PENSION FUND COMMITTEE

Thursday, 25 March 2021

10:00

Democratic and Members' Services
Fiona McMillan
Monitoring Officer

Shire Hall
Castle Hill
Cambridge
CB3 0AP

COVID-19

During the Covid-19 pandemic Council and Committee meetings will be held virtually for Committee members and for members of the public who wish to participate. These meetings will held via Zoom and Microsoft Teams (for confidential or exempt items). For more information please contact the clerk for the meeting (details provided below).

AGENDA

Open to Public and Press

To resolve that the press and public be excluded from the meeting on the grounds that the agenda contains exempt information under Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended, and that it would not be in the public interest for this information to be disclosed information relating to the financial or business affairs of any particular person (including the authority holding that information)

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

The Pension Fund Committee comprises the following members:

Councillor Terence Rogers (Chairman) 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 David Jenkins and Councillor Mike Shellens

For more information about this meeting, including access arrangements please contact

Clerk Name: Dawn Cave
Clerk Telephone: 01223 699178
Clerk Email: dawn.cave@cambridgeshire.gov.uk

MINUTES OF THE PENSION FUND COMMITTEE

Date: Tuesday 8th December 2020

Time: 1.30pm - 4.05pm

Venue: Virtual Meeting

Present: County Councillors P Downes, I Gardener (Vice-Chairman), A Hay, T Rogers (Chairman) and M Shellens; Cambridge City Councillor R Robertson; Lee Phanco, Matthew Pink and John Walker

Officers: C Blose, D Cave, P Tysoe, J Walton and M Whitby

Advisors: D Green and R McInroy

Apologies: Peterborough City Councillor D Seaton

220. DECLARATIONS OF INTEREST

Councillor Robertson declared an interest as his wife was in receipt of a small pension.

John Walker and Councillor Downes both declared interests as retired members of the pension scheme.

Matthew Pink declared an interest an active member of the pension scheme.

221. PUBLIC MINUTES OF THE PENSION FUND COMMITTEE MEETING HELD 9th OCTOBER 2020

The minutes of the Pension Fund Committee meeting held on 9th October 2020 were approved as a correct record.

222. ACTION LOG

The Action Log was noted.

223. ADMINISTRATION PERFORMANCE REPORT

The Committee considered a report which set out a number of key areas of administration performance.

Members were reminded that since the start of the pandemic, the Pension team had managed to maintain performance across the range of KPIs (Key Performance Indicators). However, there had recently been a dip in performance due to a system outage on Altair pension administration system and the NCC network, which had impacted on the KPIs in relevant areas. Additionally, a key member of staff had been off sick which had affected performance in a number of areas, but it was confirmed that the team had subsequently caught up. The main issue had been the three consecutive days of outage, which had meant that it had not been possible to complete a number of actions requiring a five day turnaround.

In terms of Employer contributions, the vast majority of Employers were paying on time, with just two Employers failing to meet the deadline. However, those two Employers were only late by a few days, and had always paid on time previously, so this was not considered to be a cause for concern.

Despite the formal cessation of LGSS, the Pensions Service would continue to provide a shared service arrangement for Northamptonshire and Cambridgeshire Funds. When the new local authority arrangements came into place in Northamptonshire in 2021, the Pensions Service would sit under West Northamptonshire Council going forward.

With regard to the Tier 1 Ill Health Estimate that had been overstated, it was agreed that an email would be circulated to the Committee to provide an update on this case and the other IDRP cases identified in the report. Action required.

Mr Walker advised that a number of employed scheme members had expressed concern as they had been waiting a while for their Pension query acknowledgements. Officers advised that queries were automatically acknowledged where the request was sent by email, so there may be some technical reason why it appeared that they had not been sent e.g. acknowledgements going to Junk folders. It was agreed Mr Walker would be provided with an officer point of contact so that he could raise any such issues directly with the team. Action required.

It was resolved unanimously to:

Note the Administration Performance Report

224. PENSION FUND ANNUAL BUSINESS PLAN UPDATE REPORT 2020- 21

The Committee considered an update to the Business Plan for the period 1st September to 31st October 2020.

Members noted that progress had been made on many aspects of the Business Plan, specifically:

- Positive progress on the seven investment activities, as set out in Appendix 1 to the report. There had been a slight delay in asset pooling, but there had subsequently been a number of Sub-fund launches. Multiple Investment Strategies would be considered later in the meeting;

- With regard to the Business Continuity Plan, the Pensions services would be moving to West Northamptonshire Council in April 2021, and would have a new corporate entity at that point, so some of this activity had been re-profiled. Some elements will therefore be tested after April, but the Aquila Heywood system would be tested in advance of that;

- Cybercrime was potentially posing increasingly sophisticated threats to the administration of the Fund. The section on Cybercrime had been significantly updated in the latest iteration of the Business Plan. The whole Pensions team had undertaken training, and an Aon scorecard assessment would be undertaken in December.

One Member expressed strong concerns about cybercrime. Officers reassured him that there was resilience within the pensions systems, including the Altair platform, which required multifactor authentication to access. The Member commented that his particular concern was the security of those organisations that the Pensions team shared data with, e.g. in relation to confirming the existence of members of living abroad. Officers advised that there were few organisations that the data was shared with, and outlined the measures in place. Douglas Green (Actuary) also reassured Committee Members that there had been a section on data protection and security in the last actuarial tender, which was robustly tested as part of that tender framework.

With regard to reducing pension liabilities, the team were continuing to contact Members about claiming refunds which they were entitled to as leavers. As of October 2020 1,153 (17%) out of 6,928 members had been contacted and been given the opportunity to claim a frozen refund, and 373 members had requested and received a refund to date. A Member queried the age profile of those who were not claiming, i.e. how long ago since they left employment. Officers advised that the time period varied greatly, and it was acknowledged that it was more difficult to trace those who had left a long time ago.

With regard to the resolution of undecided leavers, it was confirmed that this had not progressed significantly, with volumes remaining static throughout the Pandemic. Officers explained how this was a particularly resource heavy activity, and how the proposed action to address this was to obtain access to key Employers' systems so that officers could respond to quite simple queries themselves. In response to a Member question on leverage with Employers, it was confirmed that ultimately leverage could be deployed through the Administration Strategy and Charging, but officers preferred to work with the Employer to identify and resolve issues. The example was given of an Employer who had had insufficient resources due to a recruitment freeze, which had subsequently been lifted, and it was therefore anticipated that the delays would be resolved.

A Member queried whether the mortality screening and address tracing services was beneficial in cost terms. Officers confirmed that Mortality tracing was definitely worthwhile, but address tracing was more problematic, as some of the results were low confidence. However, there had been pressure from the Pension Regulator to undertake address tracing. It was agreed that information on address tracing costs would be circulated. Action required.

Members noted the financial information in the appendices to the report, and it was agreed that further information would be circulated relating to 'above the line' cashflows, which had been requested by the Investment Sub-Committee. Action required. Officers advised that there had been a recent significant inflow of contributions from the Department of Health (DoH), relating to legacy liabilities, also some contributions from some local authorities choosing to pay their deficit contributions as one payment. As a result the Total Income estimate for 2020/21 would be increasing from £135.2M to approximately £150M, with the majority of that increase relating to the single payment from the DoH.

Investment Management Expenses has been historically paid out of cash i.e. invoiced, but this had reduced considerably as the assets moved across to the ACCESS Pool, where they were deducted from the underlying sub-fund.

A Member raised a query relating to Appendix 1, Governance and Compliance, and asked if officers could provide Members with a schedule of events that they should attend, as he had been inundated with offers to attend training and conferences, and specific guidance on what was useful would be helpful. The Chairman advised that he always contacted the Pensions Team to see if events were worthwhile. It was noted that Appendix 2 of the following agenda item identified the most useful training events.

A Member queried the key actions on investments, asking whether there should be a review of Climate Change implications in the Investment Strategy, especially with regard to Global Warming caused by the Oil, Aviation and Shipping sectors. Officers advised that the Committee had already considered their Investment Beliefs, and a revised RI (Responsible Investment) Statement would be considered at the next Investment Sub-Committee meeting, which following consultation, would become part of the Fund's main Investment Statement. Following that, a variety of RI related actions would feed into the Business Plan. At pool level, Mark Whitby was chairing a group which was developing principles and guidance around RI/ESG. The Chairman highlighted that the amount of investment into the Energy sector had reduced significantly from about 5% to 2.5% over recent years. Officers reminded Members that they had received a briefing note highlighting the Fund's minimal exposure to energy stocks such as Oil, but that this was unlikely to ever reduce to zero, as Oil still had a place in developing countries, but it was recognised that Climate Change issues could have material financial impact on investments. A possible next step was to reduce some of the climate risk within the portfolio. Officers reiterated that they were working very closely with partner funds in ACCESS, and whilst this may take longer, collectively the combined Funds would have a far greater impact.

A Member queried the massive reduction in income (30%) from investments, and asked how this would impact on the Fund, and whether this resulted from the Pandemic and Brexit. Officers advised that the Fund had performed remarkably well in the Pandemic, with performance of all managers recovering. The significant decline in income was largely due to companies not paying dividends, as nearly all companies had suspended or drastically reducing dividends. During the Pandemic the biggest issue has been liquidity i.e. whether companies had enough money to survive and pay bills so that could continue to trade. Even those cash rich companies which could afford to pay dividends had taken the decision to withheld dividends and maintain their cash reserves so they were better placed to survive through difficult times. Whilst the roll out of Covid-19 vaccines was very welcome, it would still take time for markets to return to functioning normally, and it may be that companies re-set their dividends to lower levels. However, the Fund was a long term investor and the current situation should be regarded as a blip in investment terms. On the positive side, the fall in equity prices had given investment managers the opportunity to select stocks which had previously been too expensive. Another Member commented that he felt the outlook for the next twelve months was poor, and he believed there would be further reductions in income, but underlying asset values would increase if companies were not paying out dividends, which would feed through in to longer term valuations.

A Member asked for consistency in the use of brackets and minus signs in financial reporting. Action required.

It was resolved unanimously to:

Note the Business Plan Update to 31st October 2020.

225. 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.

With regard to the Public Sector Exit Cap, Members noted that the exit payment cap was set at a total of £95K with no provision for this amount to be index linked. Exit payments must cover all redundancy payments, including statutory redundancy, severance payments and pension strain costs which arose when a member of the LGPS pension was made redundant at the age of 55+. The Exit Cap regulations had been brought into force on 4th November. This meant that currently, the legislation was in place, but there was no guidance and the LGPS regulations had not been amended to reflect the Exit Cap, so there was currently a conflict between the two sets of legislation. Both the Scheme Advisory Board and the Fund had sought legal advice, and the advice from both was similar, in that individuals would only be offered deferred benefit or a fully actuarial reduced pension if the member was over the age of 55 and their exit package exceeded £95K. Advice had been circulated to employers w/c 30/11/20, but to date there had been no cases in Cambridgeshire. In addition, the Fund's Actuary had provided the Pensions team with pension strain cost factors, more aligned to the future GAD factors that would be used once the LGPS Regulations had been amended.

There were a number of Judicial Reviews in scope on this matter, and it was looking hopeful that there would be a test case on how Funds should operate pending the amendment of the LGPS Regulations. As the Fund was effectively operating outside the law, there was concern that the Fund should report itself to the Pensions Regulator, but the Pensions Regulator had confirmed that they were aware of the issue, which was relevant to all LGPS Pension Funds, and they would not be investigating.

The Chairman asked whether costs would be covered if the Fund was taken to Court by one of its members. It was also noted that any cases would firstly need to exhaust the internal dispute and Ombudsman processes, before there was a right of appeal to the Courts. It was confirmed that the £95K limit was likely to be beneficial to the Fund, as it was potentially restricting the amount of benefits the Fund had to pay out.

With regard to seminars and training events, officers reiterated the point that the Chairman had raised earlier in the meeting, stating that they were always happy to advise on whether an event was suitable.

It was resolved unanimously to:

Note the content of the report.

226. RISK MONITORING

The Committee reviewed the Risk Register and considered a number of proposed changes. Members were reminded that it had been agreed that the Pension Fund Board would monitor risks on a quarterly basis, whilst the Pension Fund Committee would review the Risk Register twice a year. The Risk Register had been updated to reflect short and medium term risks arising from the Pandemic.

Members noted changes to the Risk Register that had been made at the suggestion of the Local Pension Board at their meeting on 6th November. It was also noted that the Exit Cap issued had had a considerable impact on administrative resources since it had emerged.

Noting that "*(investment) Managers are required to report regularly on their compliance with our ESG policy",* a Member asked how this was demonstrated. Officers confirmed that monitoring of ESG compliance was embedded within core processes, including manager selection, the annual report and regular updates with individual managers. Officers would approach individual managers if they had specific concerns that managers were not aligned with the Fund's ESG/RI principles.

