. Appendices

12.1 Appendix 1 – Full list of Key Fund Activities for the 2020/21 financial year.

12.2 Appendix 2 – Variances against the forecast of investments and administration expenses based on original setting of assumptions.

| Checklist of Key Approvals | |
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| Has this report been cleared by Head of Pensions? | Mark Whitby – 12 th April 2021 |
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Appendix 1 – Full list of Key Fund Activities for the 2020/21 financial year.

Service delivery

| Reference | Key action/task |
|-----------|--|
| 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 | Extension of pensions administration and payroll software |
| SD5 | Re-tender/extend contract for mortality screening and address tracing services |

Governance and Compliance

| Reference | Key action/task |
|-----------|---|
| GC1 | Complete the Guaranteed Minimum Pension rectification |
| GC2 | Obtain Pensions Administration Standards Association (PASA) accreditation |
| GC3 | Conduct market testing and procure a supplier of independent data auditing services |

Communications, Systems and Employer Management

| Reference | Key action/task |
|-----------|--|
| 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 |

Operations

| Reference | Key action/task |
|-----------|---|
| OPS1 | Resolution of unprocessed leaver records |
| OPS2 | Scope and conduct potential liability reduction exercises |

Investments

| Reference | Key action/task |
|-----------|--|
| 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 |

Appendix 2 – Variances against the forecast of investments and administration expenses based on original setting of assumptions

| Fund Account | 2020-21 Estimate | 2020-21 Forecast | Variance | Comments |
|---|------------------|------------------|-----------------|---|
| | £000 | £000 | £000 | |
| Contributions | 130,000 | 141,171 | 11,171 | The increase in contributions reflects a couple of employers paying their 3-year deficit in the first year following the 2019 valuation. |
| Transfers in from other pension funds | 5,200 | 21,861 | 16,661 | Includes large transfer in from Lincolnshire (£15.5m) originally projected in 21/22 but paid in 20/21 |
| Total income | 135,200 | 163,032 | 27,832 | |
| Benefits payable | (114,000) | (108,229) | 5,771 | Benefits have increased in line with membership against prior year figures, however they have not increased in line with 3 year member averages |
| Payments to and on account of leavers | (10,200) | (11,575) | (1,375) | Large transfer out to Norfolk (£4.8m) |
| Total Payments | (124,200) | (119,804) | 4,396 | |
| Net additions/(withdrawals) from dealings with members | 11,000 | 43,228 | 32,228 | |
| Management Expenses | (5,149) | (4,551) | 598 | See below |
| Total income less expenditure | 5,851 | 38,667 | 32,826 | |
| Investment income | 40,000 | 23,000 | (17,000) | Income is significantly below forecasted levels due to the impact of the pandemic and transfer of assets to pooled funds. |
| Taxes on income | - | - | - | |
| Profit and (losses) on disposal of investments and changes in the market value of investments | 69,000 | 686,700 | 617,700 | The Fund has significantly outperformed the Fund Actuary's investment growth assumption over the course of the year to 31 Dec 2020 |
| Net return on investments | 109,000 | 709,700 | 600,700 | |
| Net increase/(decrease) in the net assets available for benefits during the year | 114,851 | 748,377 | 633,526 | |
| Management Expenses | 2020-21 Estimate | 2020-21 Forecast | Variance | Comments |
| | £000 | £000 | £000 | |
| Total Administration | (2,644) | (2,747) | (103) | See below |

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|------------------------------------|----------------|----------------|------------|--|
| Expenses | | | | |
| Total Governance Expenses | (784) | (740) | 44 | Decrease in Cllr training, hire of facilities due to COVID 19 and legal and consultancy costs lower than expected. |
| Total Investment Invoiced Expenses | (1,721) | (1,064) | 657 | Investment assets moving into pooled arrangements |
| Total Management Expenses | (5,149) | (4,551) | 598 | |

| Administration Expenses Analysis | 2020-21 Estimate | 2020-21 Forecast | Variance | Comments |
|--------------------------------------|------------------|------------------|--------------|---|
| | £000 | £000 | £000 | |
| Staff Related | (1,423) | (1,524) | (101) | Vacancy factor lower than forecast due to COVID-19 plus the addition of one Pension Officer within Service. There has been a reduction in agency cost and staff training costs. |
| Altair System and payroll system | (336) | (355) | (19) | |
| Data Improvement Projects | (313) | (361) | (48) | Additional software licensing costs for third party project activity |
| Communications | (71) | (21) | 50 | |
| Other Non-Pay and Income | (16) | (1) | 15 | |
| County Council Overhead Recovery | (485) | (485) | - | |
| Total Administration Expenses | (2,644) | (2,747) | (103) | |