With regard to a query on the potential impact of Brexit, officers explained that the Fund had disinvested from its UK/Europe mandates in 2019, and the Fund's holdings were therefore Global. Whilst Global equities would include some FTSE100 listed companies, these tended to be multinationals with global exposure. In addition, most markets had already "priced in" Brexit, and whilst it was acknowledged that a lot of short term market volatility was driven by sentiment, the Fund had a very long term horizon.

It was resolved unanimously to:

Review the current risks facing the Fund

(Cllr Hay left the meeting)

227. CAMBRIDGESHIRE PENSION FUND DATA IMPROVEMENT POLICY

The Committee considered a report on an updated Data Improvement Policy. The Policy had been revised to reflect a number of process improvements. The updated Policy had been considered by the Local Pensions Board at its meeting on 6th November 2020.

Members noted the changes that had been made which related to:

- Data Audit
- LGPS National Insurance Database
- Member tracing and mortality screening
- Overseas proof of continued existence checks

It was resolved unanimously to

review and approve the revisions to the Data Improvement Policy

228. EMPLOYER ADMISSIONS AND CESSATIONS REPORT

The Committee received a report on the admission of five admission bodies, and the cessation of four bodies. None of the admission bodies were discretionary.

The report also sought approval from the Committee to revise the contribution payments required from Peterborough City Council. Vivacity Culture and Leisure had been admitted to the Fund under a full admission agreement in 2010 after entering into a contract with Peterborough City Council to manage the City Council's culture and leisure facilities. Because of the Pandemic, in June 2020 Vivacity served 90 days' notice to Peterborough City Council to terminate their agreement for services.

If a deficit payment was pursued, the cost to Vivacity would be approximately £4.1M, as there had been no requirement to provide a guarantor when they were admitted. Peterborough City Council (PCC) had agreed to take on responsibility for those liabilities, which would be on the less prudent "ongoing" methodology which applied to the valuing of liabilities of a local authority. On that basis, there would be a £3.3M surplus, because different discount rates would apply. In discussion with PCC, this would result in a material improvement to the funding position of the City Council, reducing its deficit by 25% to around £9.5M. The City Council had requested that contribution payments be reviewed to reflect this material change and agree an appropriate reduction to their secondary contribution payments which were primarily targeted at reducing the City Council's deficit. It was noted that this reduction was equal to half of the value of the assets: PCC was one of the Fund's long term Employers, but there could still be some volatility, which was why it was only being reduced to half the value of assets. Actuarial colleagues had confirmed that they were comfortable with this reduction in contributions. It was confirmed that the revaluation would take place 31/3/2022, so the reduction would take place during the current cycle.

A Member queried how the difference in valuations could be so dramatic i.e. from a £3.3M deficit to a £4.1M surplus. The Actuary advised it was because a more prudent basis was used, assuming the Employer's asset share would grow, whereas if Vivacity had ceased without a guarantor, other employers would be exposed and would have to contribute as there was no recourse to Vivacity.

Another Member asked if this was a temporary arrangement on PCC's part, and whether Vivacity staff would be TUPE'd across to PCC, and services recommenced once the Pandemic was over? Officers confirmed that services were being taken in house for at least one year, possibly two, and then an outside provider would be sought. In terms of the impact on the funding position, when staff were moved to a new provider, the liabilities and an equivalent amount of assets move across to new provider with the surplus assets staying with PCC.

It was resolved unanimously to:

1. Notes the admission of the following admitted bodies to the Cambridgeshire Pension Fund and approves the sealing of the admission agreements:
- Compass Contract Services
- HCL - Hertfordshire Catering Limited
- Solutions 4 Health Ltd
- Taylor Shaw Limited (x2)

2. Notes the cessation of the following bodies from the Cambridgeshire Pension Fund:
- Orchard Learning Trust
- Serco Limited (PCC ITNET)
- Solutions 4 Health Ltd
- Vivacity Culture and Leisure

3. Approves the revision to the contribution payments required from Peterborough City Council as set out in Paragraph 3.4.5 of the report.

(Cllr Shellens left the meeting)

229. ADMINISTRATION STRATEGY REVIEW

The Committee considered a report which proposed amendments to the Administration Strategy.

Members noted that the existing version of the Strategy was a joint strategy between Cambridgeshire and Northamptonshire Pension Funds, which was the preferred approach at that time. The Strategy had now been drafted as a separate document for each Fund.

Attention was also drawn to the KPIs which were split between overall Member experience, performance of the Fund and performance of the Employer. Wording of the objectives within the strategy had also been updated to ensure these reflected the latest version of the Fund Objectives.

A Member asked why the objectives relating to *“high quality, friendly and informative administration service”* and *“cost effective and efficient (administration)”* had been deleted. It was noted that these the Fund’s objectives had been reviewed a few years ago, and those objectives were essentially subsumed within others.

It was resolved unanimously to:

Approve the amendments to the Administration Strategy.

230. EXCLUSION OF PRESS AND PUBLIC

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

231. ACCESS ASSET POOLING UPDATE

Members considered a report on ACCESS Asset Pooling. The reports for the most recent ACCESS meetings had been circulated to the Committee.

It was resolved to:

1. Note the attached minutes from the ACCESS Joint Committee meeting of the 7th September 2020.
2. Note the asset pooling update following the Joint Committee meeting of the 12th November 2020.

232. MULTIPLE INVESTMENT STRATEGIES

Members considered an update on the implementation of Multiple Investment Strategies.

It was resolved unanimously to:

1. note the report and the presentation from the Fund Actuary;

2. agree the next stages of this activity and the additional expenditure of £35,500 plus VAT, as set out in Section 2.4 of the report.

Cambridgeshire Pension Fund

Pension Fund Committee

Agenda Item:XX

Action log from previous meetings

This log captures the actions from the Pension Fund Committee of the 8th December 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 10/3/2021

Outstanding actions from 8th December 2020 meeting of the Pension Fund Committee

Item No.	Item	Action to be taken by	Issue	Action/Status
223.	Administration Performance Report	Jo Walton	With regard to the Tier 1 Ill Health Estimate that had been overstated, it was agreed that an email would be circulated to the Committee to provide an update on this case and the other IDRP cases identified in the report	Completed. Sent 10/3/2021
223.	Administration Performance Report	Jo Walton	Mr Walker advised that a number of employed scheme members had expressed concern as they had been waiting a while for their Pension query acknowledgements. Officers advised that queries were automatically acknowledged where the request was sent by email, so there may be some technical reason why it appeared that they had not been sent e.g. acknowledgements going to Junk folders. It was agreed Mr Walker would be provided with an officer point of contact so that he could raise any such issues directly with the team.	Completed. Sent 10/3/2021
224.	Pension Fund Annual Business Plan Update Report	Jo Walton	A Member queried whether the mortality screening and address tracing services was beneficial in cost terms. Officers confirmed that Mortality tracing was definitely worthwhile, but address tracing was more problematic, as some of the results were low confidence. However, there had been pressure from the Pension Regulator to undertake address tracing. It was agreed that information on address tracing costs would be circulated.	Completed. Sent 2/3/21.
224.	Pension Fund Annual Business Plan Update Report	Mark Whitby	Members noted the financial information in the appendices to the report, and it was agreed that further information would be circulated relating to 'above the line' cashflows, which had been requested by the Investment Sub-Committee.	Completed. Sent 7/1/2021.

224.	Pension Fund Annual Business Plan Update Report	Mark Whitby	A Member asked for consistency in the use of brackets and minus signs in financial reporting	Completed. Explanatory note added and will be consistency checked going forward.

Cambridgeshire
Pension Fund

Pension Fund Committee

25th March 2021

Report by: Head of Pensions

Subject:	Administration Performance Report
Purpose of the Report:	To present the Administration Performance Report to the Pension Fund Committee
Recommendation:	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. Key Performance Indicators – Pensions Service

2.1 The Pension Fund Committee has previously agreed a set of key performance indicators (KPIs) to assess the performance of the Pensions Service.

2.2 Full KPI details for the period 1st November 2020 to 31st January 2021 can be found in appendix 1.

2.3 The appendix provides details of any Red or material Amber performance breaches.

3. Receipt of Employee and Employer Contributions

3.1 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.

3.2 The table in appendix 2 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 December 2019 to 30th November 2020.

3.3 Details of late paying employers for October and November 2020 can be found in the private and confidential appendix (appendix 3) of the report.

4. Breaches of the Law

4.1 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.

4.2 For the period 1st November 2020 to 31st January 2021, the following breaches occurred:

Type of Breach	Detail of Breach	Course of action
Material Breaches	None	None
Non Material Breaches	11 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.

5. Internal Dispute Resolution Procedure

5.1 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.

5.2 In the period 1st November 2020 to 31st January 2021 the following activity occurred:

Nature of dispute	Stage 1 (The Head of Pensions)	Stage 2 (Cambridgeshire County Council Monitoring Officer)
Seeking reinstatement / compensation for LGPS benefits that were transferred to an overseas pension scheme in 2015 (received 5 December 2019)	Information gathering has been undertaken with the claims management company during the course of 2020. There have been issues with the claims company not receiving postal communications during the pandemic. Legal advice has been sought. Not upheld (2 March 2021)	N/A
Delay in providing payment of LGPS benefits and additional voluntary contributions (received 4 December 2020)	Partially upheld (3 January 2021)	N/A

Transferred out to an occupational pension scheme in 2012 and would now like to be reinstated back into the LGPS (received 13 July 2020)	Not upheld (11 September 2020)	Not upheld (10 December 2020)
Tier 1 ill health estimate of benefits over-stated compared with final benefits payable (received 13 July 2020)	Partially upheld (25 September 2020)	Not upheld (4 December 2020)

6. 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*

7. Risk Management

7.1 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.

7.2 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
6	Information may not be provided to stakeholders as required.	Green
8	Those charged with governance are unable to fulfil their responsibilities effectively	Green
17	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 Pensions website at the following link: Pension Fund Risk Register

8. 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.

9. Finance & Resources Implications

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

10. Legal Implications

10.1 Not applicable

11. Consultation with Key Advisers

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

12. Alternative Options Considered

12.1 Not applicable

13. Background Papers

13.1 Not applicable

14. Appendices

14.1 Appendix 1 Key Performance Indicators – Pensions Service

14.2 Appendix 2 Receipt of Employee and Employer Contributions

14.3 Appendix 3 Late payments of employee and employer contributions

Checklist of Key Approvals

Is this decision included in the Business Plan? No

Has this report been cleared by Section 151 Officer? Sarah Heywood – 15/3/21

Has this report been cleared by Head of Pensions? Mark Whitby – 25/2/2021

Has the Chairman of the Pension Committee been consulted? Councillor Rogers –12/03/21

Has this report been cleared by Legal Services? Fiona McMillan – 1/3/21

Appendix 1 - Key Performance Indicators – Pensions Service November, December 2020 and January 2021

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:168 December:139 January:177	151 117 170	17 22 7	89 84 96	Amber Amber Green	SLA target not met* SLA target not met* SLA target 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:38 December:38 January:41	38 37 39	0 1 2	100 97 95	Green Green Green	SLA target met SLA target met SLA target met
Payment of pension benefits from deferred membership status	Notify members retiring from deferred membership status of benefits award, from date payable or date of receiving all necessary information if later within 10 working days.	90%	November:69 December:52 January:46	66 51 39	6 1 7	95 98 84	Green Green Amber	SLA target met SLA target met SLA target not met
Award dependant benefits – Statutory	Issue award within 5 working days of receiving all necessary information.	95%	November:34 December:35 January:35	34 34 35	0 1 0	100 97 100	Green Green Green	SLA target met SLA target 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:60 December:41 January:47	60 39 45	0 2 2	100 95 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:10 December:55 January:37	10 50 36	0 5 1	100 90 97	Green Amber Green	SLA target met SLA target not 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:1 December:6 January:50	1 6 50	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 volumes and staff not at full capacity have resulted in the missed targets in this area. A recruitment exercise has resulted in a new officer joining the team so the delays in this area should resolve going forward.

**Provide transfer-in quote to scheme member – The team not being at full capacity impacted this area, accompanied by a training issue identified. A new officer has been appointed and the training issue being addressed.

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 2 - 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
December 2019	97.1	2.9	97.1	2.9
January 2020	98.7	1.3	98.7	1.3
February 2020	96.6	3.4	96.7	3.3
March 2020	99.8	0.2	100	0
April 2020	99.6	0.4	99.3	0.7
May 2020	100	0	100	0
June 2020	99.5	0.5	99.3	0.7
July 2020	99.3	0.7	100	0
August 2020	99.6	0.4	99.6	0.4
September 2020	99.8	0.2	99.8	0.2
October 2020	100	0	100	0
November 2020	100	0	100	0
Average for period	99.2	0.8	99.2	0.8

Appendix 3 – Late payment of employer contributions for October and November 2020

Employer	Payroll Month	Days Late	Amount	Members affected	Previous late payments during 2019/2020	Reported to the Pensions Regulator?	Reason/Action
No late payments for October 2020							
No late payments for November 2020							

Persistent late payments and submission of accompanying payment schedules are monitored closely and officers work in close liaison with scheme employers and third party payroll providers to resolve issues. The Payment of Employee and Employer Contributions Policy came into force on 1 April 2016 to ensure scheme employers are aware of the consequences of not meeting their statutory obligations and are aware in advance of the ramifications of persistent non-compliance.

For employers who persistently pay late contributions, the Fund has the right to charge an administration fee and interest.

Cambridgeshire Pension Fund

Pension Fund Committee

Date: 25 March 2021

Report by: Head of Pensions

Subject:	Pension Fund Annual Business Plan Update report 2020/21
Purpose of the Report:	To present the Business Plan Update for the period 1 November 2020 to 31 January 2021
Recommendation:	The Pension Fund Committee is asked to note the Business Plan Update to 31 January 2021
Enquiries to:	Mark Whitby, Head of 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 2020/21 financial year.

1.2 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)

		2020/21				Medium term	
Reference	Key action/task	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 out in place appropriate mitigations		✓	✓	✓		
SD5	Re-tender/extend contract for mortality screening and address tracing services			✓		✓	

3.1.1 SD1 - Undertake a review of the Business Continuity Plan

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.

Update: Aquila Heywood undertook penetration testing in December and undertake disaster recovery testing each May. The results of the most recent testing will be verbally updated at this meeting.

Key milestones	Due for Completion	Status
Test resilience with Aquila Heywood (pensions administration/payroll supplier)	Dec 2020 – Jan 2021	Green – completed.
Test resilience with the new corporate BCP	Apr 2021 - May 2021	Green
Scrutiny of Business Continuity arrangements by Local Pension Board	July 2021	Green
Update Pension Fund Committee on Business Continuity arrangements	July 2021	Green

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

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.

Update: Officers carried out a cyber-security self-assessment using the Aon cyber-security score card. The results were submitted to Aon who have analysed the results and produced a report setting out the recommendations to improve the Fund's cyber resilience. The next steps are to map out the Fund's assets and data flows to identify areas of risk at the same time as developing a cyber-strategy/action plan to implement changes that will increase the Fund's resilience to cyber-crime.

Key milestones	Due for completion	Status
Ensure officers undertake mandatory cyber-security training	July – September 2020	Completed.
Investigate current security and other measures implemented by Northamptonshire County Council and key partners designed to mitigate cyber-crime	July – September 2020	Completed – results fed into cyber score-card assessment.
Complete cyber score card self-assessment	October to December 2021	Green – completed.
Obtain specialist advice on how the Fund can improve its resilience to cyber-crime	January to March 2021	Green – completed
Develop a cyber-strategy /action plan to improve resilience to cyber-crime	March 2021	Green – on target
Implement action plan	From April 2021	Green – on target

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

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.

Update: A decision to extend the mortality screening contract by two years has been made. The address tracing service contract is to be formally amended by a contract variation to an ad hoc service to meet the needs of the service.

Key milestones	Due for completion	Status
Decision to procure or extend mortality screening contract	December 2020	Completed.
Decision to procure or extend Address tracing contract	December 2020	Completed.
Initiate relevant decisions	April 2021	Green

3.2 Governance and compliance (GC)

		2020/21				Medium term	
Reference	Key action/task	Q1	Q2	Q3	Q4	2021/22	2022/23
GC1	Complete the Guaranteed Minimum Pension Rectification	✓	✓	✓	✓	✓	

3.2.1 GC1 Complete the Guaranteed Minimum Pension Rectification

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.

Update: Due to the absence of a key member of staff for a three-month period and reallocation of resources within the team to manage priorities the planning stage of this project has been deferred to April 2021 with the intention of the rectification work commencing in June 2021 once other statutory annual data activities have been completed. The postponement of the lead in activities will not have any impact on the scheduled end date of the overall project.

Key milestones	Due for Completion	Status
Receipt of final data file from HMRC	June 2020	Amber - data supplied by HMRC in July 20
ITM Limited to supply data on which member records require rectification	September 2020	Amber – data scheduled to be received in November 2020
Produce project plan to rectify records	October 2020	Amber – data not received until November. Activity rescheduled to April 2021
Implement project plan	November 2020 to December 2021	Amber– rescheduled to begin June 2021 but end date not impacted.

3.3 Communications, Systems and Employer Management (CSEM)

		2020/21				Medium term	
Reference	Key action/task	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			✓	✓		
CSEM4	Implement multiple investment strategies	✓	✓	✓	✓	✓	

3.3.1 CSEM1 – Undertake a digital strategy review

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.

Update: The roll out of monthly employer data collection has been progressing well with data for 92% of the membership being provided by employers on a monthly basis. For the remaining 8% the aim is for employers to be on board by the end of the scheme year, with some exceptions where the employer will shortly be changing payroll system or provider. The monthly data collection will start for these employers once their new payroll systems/providers are in place.

Work on formulating a digital processing plan has now become unnecessary as the majority of the desired outcomes were achieved as part of the response to the pandemic. Design principles have been embedded that require all new process have minimum manual intervention and where this is required it is carried out at the lowest appropriate level within the organisation. Communicating with members is conducted digitally as standard including uploading letters and documents to members' online pension accounts instead of posting them. A number of applications have been developed to streamline and automate processes as much as possible. This includes checking the membership data submitted by employers and quality checks on individual member's records to assist with bulk processing, where possible.

Key milestones	Due for Completion	Status
Complete roll out of monthly employer data collection	2020/21	Green - on target
Undertake website accessibility review	April to October 2020	Completed
Formulate digital processing plan	June to December 2020	No longer required
Investigate the feasibility of using e-forms	April to December 2020	Completed

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

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.

Update: Officers have been working on possible ways to analyse the data within the system to identify which employers need more engagement. Test data has been collated for some members where relevant and checks are being refined to try and identify where there is missing data.

Key milestones	Due for Completion	Status
Develop requirements and plan for data collection activities	October 2020 to March 2021	Green On Target

3.3.3 CSEM4 – Implement multiple investment strategies

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.

Update: Officers have been working with the Fund Actuary to investigate the options available for implementing multiple investment strategies. During these discussions it became apparent that more detailed analysis of the different options were needed. In particular officers were of the view that modelling of the different strategy options were required to assess whether or not better outcomes could be achieved. A proposal was put before the Committee to seek permission to move on to the next stage of the project and approve additional expenditure for required modelling. This was approved at the December meeting and officers are now working with the actuary to progress through the next stage.

Key milestones	Due for Completion	Status
Work with the Fund's advisors to assess possible appropriate options	June to September 2020	Completed
Present progress update to the Pension Fund Committee and seek approval for next stages.	October 2020	Green - rescheduled to December 2020 and completed
Modelling of different investment strategies.	December 2020 to February 2021	Green – on target
Agreement and implementation of multiple investment strategies.	2021/22	Subject to prior decision.

3.4 Operations (OPS)

		2020/21				Medium term	
Reference	Key action/task	Q1	Q2	Q3	Q4	2021/22	2022/23
OPS1	Resolution of undecided leavers	✓	✓	✓	✓	✓	✓
OPS2	Scope and conduct potential liability reduction exercises	✓	✓	✓	✓	✓	✓

3.4.1 OPS1 – Resolution of undecided leavers

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.

As at April 2020 the number of unprocessed leavers had reduced from 11,082 to 9,636 inclusive of BAU volumes. The target for 2020-21 is to reduce the number of unprocessed leavers to approximately 7,500 cases by the end of the year and then down to BAU volumes during 2021-22.

Update: As of December 2020 the number of unprocessed leavers has increased from 9,636 to circa 10,000 inclusive of BAU. The impact of the pandemic and the switch to monthly data provision via i-Connect, which creates additional transactional activity to be managed, has meant that this activity has not progressed as expected.

However, it is clear that reporting total unprocessed leavers is unhelpful due to the volume that will always be present as a business as usual baseline. For next year's Business Plan the volume of genuine aged cases will be reported instead; the volume of cases over 6 months from notification by the scheme employer and the subset of those where we are still awaiting information in order to process.

Key milestones	Due for Completion	Status
Baseline backlog cases for reporting purposes	April 2020	Completed
Aon clearance of approximately 1,300	By March 2021	Red – started processing late
Internal clearance of cases to reduce volumes to 5,000 cases	By March 2021	Red – revised target 7,500 cases
Internal clearance of cases to reduce volumes to circa 3,000 (including contingency for any not processed in 2020-21)	2021/22	Amber – as revised 2020/21 target will require more cases processed in 2021/22

3.4.2 OPS2 – Scope and conduct 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 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.

It has become increasingly common for pension schemes to look at ways of reducing the number of such records, communicating with these members in order to assess their eligibility and desire to receive payment of the refund or fully commute their benefits.

Update: As of January 2021, 1,242 (18%) out of 6,830 members had been contacted and been given the opportunity to claim a frozen refund. 453 members have since received a refund, transferred out or aggregated with a new record.

Key milestones	Due for Completion	Status
Scope exercise (refunds)	May 2020	Completed
Formulate project plan (refunds)	June 2020	Completed
Conduct exercise (review all refund cases to ensure that all letters and forms have been issued)	Thru to end of 2021/22	Green – on target
Scope exercise, formulate project plan and conduct exercise (small commutable pensions)	2022/23	Green - Future activity

3.5 Investments and fund accountancy (INV)

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

3.5.1 INV1 – Implement strategic allocation to fixed income

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.

Update: The Fund invested in Multi Asset Credit funds managed by Bluebay and M&G in September 2020 and, following the approval by the Pension Fund Committee in October of an increased strategic allocation, completed additional subscriptions to these funds in November 2020.

Key milestones	Due for Completion	Status
Agree scope and allocation(s)	July to September 2020	Completed
Undertake manager selection	November 2020 to February 2021	Completed
Implementation	March 2021 to June 2021	Completed

3.5.2 INV2 - Re-tender for investment consultancy services

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.

Update: Officers have prepared the tender documentation for issue to the seven suppliers on the Framework in early February 2021. Interviews of short-listed suppliers are scheduled for late March 2021. A verbal update will be provided at this meeting as to the outcome of the re-tender.

Key milestones	Due for completion	Status
Commence re-tender process	October 2020 to April 2021	Green – on target
Arrange selection day	January 2021 to June 2021	Green – on target
Complete procurement	By September 2021	Green – on target

3.5.3 INV3 - Continue development of the asset pool

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.

Update: The launches of the remaining scheduled liquid sub-funds have been delayed to resolve operational issues between Link and the depositary, Northern Trust. The evaluation of emerging markets equity managers was completed in January 2021 with moderation due in early February to confirm the managers of the proposed sub-funds. The proposed pooling structures and the procurement of an Implementation Adviser for the Illiquid Assets solution were approved by the ACCESS Joint Committee in January 2021.

Key milestones	Due for completion	Status
Liquid assets (complete remaining tranches as they arise)	October 2020 to April 2021	Amber – delay due to focus of other authorities on pandemic response. Operation and technical issues have delayed the launch of the remaining tranches.
Liquid Assets (support the establishment of an emerging markets equities sub fund)	March 2021	Green – on target
Illiquid Assets (continue to support the illiquid asset pooling solution)	2020/21 to 2021/22	Green – on target

3.5.4 INV5- Reviews the Fund's Responsible Investment Policy

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.

Due to the pandemic the training will be provided remotely via suitable media applications to maintain momentum with regard to this initiative. Concurrently the Fund will obtain an RI report to commence the journey to better understand where the Fund benchmarks across a spectrum of ESG and carbon foot printing, the key aspects of which was presented at the July training event.

Update: A draft Responsible Investment Policy will be presented to the Investment Sub Committee in February 2021 and, if approved, will be presented to the Pension Fund Committee for approval in March 2021.

Key milestones	Due for completion	Status
Production of ESG and Carbon foot-printing Benchmarking report	May 2020	Completed
Deliver responsible Investment Training (Information Day)	July 2020	Completed
Undertake Responsible Investment beliefs survey	July 2020	Completed
Develop Responsible Investment Policy	August to December 2020	Completed
ISC to approve RI Policy	February 2021	Green – on target
Pensions Committee to approve RI Policy for consultation (to be incorporated into Investment Strategy Statement (ISS))	March 2021	Green – on target
Consultation on revised ISS incorporating a revised RI Policy	April 2021 to June 2021	Green – on target

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

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.

Update: Officers have participated in the supplier selection for the National Framework and the successful suppliers have been notified but are in the confidential stand still stage. A Task and Finish group has been formed with ACCESS partners to call off the framework and the group has met twice to date to define the service specification and agree a timetable for delivery.

Key milestones	Due for Completion	Status
Work with other LGPS funds to create a framework	April 20 to January 21	Completed
Work with ACCESS partners to call off a common custodian	Dec 2020 to June 2021	Green - on target
Complete transition to the new Custodian (if required)	July 2021 to Sep 2021	Green – future activity

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 at the following link – https://pensions.northamptonshire.gov.uk/app/uploads/2020/06/CPFRiskRegisterJune20.pdf

6. Communication Implications

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

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

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

Has this report been cleared by Section 151 Officer? Sarah Heywood – 15/3/21

Has this report been cleared by Head of Pensions? Mark Whitby – 25/2/2021

Has the Chairman of the Pension Committee been consulted? Councillor Rogers – 12/3/21

Has this report been cleared by Legal Services? Fiona McMillan – 1/3/21

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

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	✓	✓	✓	✓	✓	
		Re-profiled to complete in July 2021					
SD2	Undertake an analysis of the risks faced by the Fund as a result of cyber-crime and put in place appropriate mitigations		✓	✓	✓	✓	
		Re-profiled to implement action plan from April 2021					
SD3	Retender/extend contract for actuarial, benefits and governance consultancy services					✓	
SD4	Extension of pensions administration and payroll software	Completed					
SD5	Re-tender/extend contract for mortality screening and address tracing services			✓	✓	✓	
		Re-profiled for decision to be made in March 2021					

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	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	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	✓	✓	✓	✓	✓	

Operations

Reference	Key action/task	2020/21				Medium term	
		Q1	Q2	Q3	Q4	2021/22	2022/23
OPS1	Resolution of unprocessed leaver records	✓	✓	✓	✓	✓	
		New target established and activity to continue into 2021/22					
OPS2	Scope and conduct potential liability reduction exercises	✓	✓	✓	✓	✓	✓

Investments

Reference	Key action/task	2020/21				Medium term	
		Q1	Q2	Q3	Q4	2021/22	2022/23
INV1	Implement strategic allocation to Fixed Income	Completed					
INV2	Re-tender for investment consultancy services			✓	✓	✓	
INV3	Continue development of the asset pool	✓	✓	✓	✓	✓	✓
INV4	Tender for an independent investment adviser	Completed					
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	147,696	17,696	The increase in contributions reflects a couple of employers paying their 3-year deficit in the first year of 2019
Transfers in from other pension funds	5,200	6,708	1,508	Demand led
Total income	**135,200**	**154,404**	**19,204**	
Benefits payable	(114,000)	(111,352)	(2,648)	
Payments to and on account of leavers	(10,200)	(6,891)	(3,309)	Demand led
Total Payments	**(124,200)**	**(118,243)**	**(5,957)**	
	11,000	**36,161**	**25,161**	
Management Expenses	(5,149)	(4,586)	(563)	See below
Total income less expenditure	**5,851**	**31,575**	**25,724**	
Investment income	**40,000**	**28,000**	**(12,000)**	30% income decline. Average estimated by investment managers.
Taxes on income	**-**	**-**	**-**	
Profit and (losses) on disposal of investments and changes in the market value of investments	**69,000**	**69,000**	**-**	
Net return on investments	**109,000**	**97,000**	**(12,000)**	
Net increase/(decrease) in the net assets available for benefits during the year	**114,851**	**128,575**	**13,724**	

Management Expenses	2020-21 Estimate	2020-21 Forecast	Variance	Comments
	£000	£000	£000	
Total Administration	(2,644)	(2,790)	146	See below

Expenses				
Total Governance Expenses	(784)	(699)	(85)	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)	(1,097)	(624)	Investment assets moving into pooled arrangements
Total Management Expenses	**(5,149)**	**(4,586)**	**(563)**	

Administration Expenses Analysis	**2020-21 Estimate**	**2020-21 Forecast**	**Variance**	**Comments**
	£000	**£000**	**£000**	
Staff Related	(1,423)	(1,518)	95	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)	(350)	37	Additional software licensing costs for third party project activity
Communications	(71)	(71)	-	
Other Non-Pay and Income	(16)	(11)	(5)	
County Council Overhead Recovery	(485)	(485)	-	
Total Administration Expenses	**(2,644)**	**(2,790)**	**146**	

Negative figures represent decreases on income and expenditure
Positive figures represent increases on income and expenditure

Cambridgeshire Pension Fund

Pension Fund Committee

Date: 25 March 2021

Report by: Head of Pensions

Subject:	Pension Fund Annual Business Plan and Medium-Term Strategy 2021/22 to 2023/24
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 2021/22 to 2023/24
Recommendation:	The Committee is asked to approve the attached Business Plan and Medium-Term Strategy
Enquiries to:	Mark Whitby – Head of Pensions Email: mwhitby@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 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 2021/22 to 2023/24 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:

- Procurement of services
- Core governance activities
- Scheme member and data projects
- Scheme employer projects

- Investment related activities

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 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 Committee via the Business Plan Update report.

3. Relevant 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.

To 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 Committee each meeting. The Business Plan sets out the cost of each activity where known and where costs become known during the course of the year the Committee will be updated accordingly.

5. Risk Management

5.1 The 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 Committee and Pension Fund Board at every meeting.

5.2 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 No	Risk	Residual risk rating
8	Those charged with the governance of the Fund and scheme are unable to fulfil their responsibilities effectively	Green
16	Pension Fund objectives are not defined and agreed.	Green
17	Failure to provide relevant information to the Pension Fund Committee/Pension Fund Board to enable informed decision making.	Green

5.3 The Fund's full risk register can be found on the Fund's website at the following link: Pension Fund Risk Register hyperlink

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.

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 2021/22 to 2023/24

Checklist of Key Approvals

Has this report been cleared by Section 151 Officer? Sarah Heywood – 15/3/21

Has this report been cleared by Head of Pensions? Mark Whitby – 2/3/21

Has the Chairman of the Pension Committee been consulted? Councillor Rogers – 12/3/21

Has this report been cleared by the Monitoring Officer? Fiona McMillan – 8/3/21

Annual Business Plan and Medium Term Strategy

2021/22 to 2023/24

Cambridgeshire Pension Fund

Part 1

Introduction

This is the business plan for the Cambridgeshire Pension Fund which is managed and administered by Cambridgeshire County Council. The business plan details the priorities and areas of key focus in relation to the Cambridgeshire Pension Fund for 2021/22, 2022/23 and 2023/24. The business plan was approved at the Pension Committee meeting on xx. The business plan is monitored throughout the year and the Pension 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 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 2021/22 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
mark.whitby@westnorthants.gov.uk
07990 556197

Background to the Cambridgeshire Pension Fund

The Cambridgeshire Pension Fund is a £3.704bn* 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 89,500 of which 27,800 are active members from over 340* individual contributing employers and approximately 61,700 retired, survivor, deferred and other members.

**As at 31 December 2020*

Governance and management of the Fund

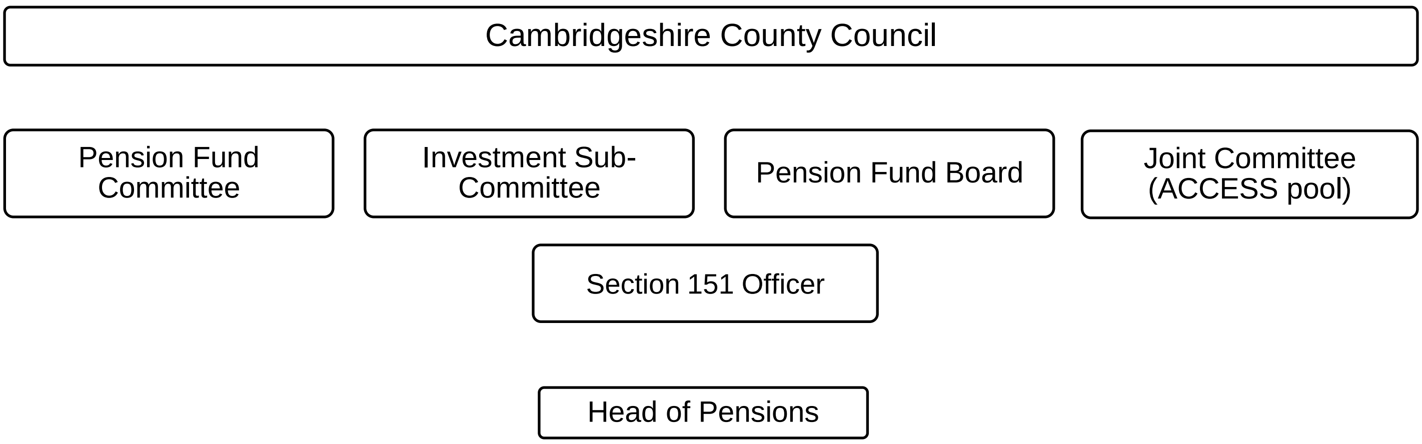
The key decision making and management of the Fund has been delegated by Cambridgeshire County Council (the administering authority) to a formal Pension Fund Committee, supported by an Investment Sub-Committee that looks at the operational governance of investment issues.

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:



Administration of the Fund

The Cambridgeshire and Northamptonshire Pension Funds have been administered under a shared service arrangement since 2012, initially by LGSS. On 1 December 2020 administration moved to a lead authority model with the lead authority being Northamptonshire County Council, working in partnership with Cambridgeshire County Council. On 1 April 2021 West Northamptonshire Council became the lead authority following local government reorganisation in Northamptonshire. The Funds remain two distinct entities.

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

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 casework 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.

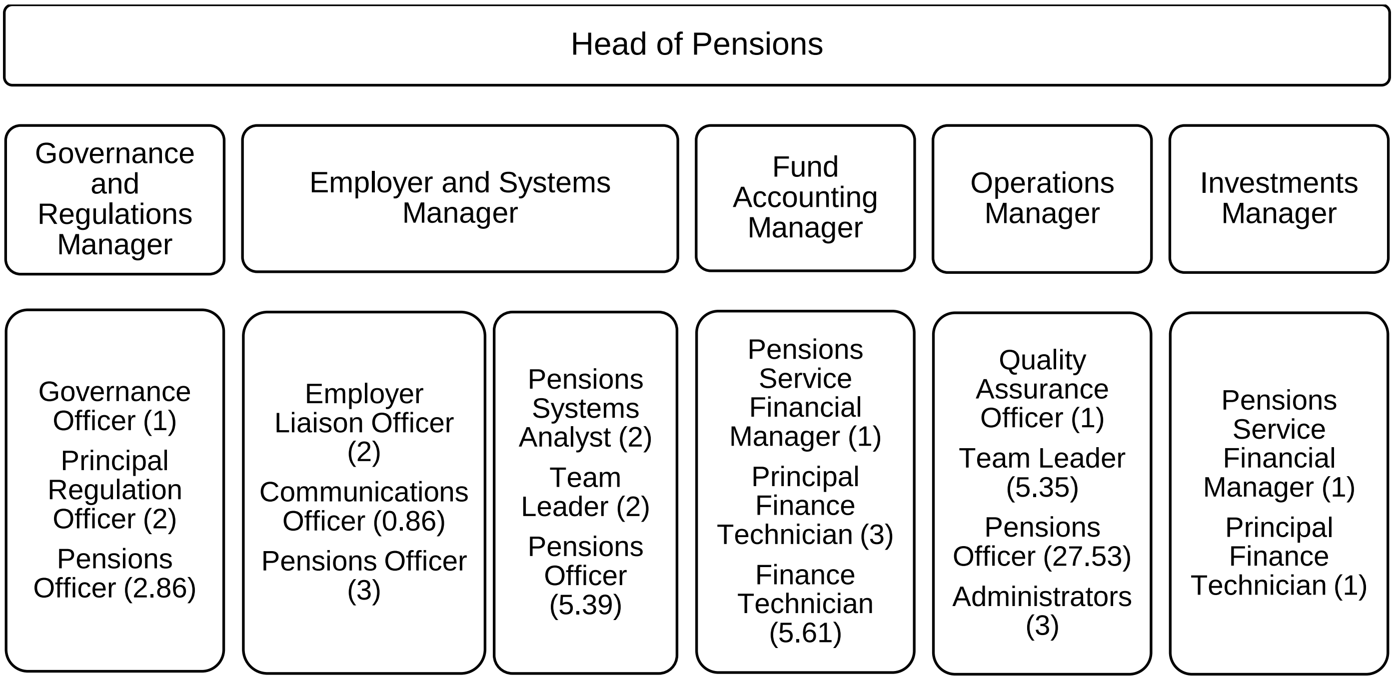
- The Employers Team provides support to employers being admitted to and leaving the scheme, managing the triennial actuarial valuation process and liaison with scheme employers with regards to the responsibilities required of them. Scheme member and employer communications form a significant part of 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 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 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 the Pensions Service which provides administration services to both the Cambridgeshire Pension Fund and the Northamptonshire Pension Fund, as at 31 March 2021 is illustrated below:



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 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 Fund Actuary every three years, consulting with employers and monitoring continued appropriateness annually.
- Managing the triennial valuation alongside the Fund 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.
- Managing the FRS/IAS reporting cycles alongside the Fund Actuary, based on employer specifications and appropriately communicating with Scheme Employers.

Investments

- Monitoring and reporting on the Fund's funding position.
- Carrying out a review of the investment strategy at appropriate intervals.
- Managing the Fund's assets through the asset pool arrangements or directly for non-pool aligned assets.
- Monthly monitoring and implementation of the tactical asset allocation decisions.
- Working with other LGPS Funds within ACCESS to ensure the pool meets the Fund's strategic investment requirements.

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 GAD 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 is an unprecedented volume of external factors that could impact the management of the Fund:

- The continued impact of the pandemic on management, investment and administration.
- 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 currently revoked £95k exit cap, the remedy resulting from the McCloud high court ruling and the paused national LGPS cost control review and a number of regulatory changes impacting on scheme employers.
- The requirement to rectify member contracted out data held by the scheme with that held by HMRC following significant delays in HMRC issuing the final correct 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 and 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 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:

- Procurement of services
- Core governance activities
- Scheme member and data projects
- Scheme employer projects
- Investment related activities.

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 2020/21 to 2023/24

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

	2020/21 Estimate	2020/21 Forecast	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£000	£000	£000	£000	£000
Contributions[1] Transfers in from other pension funds[2]	130,000 5,200	147,696 6,708	119,000 23,000	121,000 7,000	123,000 7,000
TOTAL INCOME	**135,200**	**154,404**	**142,000**	**128,000**	**130,000**
Benefits payable Payments to and on account of leavers[2]	(114,000) (10,200)	(111,352) (6,891)	(113,000) (7,000)	(115,000) (7,000)	(117,000) (7,000)
TOTAL PAYMENTS	**(124,000)**	**(118,243)**	**(120,000)**	**(122,000)**	**(124,000)**
	11,000	**36,161**	**22,000**	**6,000**	**6,000**
Management expenses	(5,149)	(4,585)	(4,173)	(4,177)	(4,231)
TOTAL INCOME LESS EXPENDITURE	**5,851**	**31,576**	**17,827**	**1,823**	**1,769**
Investment income less Taxes on income (Profit) and losses on disposal of investments and changes in the market value of investments[3]	40,000 - 69,000	23,000 - 686,700	34,000 - 150,000	35,000 - 156,000	36,000 - 163,000
NET RETURN ON INVESTMENTS	**109,000**	**709,700**	**184,000**	**191,000**	**199,000**
Net (increase)/decrease in net assets available for benefits during the year	**114,851**	**741,276**	**201,827**	**192,823**	**200,769**

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 2015/16 to 2019/20. Transfers in include a large group transfer (circa £16m) scheduled to be received in 2021/22.*

[3]*Return on Investments have been calculated by applying the long-term actuarial assumption for investment growth (+4.1%) per annum.*

Management expenses

	2020/21 Estimate	2020/21 Forecast	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£000	£000	£000	£000	£000
Total administration expenses	(2,644)	(2,791)	(2,539)	(2,500)	(2,509)
Total governance expenses	(784)	(697)	(720)	(726)	(732)
Total investment expenses[4]	(1,721)	(1,097)	(914)	(951)	(990)
TOTAL MANAGEMENT EXPENSES	**(5,149)**	**(4,585)**	**(4,173)**	**(4,177)**	**(4,231)**

Notes: [4]*Investment expenses estimates include management fees for property funds. These will reduce once property has migrated into the asset pool, however timescales for property transitions are yet to be confirmed.*

Administration expenses

	2020/21 Estimate	2020/21 Forecast	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£000	£000	£000	£000	£000
Staff related	(1,423)	(1,519)	(1,597)	(1,600)	(1,603)
Altair administration and payroll system	(336)	(355)	(365)	(366)	(366)
Data improvement projects	(313)	(350)	(49)	-	-
Communications	(71)	(71)	(24)	(25)	(26)
Other non pay and income	(16)	(11)	(15)	(16)	(17)
Council overhead recovery	(485)	(485)	(489)	(493)	(497)
TOTAL ADMINISTRATION EXPENSES	**(2,644)**	**(2,791)**	**(2,539)**	**(2,500)**	**(2,509)**

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

The table below lists the Fund's highest rated risks as at February 2021. The full risk register can be found on the Fund's website at the following link:

https://pensions.northamptonshire.gov.uk/governance/key-documents/cambridgeshire/

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

Cambridgeshire Pension Fund

Business Plan and Medium Term Strategy – 2021/22 – 2023/2024

Key Activities

The key activities have been split into the following sections:

- Procurement of services
  - Re-tender for strategic investment advisory services
  - Re-tender for global custody services
  - Review contracts for actuarial, benefits and governance consultancy services
  - Re-tender for pensions administration and pensioner payroll platform
- Core governance activities
  - Review the Business Continuity Plan
  - Develop the Fund’s cyber-resilience strategy
  - Obtain the Pensions Administration Standards Association (PASA) accreditation
- Scheme member and data projects
  - Complete the Guaranteed Minimum Pension Rectification
  - Prepare for the application of the McCloud age discrimination remedy
  - Prepare for the 2022 Valuation of the Pension Fund
  - Processing of undecided leaver records
  - Scope and conduct potential liability reduction exercises
- Scheme employer projects
  - Implement multiple investment strategies
  - Conduct specific employer covenant monitoring
- Investment related activities
  - Continue development of the asset pool
  - Review the Fund’s Responsible Investment Policy
  - Review the Property Strategy
  - Review of performance reporting and benchmarks

Procurement of services

Re-tender for strategic investment advisory services

This continues the work undertaken in 2020/21 to re-tender the investment advisory services contract that is currently awarded to Mercer LLC that expires on 30 September 2021 by performing a mini competition on the National LGPS Framework. The November 2020 Investment Sub-Committee approved the timetable and the proposed contract term for the Consultancy re-tender and approved the launch of a re-tender for the Investment Management Performance Reporting contract currently provided by Mercer, should this be necessary. The RFQ for the Investment Consultancy contract was issued in February 2021 and responses from suppliers due in March 2021. The second stage supplier interviews are scheduled in March 2021 and the preferred supplier will be notified in early 2021/22.

This is 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.

Budget required: All internal costs will be met by existing resources, other costs such as the fee for the use of the National LGPS Framework, procurement support and external legal support are estimated as £25k and have been provided for within the 2021/22 budget.

Key Milestones	**Dates**
Notify successful supplier	April 2021
Complete Consultancy procurement / complete National Frameworks Order	June 2021
Complete Management Performance Reporting procurement/ complete National Frameworks Order, if required	June 2021
Transition/handover (including historical performance data)	July 2021 to September 2021
New contract begins	1 October 2021
Strategy health check	31 March 2022

Re-tender for global custody services

This continues the work undertaken in 2020/21 with Funds in the ACCESS pool to launch a revised framework for Global Custody Services under the National LGPS Frameworks. The Pension Committee approved in principle the collaborative procurement of a global custodian, alongside ACCESS partners, in sufficient time to transition the Fund’s custody arrangements to the chosen provider (if a change from the current provider) before the expiry on 30 September 2021 of the Fund’s extended contract with Northern Trust. Delivery of this activity is dependent upon collaboration with ACCESS partners in calling off the new framework.

Budget required: All internal costs will be met by existing resources and are included within the Fund’s budget. The Fund’s share of the Framework set-up costs estimated to be £17k are included in the 2021/22 budget and will be offset over time by fees paid by other users calling off the framework. Estimated costs for legal and procurement support for the Fund’s call-off of £20k are also included in the 2021/22 budget. Any further financial implications will be included in Investment Sub Committee reports as required.

Key Milestones	Dates
Work with ACCESS partners to call off a common custodian.	December 2020 to June 2021*
Complete transition to the new custodian (if required).	July 2021 to September 2021*

*Due to the collaborative nature of this procurement and time and resource pressures across the eleven ACCESS Funds these dates may slip and an extension of the existing arrangement required.

Review contracts for actuarial, benefits and governance consultancy services

The existing separate contracts for actuarial, benefits and governance consultancy services are due to expire on 1 April 2023 with the option to extend for a further 12 months. Consideration will need to be given as to whether the separate contracts should be extended together at or if it is appropriate to conduct procurements earlier to tie in with future activity required from these contracts. The procurement will be on a joint basis with the Northamptonshire Pension Fund using the National LGPS Framework.

Budget required: All internal costs in the procurement process will be met by the existing budget. Any external procurement and legal costs will be notified to the Pension Fund Committee at the time through an appropriate report.

Key Milestones	Dates
Decision whether to procure or extend each contract	June 2021

Retender for pensions administration and pensioner payroll platform

The Fund currently uses Aquila Heywood Ltd's Altair product as its pensions administration and payroll platform. The contract with Aquila Heywood Ltd was extended in September 2021 by a further three years to enable minimum disruption with the commencement of the Future Northants programme, the pandemic and the forthcoming work required of the age discrimination remedy (McCloud).

A competitive procurement process will need to be undertaken using the National LGPS Framework at least 18 months in advance of the end of the existing contract (September 2024) to ensure that there is sufficient time to complete a successful migration of data if a new supplier is procured.

Budget required: All internal costs in the procurement process will be met by the existing budget. Any external procurement and legal costs will be notified to the Pension Fund Committee at the time through an appropriate report.

Key Milestones	Dates
Obtain and complete National LGPS Framework documents	September 2022
Commence procurement process	1 April 2023
Award contract to successful supplier	1 October 2023
Start date of contract	1 October 2024

Core service and governance activities

Review Business Continuity Plan

The Business Continuity Plan (BCP) covering the Fund's governance and administration will need to be reviewed following the creation of the new unitary authority (and administering authority), West Northamptonshire Council on 1 April 2021 to ensure the arrangements previously in place remain so to support the delivery of the Pensions Service. In addition, it is now business as usual to ensure that the Fund's external suppliers such as those that provide and host the pensions administration and payroll platform, regularly supply detailed confirmation that they have satisfactorily carried out disaster recovery and penetration testing.

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

Key Milestones	Dates
Test resilience with the new administering authority's BCP	By October 2021
Scrutiny of business continuity arrangements by the Local Pension Board	November 2021
Update the Pension Committee on business continuity arrangements.	December 2021

Develop the Fund's cyber-resilience strategy

The Pensions Regulator and other industry bodies have expressed the concern that pension funds are not taking sufficient positive action to prevent themselves (including scheme members) from being victims of cyber-crime. In particular, the Regulator is concerned that LGPS Funds are relying too much on their respective administering authorities to put appropriate measures in place to protect Fund assets and data.

Work was undertaken in 2020/21 to assess the Fund's level of Cyber-Resilience through a survey conducted by a specialist cyber resilience team at Aon, the Fund's governance advisers. The survey results highlighted a number of activities to be undertaken to demonstrate improved resilience which will be undertaken during the course of 2021/22.

Budget required: All internal costs will be met by the existing budget. The external consultancy costs of this activity will be notified to the Pension Fund Committee via the Business Plan Update reports once known. All consultancy costs will be met by an addition to the existing administration budget.

Key Milestones	Dates
Develop a cyber-resilience strategy and action plan.	April to June 2021
Undertake mapping of data and asset flows.	April to June 2021
Submit survey to all suppliers detailed within the mapping of assets and data to ascertain their approach to cyber-resilience. Aon's specialist cyber-resilience team to analyse survey responses and provide feedback.	April to June 2021
Pension Fund Board to provide scrutiny of cyber-resilience strategy and action plan.	July 2021
Pension Fund Committee to approve cyber-resilience strategy and action plan.	October 2021

Obtain the Pensions Administration Standards Association (PASA) accreditation

Obtaining the PASA accreditation will demonstrate to the stakeholders of the Fund that quality operations are in place 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.

Budget required**:** Anticipated accreditation costs of £6k will be met by an addition to the budget in 2022/23.

Key Milestones	Dates
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

Scheme member data projects

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 was not able to commence during 2020/21 but is now ready to commence in 2021/22 but with the same anticipated completion date as previously estimated.

Budget required: An estimated cost of £20K has been included in budget for the remaining data work to be carried out by ITM Limited to enable efficient rectification of member records.

Key Milestones	Dates
Produce project plan to rectify the member records that require amendments.	April 2021
Implement project plan.	June to December 2021

Prepare for the application of the McCloud age discrimination remedy

As a result of the ruling in the McCloud it will be necessary for LGPS Funds to look at every affected to see if the impact of the remedy requires an amendment to the member's accrued benefits. MHCLG released a consultation in 2020/21 detailing proposed amendments to the LGPS regulations as a result of the remedy and a response to the consultation is still pending. It is understood that LGPS Funds will need to begin work on rectifying records in 2022/23 and in the meantime an exercise is required to collect data relevant to the accurate calculation of the remedy, namely, hour changes and breaks in membership, where this has not previously been provided by scheme employers.

Budget required: All internal costs will be met by the existing administration budget. Costs associated with the implementation stage of this activity will be included in the budget for 2022/23 when the resource and financial implications will be clearer.

Key Milestones	Dates
Issue data collection template to identified employers.	June 2021
Work with employers to collect the data required.	June 2021 to October 2021
Make necessary amendments to member records for previously missing data.	June 2021 to March 2022
Send communications to members (upon release of amended LGPS Regulations).	Expected to be April 2022 (pending guidance from MHCLG).
Application of the revised underpin (following release of amended LGPS Regulations).	Expected to commence in 2022/23 (MHCLG to provide guidance on this matter, including time period within which this work will be undertaken).

Prepare for the 2022 Valuation of the Pension Fund

Work with the Fund's actuarial advisors to develop requirements and plan for the triennial valuation of the Pension Fund. The valuation date is 31 March 2022 with results to be published by 31 March 2023 and new employer contribution rates effective from 1 April 2023.

Milestones will be expanded once valuation planning is complete.

Budget required: All internal costs will be met by the existing administration budget. Associated actuarial fees for the core valuation activities have been estimated in the budget. Any additional expenditure required will be notified to the Pension Fund Committee for approval at the appropriate time.

Key Milestones	Dates
Develop valuation plan with Fund Actuary	April to June 2021
Undertake pre-valuation activities	July 2021 to March 2022
Valuation of the Pension Fund	April 2022 to March 2023
Triennial valuation results published	31 March 2023
Implementation of revised employer contribution rates	April 2023 onwards

Processing of undecided 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 2) scheme employers providing late monthly reporting and 3) the volume of employer data that has to be queried.

The Fund will treat a case as a backlog case if it is six months or more from the date of notification by the scheme employer. Cases within six months of notification will be identified as business as usual cases. Statutory disclosure requirements are completed immediately on notification of an exit by the scheme employer.

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

Key Milestones	Dates
Baseline volumes and develop action plan	April to June 2021
Process cases in accordance with action plan	Throughout 2021/2022
Process cases in accordance with action plan	2022/2023

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 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 from any future liability.

It has become increasingly common for pension schemes to look at ways of reducing the number of such records, communicating with these members in order to assess their eligibility and desire to receive payment of the refund or fully commute their benefits.

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

Key Milestones	Dates
Conduct exercise (to review and offer refund options to members).	April 2021 to March 2022
Scope exercise, formulate project plan and conduct exercise (small commutable pensions).	April 2022 to March 2023

Scheme employer projects

Implement multiple investment strategies

With an increasing number and variety of scheme employer 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.

This activity builds on the investigatory and scoping work carried out in 2020/21 and will now focus on working with employers to agree an appropriate strategy for each employer and implementing the agreed allocation ahead of the 2022 valuation of the Pension Fund.

Budget required: All internal costs will be met by the existing administration budget. Any Actuarial fees will be derived from the action plan and will be subject to approval by the Pension Fund Committee.

Key Milestones	Dates
Consider impact modelling by Fund Actuary.	April 2021 to May 2021
Pension Fund Committee to decide whether to proceed.	July 2021
Devise and implement action plan.	August 2021 to September 2022

Conduct specific employer covenant monitoring

Officers are working with the Fund Actuary and Price Waterhouse Cooper (PWC) to carry out covenant assessments of those employers consider to present the greatest financial risk to the Fund. This activity will involve engaging with the relevant employers to explain the process and collect information to allow PWC to carry out a covenant assessment and for the Actuary and PWC to advise on the results and appropriate actions to be taken.

Budget required: An additional cost has been added to the 2021/22 budget of approximately £15,000 to £20,000 is expected to be incurred for professional fees. Other internal costs such as liaison with scheme employers will be met by the existing budget.

Key Milestones	Dates
Issue and collect covenant monitoring questionnaire to relevant employers	April 2021 to June 2021
Issue collated responses to PWC for analysis	July 2021 to August 2021
Discuss results and next steps with the Actuary and PWC	September 2021 to October 2021
Incorporate results of covenant monitoring into 2022 valuation planning	November 2021 to March 2022

Investment related activities

Continue development of the asset pool

The ACCESS asset pool development is a long-term project. 2021/22 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.

The Fund has additional sub-fund requirements not yet part of the ACCESS launch plan. Engagement with ACCESS partners is required to promote these requirements, including around Responsible Investment, in order to achieve timely inclusion.

Dates for completion are dependent upon the approval of the Joint Committee for creating the necessary sub-funds, FCA approval and resolution of other limiting factors. The dates reflect the targets for submission of business cases for the respective sub-funds to the asset pool.

Budget required: All internal costs will be met by existing resources and are included within the 2021/22 budget. A budget of £114k has been included in the 2021/22 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.

Key Milestones	Dates
Liquid Assets – implement tranches as they arise.	2021/22 to 2022/23
Illiquid Assets – Continue to support the illiquid assets pooling solution.	2021/22 to 2022/23
Promote the Fund's requirements.	2021/22 to 2022/23

Review the Fund's Responsible Investment Policy

This continues the work undertaken in 2020/21 to revise the Fund's Responsible Investment (RI) Policy for incorporation in the Investment Strategy Statement (ISS). The revised ISS will be issued for consultation during Q1 2021/22 and feedback considered by the Pension Fund Committee before final approval.

The Fund will also work with its advisers, partner ACCESS funds and Link to develop a governance and reporting framework to monitor compliance with the Fund's RI Policy.

Budget required: All internal costs will be met by existing resources and are included within the 2021/22 budget. Any further financial implications will be included in Pension Fund Committee reports as required.

Key Milestones	Dates
Commence 30 day consultation with Fund stakeholders on the revised Investment Strategy Statement	April to June 2021
Pension Fund Committee approval of revised ISS	October 2022

Review the Property Strategy

The Fund's Property investments comprise a multi manager mandate managed by CBRE and residential investments in the Private Rented Sector and Shared Ownership property funds 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.

The output of the review will be used to inform the Fund’s requirements from the ACCESS illiquid asset programme, the implementation of which will be dependent upon the path to migrate to the *ACCESS* solutions.

Budget required: All internal costs will be met by existing resources and are included within the 2021/22 budget. External costs for consultancy and legal fees of £50k are included in the 2021/22 budget. Any further financial implications will be included in Investment Sub Committee reports as required.

Key Milestones	Dates
Commence the review	October 2021
Complete the review and submit report to the Investment Sub Committee	February 2022
If a change to Strategic Allocation, approval by Pension Fund Committee	March 2022
Communicate the Fund’s requirements to the ACCESS pool	April 2022

Review of Performance Reporting and Benchmarks

This review will focus on the efficient measurement of the Fund’s wide-ranging investment mandates in order to appropriately gauge that those mandates are delivering expected levels of return and, indeed, meeting the strategic investment needs of the Fund. The existing performance reports are comprehensive and complex, however, there is concern that they contain inappropriate benchmark comparisons and complicate effective decision-making. Wider considerations such as delivery of responsible investment requirements further impact this subject.

The sources of information for performance reporting reflect the wide-ranging number of mandates the Fund has and the quality and timeliness of information available from those sources.

This review will evaluate the strengths and weaknesses of the current report and explore options to improve the quality and clarity of reporting.

The key participants will be the Fund’s officers, the Fund’s consultant and Independent Adviser utilising other third parties as required, with a report on the outcome presented to Investment Sub Committee members.

Budget required: All internal costs will be met by existing resources and are included within the 2021/22 budget. External costs for consultancy fees of £20k are included in the 2021/22 budget. Any further financial implications will be included in Investment Sub Committee reports as required.

Key Milestones	Dates
Commence the review	April 2021
Report to the Investment Sub-Committee	December 2021
Implement revised reporting	March 2022

Agenda Item No: 7

Cambridgeshire Pension Fund

Pension Fund Committee

25th March 2021

Report by: Head of Pensions

Subject:	Governance and Compliance Report
Purpose of the Report:	To provide the Pension Fund Committee with information on: 1) The Public Sector Exit Cap (section 2) and appendix 1 2) The activities of the Pensions Regulator (section 3) 3) Consultations (section 4) 4) Future Developments (section 5) 5) Skills and knowledge opportunities (section 6) and appendix 2.
Recommendation:	That the Pension Fund Committee notes the content of the report.
Enquiries to:	Jo Walton – Governance and Regulations Manager, 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. Public Sector Exit Cap Update

2.1 The Ministry of Housing, Communities and Local Government (MHCLG) launched a consultation on the reform of exit payments in local government on 7 September 2020, with a closing date for responses of 9 November 2020. The consultation document set out policy intention and proposals which specifically affect individuals who are eligible to be members of the LGPS (in England) but no associated draft regulations were included.

2.2 On 14 October 2020, during the consultation period, associated draft regulations were issued for comment - the Local Government Pension Scheme (Restriction of Exit Payments) (Early Termination of Employment) (Discretionary Compensation and Exit Payments) (England and Wales) Regulations 2020. These cover revisions to discretionary payments and amendments to the LGPS regarding payment of benefits on redundancy or leaving on grounds of business efficiency at or after age 55.

2.3 The consultation closed on 9 November 2020, with comments on the associated draft regulations being accepted until 18 December 2020. The administering authority's consultation response can be found here; Hyperlink to the administering authority's consultation response, and the further response containing comments on the draft regulations can also be found here; hyperlink to further response on draft regulations.

2.4 During the above consultation period The Restriction of Public Sector Exit Payment Regulations 2020 were signed on 20 October 2020 and came into force from 4 November 2020. These apply to all the public service employers as detailed in the schedule to the Regulations and set a cap on aggregate exit payments of £95,000.

2.5 With The Restriction of Public Sector Exit Payment Regulations 2020 coming into force before the amendments proposed in the MHCLG consultation could be made, there was a conflict in the legislation that could impact those LGPS members who leave on redundancy or business efficiency grounds if they have attained age 55; the LGPS currently requires immediate payment of unreduced benefits in those circumstances, and for the scheme employer to meet the pension strain cost, but the cap may have meant they could not pay this strain cost in addition to other exit payments as they total more than £95,000.

2.6 Differing views had been expressed by MHCLG, in a letter from Luke Hall MP dated 28 October 2020, and the Scheme Advisory Board (SAB), in a commentary issued on 30 October 2020 following a view from QC James Goudie, as to the legal position and how administering authorities and scheme employers should have proceeded from 4 November 2020 until the proposed amendments to the LGPS Regulations were in place.

2.7 Officers sought legal advice on behalf of the administering authority as to how to proceed in light of the differing views of the Scheme Advisory Board and MHCLG and in the absence of the amended LGPS Regulations. The advice received from the administering authority's legal advisor, Squire Patton Boggs, was in line with that of the Scheme Advisory Board; to offer members who would exceed the £95K cap a deferred benefit or a fully actuarially reduced pension (also the MHCLG view) with a strong recommendation for the scheme employer to delay payment of the 'cash alternative' being proposed by MHCLG (this 'cash alternative' being the capped pension strain cost minus statutory and discretionary redundancy pay).

2.8 This approach provided maximum flexibility for both the administering authority and the scheme employer to minimise the financial risk resulting from inevitable challenge from the scheme member denied what appeared to be their right to an unreduced pension under existing LGPS Regulations.

2.9 All scheme employers received detailed communications as to the administering authority's approach to the payment of benefits where a member leaves employment on the grounds of redundancy or business efficiency at or after age 55 with an exit payment totalling greater than £95K, until such time as the LGPS Regulations are amended. This information can be found on the Fund's website here: Public Sector exit payments hyperlink.

2.10 The legal advice received and the resultant decision to not pay members an unreduced immediate pension as they are entitled to under the current (un-amended) LGPS Regulations did not remove the risk of member's being dissatisfied with their awards. As such it was to be expected that members could use the scheme's Internal Dispute Resolution Procedure to challenge decisions taken.

2.11 However, three requests for Judicial Review of the Restriction of Public Sector Exit Payment Regulations 2020 were given permission to proceed to contest the Regulations on a number of grounds including their effect on the LGPS Regulations. It was understood that whilst members can still take their claims against the employer or administering authority through the two stage IDRP process that the Pensions Ombudsman will not provide a ruling on such claims until the Judicial Reviews were complete, and those cases were not due to be heard before 24 March 2021.

2.12 MHCLG indicated that the amendments to the LGPS Regulations would not be made until after the outcome of the Judicial Reviews.

2.13 On 12 February 2021, HM Treasury released a Direction dis-applying parts of the Restriction of Public Sector Exit Payments Regulations 2020 in England, specifically regulation 3 resulting in the exit cap no longer applying with effect from 12 February 2021. The reason for this decision has been cited as that the application of the cap had resulted in "unintended consequences".

2.14 For exits from 12 February 2021, LGPS administering authorities must pay qualifying scheme members an unreduced pension. Scheme employers will be required to pay full strain costs in relation to those unreduced benefits.

2.15 HM Treasury has issued guidance on the Directions (appendix 1) setting out HM Treasury's expectation that employers should pay the additional sums that would be paid had the cap not applied for employees who left between 4 November 2020 and 12 February 2021.

2.16 The guidance also confirms that the government will revoke the exit cap regulations in due course, but they will legislate again to tackle unjustified exit payments. It is understood that the revocation of the exit cap regulations will not be retrospective.

2.17 On 4 March 2021 MHCLG wrote to all chief executives of LGPS administering authorities to confirm that:

- On the 25 February 2021 the Restriction of Public Sector Exit Payments Regulations 2020 were formally revoked;
- The letter from Luke Hall MP of 28 October 2020 (referred to in 2.6) has been withdrawn; and
- The MHCLG policy consultation launched in September (referred to in 2.1) is now considered closed.

2.18 No retirements were processed under the now revoked Exit Payment Regulations and so there has been no need to pay amended benefits to any scheme members. Officers have communicated to all scheme employers that the legislation and has been revoked, reverted redundancy retirement processes back to how they were prior to the 4 November 2020 and amended information on the website accordingly.

3. Activities of the Pensions Regulator

3.1 Pledge to combat pension scams

3.1.1 On 10 November 2020, the Pensions Regulator (TPR) launched the pledge to combat pension scams campaign as supported by the Pension Scams Industry Group (PSIG).

3.1.2 TPR is urging administering authorities to help protect scheme members thinking of transferring their pensions. According to complaints filed with Action Fraud, more than £30m (across all types of pension schemes) has been reportedly lost to scammers since 2017. By making a pledge and following the principles of PSIG the administering authority is demonstrating its intention to protect scheme members and that there is a commitment to preventing pension scams.

3.1.3 The process to sign up to the pledge involves a number of activities concerning ensuring robust processes, regular communications to scheme members and signposting to the Financial Conduct Authority's ScamSmart website and reference materials. Officers, Committee and Board members are also encouraged to undertake the scams module within TPR's trustee toolkit. Members of the Pension Fund Committee have been contacted about this requirement and have been asked to complete the module by 17 March 2021 to enable Officers to sign up to the Pledge as soon as is practicably possible.

3.2 Governance and Administration Survey 2019

3.2.1 On 20 November 2020, TPR published the outcome of the public service pensions governance and administration survey for 2019. This is an anonymous survey to which the administering authority submitted a response.

3.2.2 The survey focusses on six key processes that TPR expect public service pension schemes to have in place. The table below details these processes and the percentage of survey participants that have these processes.

Process	2019
Documented policy to manage board member's conflicts of interest	92% (90% in 2018)
Have access to the knowledge, understanding and skills needed to properly run the scheme	97% (96% in 2018)
Have their own (not the administering authority's) documented procedures for assessing and managing risks)	82% (92% in 2018 but the question did not specify the need to have a scheme level risk processes)
Have processes to monitor records for accuracy/completeness	92% (91% in 2018)
Have a process for resolving contribution payment issues	92% (94% in 2018)
Have procedures to identify, asses and report breaches of the law	93% (93% in 2018)

3.2.3 The Cambridgeshire Pension Fund has all the six key processes in place. Approximately two-thirds of participating public service pension schemes also had all six processes in place representing 71% of all memberships. Two-thirds of Local Government Pension Schemes had all six processes in place.

3.2.4 The full report can be found here: Public service governance and administration survey 2019 hyperlink.

4. Consultations

4.1 Department for Work and Pensions: Climate change

4.1.1 On 27 January 2021 the Department for Work and Pensions released its policy consultation response and consultation on regulations; Taking action on climate risk: improving governance and reporting by occupational pension schemes. The consultation closes on 10 March 2021.

4.1.2 The scope of the regulations do not include the LGPS however regulations are expected from MHCLG to substantially mirror the requirements set out in this document.

4.1.3 The investment information day held on 10 February 2021 contained information regarding this matter.

4.1.4 The consultation document can be found here Taking action on climate risk pensions consultation hyperlink.

5. Future developments

5.1 At previous meetings of the Pension Fund Committee reference has been made to the TPR's new singular code of practice, a revised CIPFA Skills and Knowledge Framework and the Scheme Advisory Board's Good Governance Review. All of which would lead to a review of the Fund's current governance processes and arrangements.

5.2 A consultation on TPR's singular code of practice is expected to be launched in March 2021. On 11 February 2021 a roundtable event was held with TPR with representation from Aon, (the Fund's governance advisors), trustees from several private sector pension schemes and officers from a number of LGPS Funds including Cambridgeshire and Northamptonshire to review the code of practice before it is released for consultation.

5.3 It is understood that the refreshed CIPFA Skills and Knowledge Framework is due to be released in April. Officers will need to digest the content of the new framework and embed it within Fund's Training Strategy.

5.4 On 15 February 2021, the Scheme Advisory Board published the final report of the Good Governance Review alongside an action plan for consideration by MHCLG. The report builds on the recommendations agreed in 2019 with further input from a range of scheme stakeholders. The action plan contains a number of immediate actions that can be conducted by Scheme Advisory Board without approval by MHCLG. A more detailed update on this matter will be addressed at the next meeting of the Board. In the meantime further information can be found on the Scheme Advisory Board website: Scheme Advisory Board website hyperlink.

6. Skills and knowledge opportunities – training events

6.1 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.

6.2 In order to facilitate the acquisition of skills and knowledge for members of the Pension Fund Committee appendix 2 lists the main events that are deemed useful and appropriate.

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

6.4 It should be noted that the schedule of events in appendix 2 details only the events that are known to be taking place during the pandemic and are virtual/online events only. As soon as confirmation is received that face-to-face events are able to be held an amended schedule of events will be issued.

6.5 It has been recognised that the forthcoming local elections may result in a significant change to the membership of both the Pension Fund Committee and the Pension Fund Board. As a result, officers are in the progress of scheduling training sessions for new members and these will also be open to existing members to refresh their knowledge. It is anticipated that there will be an introductory training session in early June covering at a high level the knowledge requirements of being a Pension Fund Committee and Pension Fund Board member followed by a series of more in-depth training sessions to cover the eight CIPFA Skills and Knowledge core modules as follows:

- Pensions legislations and guidance
- Pensions governance
- Funding strategy and actuarial methods
- Pensions administration and communications
- Pensions financial strategy, management, accounting, reporting and audit standards
- Investment strategy, asset allocation, pooling, and performance and risk management
- Financial markets and product knowledge
- Pensions services procurement, contract management and relationship management

7. 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*

8. Risk Management

8.1 The Pension Fund Committee is 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.

8.2 The risks associated with the 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 to enable informed decision making.	Green

8.3 The Fund's risk register can be found on the Fund's website at the following link: Pension Fund Risk Register hyperlink

9. Finance & Resources Implications

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

10. 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.

Employers - All relevant items are communicated to scheme employers via website updates.

11. Legal Implications

11.1 Legal advice was sought from the administering authority's legal advisor on the application of the Exit Payment Cap as detailed in paragraph 2.7.

12. Consultation with Key Advisers

12.1 Legal advice was sought from the administering authority's legal advisor on the application of the Exit Payment Cap as detailed in paragraph 2.7.

13. Alternative Options Considered

13.1 There are no alternative options to be considered.

14. Background Papers

14.1 Not applicable.

15. Appendices

15.1 Appendix 1 – Guidance on the Exit Payment Cap Directions 2021

15.2 Appendix 2 – Schedule of virtual training events.

Checklist of Key Approvals

Has this report been cleared by Section 151 Officer? Sarah Heywood – 15/3/21

Has this report been cleared by Head of Pensions? Mark Whitby – 24/2/2021

Has the Chairman of the Pension Committee been consulted? Councillor Rogers – 12/3/2021

Has this report been cleared by Legal Services? Fiona McMillan – 1/3/21

HM Treasury

Restriction of Public Sector Exit Payments:

Guidance on the 2020 Regulations

February 2021

HM Treasury

Restriction of Public Sector Exit Payments:

Guidance on the 2020 Regulations

February 2021

This publication is available at: www.gov.uk/official-documents.

Any enquiries regarding this publication should be sent to us at public.enquiries@hmtreasury.gov.uk

ISBN 978-1-911680-36-9

PU3076

Contents

Chapter 1
Introduction

1.1 In line with the Government's long-term commitment to ensure that Public Sector exit payments are fair and proportionate to employers, employees and taxpayers, The Restriction of Public Sector Exit Payments Regulations 2020 ("the Regulations") came into force on 4th November 2020.

1.2 The legislation set a £95,000 cap on exit payments ("the cap") for public sector authorities and offices listed in the Schedule.

1.3 After extensive review of the application of the Cap, the Government has concluded that the Cap may have had unintended consequences and the Regulations should be revoked. HMT Directions have been published that disapply the Cap until the Regulations have been revoked. HMT Directions do not apply to exit payments made by a devolved Welsh authority.

1.4 This document is intended to provide guidance for any individuals and public sector authorities who were affected by the Cap while it was in place.

1.5 For the avoidance of doubt, it is still vital that exit payments deliver value for the taxpayer and employers should always consider whether exit payments are fair and proportionate. HM Treasury will bring forward proposals at pace to tackle unjustified exit payments.

Chapter 2

Guidance for Individuals

2.1 This guidance is for individuals who have had their exit payments capped as a result of the application of the Regulations. These individuals would be former employees or former office holders of a body listed in the Schedule, with the exception of a devolved Welsh authority, and the reference to an employee or employer in the document includes a reference to an office holder or relevant body in the Schedule. These individuals will have had an exit date between 4th November 2020 and 12th February 2021 and the cap would apply to their exit payment as a result of the application of the Regulations. Not all individuals with such an exit date will have been affected by the exit cap.

2.2 If you have been directly affected by the cap whilst it was in force, you should request from your former employer the amount you would have received had the cap not been in place by contacting your employer directly. Employers are encouraged to pay to any former employees to whom the cap was applied the additional sums that would have paid but for the cap.

Chapter 3

Guidance to Employers

3.1 The below guidance is for employers or bodies listed in the schedule to the Regulations, which can be found here, with the exception of devolved Welsh authorities.

3.2 In light of the withdrawal of the Regulations, employers are encouraged to pay to any former employees who had an exit date between 4th November 2020 and 12th February 2021 and to whom the cap was applied, the additional sums that would have paid but for the cap. Given that the cap has now been disapplied, it is open to employers to do so and HM Treasury's expectation is that they will do so.

HM Treasury contacts

This document can be downloaded from www.gov.uk

If you require this information in an alternative format or have general enquiries about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

Email: public.enquiries@hmtreasury.gov.uk

Appendix 2

Cambridgeshire Pension Fund - Online and virtual training events

Date	Event Description	Audience	Knowledge Credits
4 – 5 February 2021	Virtual – LAPF Strategic Investment Forum The forum will explore pressing investment issues within the LGPS and their impact on investment policy, asset allocation and resources. https://www.dgpublishing.com/lapf-strategic-investment-forum-february/about/	Pension Fund Committee and Pension Fund Board Members Officers	0.5 credits per session up to a maximum of 4
10 February 2021	Virtual - Pensions Investment Information Session Task Force on Climate Related Financial Disclosures	Pension Fund Committee and Pension Fund Board Members Officers	2
18 February 2021	Virtual – Barnett Waddingham & CIPFA Local Pension Board Members Spring Seminar	Pension Fund Board	2
17 – 21 May 2021	Virtual – Pensions and Lifetime Savings Association (PLSA) Local Authority Conference Dedicated to the LGPS. Key note speakers, specialist sessions and online exhibition. Further information will be updated at the following link: https://portal.plsahosting.org.uk/Events-Local-Authority-Conference Bookings open from December 2020	Pension Fund Committee and Pension Fund Members Officers	0.5 credits per session up to a maximum of 4
28 – 29 April 2021 (afternoons)	Virtual - Scheme Advisory Board / DG Publishing – The Local Authority Responsible Investment Seminar The impact of the new regulations for LGPS Investment Committees and is designed to help the Scheme Advisory Board formulate the sector's response to an increased awareness of Investment Committees' responsibilities to their pension funds and to society in general. https://www.dgpublishing.com/responsible-investment-forum/	Pension Fund Committee and Pension Fund Board Members Officers	2 per session attended
4 June 2021 (TBC)	Virtual – Mandatory Induction session for new members of the Pension Fund Committee and Pension Fund Board More information to follow once confirmed	Pension Fund Committee and Pension Fund Board Members Officers	2

Date	Event Description	Audience	Knowledge Credits
10 June 2021 1pm – 2.30pm (TBC)	Virtual – Mandatory CIPFA Skills and Knowledge Module – Pensions Governance More information to follow once confirmed	Pension Fund Committee and Pension Fund Board Members Officers	2

County, District and Borough Council Elected Members are kindly requested to not book places on external events until their membership of the Pension Fund Committee or Pension Fund Board is confirmed following the May 2021 elections.

Cambridgeshire
Pension Fund

Pension Fund Committee

Date: 25 March 2021

Report by: Head of Pensions

Subject:	Update to Funding Strategy Statement
Purpose of the Report:	To seek approval of amendments to the Funding Strategy Statement for consultation with Scheme employers
Recommendation:	That the Pension Fund Committee approve the amendments to the Funding Strategy Statement for consultation with employers.
Enquiries to:	Name – Cory Blose – Employer Services and Systems Manager Tel – 07990 560829 E-mail – cblose@northamptonshire.gov.uk

1. Background

1.1 In May 2019, the Ministry for Housing Communities and Local Government (MHCLG) launched its consultation "Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk". The consultation sought views in several areas:

a) Changes to the LGPS local fund valuation cycle

b) Increased flexibility for Funds to carry out interim valuations and/or review employer contributions between formal valuations

c) Proposals for flexibility around employer cessation debts

d) Proposals for policy changes for payments of employer exit credits

e) Potential changes to employers required to offer LGPS membership.

1.2 At the date of writing, there has been no update on changes to the valuation cycle proposals (a) or to the employers who are required to offer LGPS access (e).

1.3 A response to items (b) and (c), together known as "employer flexibilities", was published in August 2020.

1.4 Following the MHCLG consultation, the LGPS Regulations 2013 were amended from 23 September to allow the Fund to recalculate employer contributions outside of the triennial formal valuation in the following circumstances:

- There has been a significant change to the liabilities of an employer;

- There has been a significant change in the employer's covenant; or
- At the request of the employer.

1.5 The amendments also allow greater flexibility around managing the exit of an employer from the Fund. On exit from the Fund, where the employer is in deficit, the following options are available:

- The employer pays a full cessation payment carried out in line with regulations;
- The Fund can agree a repayment schedule with an employer to allow them to spread the exit payment over a number of years; or
- The Fund and employer can enter into a Deferred Debt Arrangement (DDA) where an employer can continue in the Fund with no active members but continue to pay secondary contributions as determined at formal valuations. An employer entering into this arrangement would be known as a "deferred employer".

2. Update to Funding Strategy Statement

2.1 The FSS has been updated to include the Fund's policy in applying these new employer flexibilities. These proposed changes are summarised below and the amended document has been included as appendix A with changes highlighted in the document:

Contribution review

2.2 In general, the draft FSS updates consider an amendment to contribution rates between valuations only as a result of significant changes to the liabilities or covenant of an employer. While the Fund would consider requests from employers to review contributions, it is expected that the reason for the request is a material change in covenant or significant restructure which impacts their membership and consequently liabilities in the Fund. The added policy wording can be found under note F (Regular Reviews) on pages 15 and 16 of the Strategy.

Exit arrangements

2.3 Despite the updates, for an employer ceasing with a deficit, the normal policy within the draft FSS remains the requirement to immediately pay any debt. Any variation away from this would be considered in the light of this benchmark and would primarily need to be in the interests of the Fund. However, the FSS updates allow the Fund to be mindful of the broader objectives and finances of the employer when considering a more flexible exit arrangement. For example, a flexible approach may in some cases still be appropriate where the employer covenant is weak as it may allow the employer to avoid building up further liabilities. When entering into any flexible exit arrangement, a continual but proportionate review of the conditional elements will be required to ensure it remains appropriate and in the best interests of all parties. The added policy wording can be found under note J (Exiting the Fund) on pages 19 to 23 of the Strategy.

2.4 We are currently awaiting further guidance on applying these new regulations. Therefore, while the proposed changes are in line with the draft guidance, we may need to revisit the FSS again once these have been formally issued.

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. *(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)*

Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate. *(Objective no 5)*

Seek and review regular feedback from all stakeholders and use the feedback appropriately to shape the administration of the Fund. *(Objective no 15)*

4. Finance and Resources Implications

4.1 None

5. Risk Management

5.1 The Funding Strategy Statement sets out the policies that will apply to employers during and/or following certain events.

5.2 The amendments being made are required in order to ensure that the Funding Strategy Statement reflects current legislation and ensure that the Administering Authority acts fairly and equitably when an employer exits the Fund.

5.3 There are risks associated with making or not making this decision have been captured below.

5.4 In order to mitigate this risks, officers have sought advice from the Fund's legal and actuarial advisors and consulted with employers before seeking Committee approval of the final draft.

Risk No	Risk	Residual risk rating
5	Fund assets are not sufficient to meet the obligations and liabilities	Amber
6	Information may not be provided to stakeholders as required	Green
8	Those charged with governance are unable to fulfil their responsibilities effectively	Green
14	Failure to administer the scheme in line with regulations and guidance	Green
20	Failure to act appropriately upon expert advice and/or risk of poor advice	Green

5.5 A full version of the Fund risk register can be found at the following link – Pension Fund Risk Register hyperlink

6. Communication Implications

Direct Communications - A communication will be issued to inform employers that the Funding Strategy Statement has been amended and that a consultation has over the changes has been launched.

Website - The draft Funding Strategy Statement will be published on the Fund's website alongside a news article launching the consultation

7. Legal Implications

7.1 No immediate legal implications

8. Consultation with Key Advisers

8.1 Consultation with the Scheme Actuary was undertaken when drafting the new policy.

9. Alternative Options Considered

9.1 None

10. Appendices

10.1 Appendix A – Draft Funding Strategy Statement

Checklist of Key Approvals

Is this decision included in the Business Plan? Not applicable

Will further decisions be required? If so, please outline the timetable here

No

Is this report proposing an amendment to the budget and/or policy framework?

No

Has the Chairman of the Pension Fund Committee been consulted? Councillor Rogers – 12/3/21

Has this report been cleared by Head of Pensions? Mark Whitby – 1/3/21

Has this report been cleared by Section 151 Officer? Sarah Heywood – 15/3/21

Has this report been cleared by Legal Services? Fiona McMillan – 1/3/21

Cambridgeshire
Pension Fund

Funding Strategy Statement 2019

LGSS

Contents

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 2019.

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 which the 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 deficit/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 Pooled**	**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)	Review of rates will be carried out in line with Regulations and as set out in Note (f)						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. See Note (j).

* 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)

Under the Regulations, the Fund may amend contribution rates between valuations for "significant change" to the liabilities or covenant of an employer: this may result in a material increase or decrease in contributions, depending on the circumstances. The Fund would consider the following circumstances as a potential trigger for review:

- in the opinion of an Administering Authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the scheme within the next two years and before completion of the next valuation;
- an employer agrees to pay increased contributions to meet the cost of an award of additional pension, under Regulation 31(3) of the Regulations;
- there are changes to the benefit structure set out in the LGPS Regulations including the outcomes of the McCloud case and cost sharing mechanisms (if permitted in Regulation at that time) which have not been allowed for at the last valuation;
- it appears likely to the Administering Authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the Administering Authority that there has been a significant change in the ability of an employer or employers to meet their obligations (i.e. a material change in employer covenant);
- it appears to the Administering Authority that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the Administering Authority.

The Administering Authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially or they are going through a significant restructuring impacting their membership).

Except in circumstances such as an employer nearing cessation, the Administering Authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

The Rates & Adjustments Certificate will be updated as necessary, following such a review.

The Administering Authority will also consider guidance in such matters from the Scheme Advisory Board as issued from time to time.

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) (Exiting the Fund)

Notwithstanding the provisions of the Regulations and any Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an employer (when applicable to the type of body):

- Last active member ceasing participation in the Fund (NB 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 employer;
- Any breach by the employer of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the employer to pay any sums due to the Fund within the period required by the Fund;
- The failure by the employer to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund; or
- On termination of a deferred debt arrangement.

On cessation, in the absence of a deferred debt arrangement, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus.

Payment of cessation debt

Where there is a deficit, payment of this amount in full would normally be sought from the employer. The Fund's normal policy is that this cessation debt is paid in a single lump sum within 30 days of the employer being notified.

However, in line with the Regulations and when in the best interests of all parties, the Fund may agree for this payment to be spread over an agreed period, however, such agreement would only be permitted at the Fund's discretion, where payment of the debt in a single immediate lump sum could be shown to be materially detrimental to the employer's normal operations. In cases where payment is spread, the Fund reserves the right to require that the ceasing employer provides some form of security (such as a charge over assets, bond indemnity or guarantee) relating to the unpaid amount of debt at any given time.

Consideration of surplus / exit credit

Where there is a surplus, the Administering Authority will revise the rates and adjustments certificate showing the excess of assets over the liabilities as assessed by the actuary. The Administering Authority will promptly notify the employer - and any other relevant body - of its intention to make a determination as to the value, if any, of any exit credit payable to the employer. Further detail on the Fund's exit credit policy is outlined in italics below.

In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches depending on the employer and the specific details surrounding the particular exiting employer's cessation scenario.

Exit Credit Policy

In making a determination as to the value of any exit credit payable, the Administering Authority will consider: (a) the extent of any surplus, (b) the proportion of surplus arising as a result of the exiting employer's employer contributions; (c) in the case of an Admission Body that is an exiting employer, any representations made by the Admission Body (and any other parties notified, as set out above) which may include information as to any risk sharing agreements in place, any guarantor arrangements, any specific agreement between scheme employers, and any such other representations relevant in the specific case and (d) any other relevant factors, which may include, for example, factors such as:

1. *whether an Admission Body participates in the Fund via the "fixed contribution rate" (or pass through) (as set out under "Note (i) (New Transferee Admission Bodies)");*
2. *any admission terms/Pooling arrangements (as set out under "Note (i) (New Transferee Admission Bodies)/contractual or risk sharing agreements which deal with the ownership of exit credits/cessation surpluses (and the dates such agreements were entered into);*
3. *the approach/factors considered when setting contribution rates payable by an Admission Body during its participation in the Fund (including which party was responsible for funding risks and/or any forms of employer assistance/support in place);*
4. *whether the admission agreement ends early and, if so, the reasons for the early termination;*
5. *whether a scheme employer or resolution body becomes an exiting employer due to a reorganization, merger or take-over;*
6. *whether an Admission Body /scheme employer /or resolution body leaves on a gilts exit basis;*

7. *any contributions due or monies owed to the Fund that remain unpaid by an employer at the cessation date; and*

8. *whether an Admission Body had entered the fund prior to the original exit credit regulations start date of 14 May 2018.*

Any representations to be made by the employer (and any other parties notified as set out above) - together with copies of any documents provided for the Fund to consider - must be provided to the Fund as soon as reasonably practicable and in any event within one month of the Administering Authority's notification of its intention to make a determination (as set out above).

The determination will be made by the Head of Pensions in accordance with the LGPS Regulations 2013, in conjunction with advice from the Fund's Actuary and/or legal advisors where necessary, taking the above into consideration. The determination will set out the value of any exit credit payable and the factors considered in reaching this determination, and will advise the exiting employer of the amount due to be paid (if any).

Where it is determined that an exit credit is payable, the Administering Authority will make the payment to the exiting employer within six months of the exit date where possible. A longer time may be agreed between the Administering Authority and the exiting employer where necessary. For example, if the exiting employer does not provide all the relevant information to the Administering Authority within one month of the cessation date or such other period as specified by the Administering Authority, the Administering Authority will not be able to guarantee payment within six months of the cessation date.

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 employers 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 employer'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 employer 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.

Deferred Debt Agreement ("DDA") alternative to immediate cessation

As an alternative, where the ceasing employer is continuing in business, the Administering Authority may enter into an agreement with the employer to defer their obligations to make an exit payment and continue to make secondary contributions (a 'Deferred Debt Agreement') as described in Regulation 64 (7A)). The employer must meet all active employer requirements and pay the secondary rate of contributions as determined by the Fund actuary until the termination of the deferred debt agreement.

The Administering Authority will consider deferred debt agreements in the following circumstances:

- The employer requests the Fund consider a deferred debt agreement;
- The employer is expected to have a deficit f a cessation valuation was carried out;
- The employer is expected to be a going concern; and
- The covenant of the employer is considered sufficient by the Administering Authority.

The Administering Authority will normally require:

- Security be put in place covering the employer's deficit on their cessation basis;
- Regular monitoring of the contribution requirements and security requirements;
- All costs of the arrangement are met by the employer, such as the cost of advice to the Fund, ongoing monitoring of the arrangement, and correspondence on any ongoing contribution and security requirements.

A deferred debt agreement will normally terminate on the first date on which one of the following events occurs:

- the employer enrols new active Fund members;
- the period specified, or as varied, under the deferred debt agreement elapses;

- the take-over, amalgamation, insolvency, winding up or liquidation of the employer;
- the Administering Authority serves a notice on the employer that the Administering Authority is reasonably satisfied that the employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months;
- the Fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. the employer is now largely fully funded on their cessation basis);
- the Fund actuary assesses that the employer's value of liabilities has fallen below an agreed de minimis level, if the employer becomes an exiting employer on the calculation date; or
- The employer requests early termination of the agreement and settles the exit payment in full as calculated by the Fund actuary on the calculation date (i.e. the employer pays their outstanding cessation debt on their cessation basis).

On the termination of a deferred debt agreement, the employer will become an exiting employer and a cessation valuation will be completed in line with this FSS.

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.

3.6 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).

3.7 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.

3.8 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 prorata 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 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 underperformance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.

Risk	Summary of Control Mechanisms
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. 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 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: Seeking a funding guarantee from another scheme employer, or external body, whereever 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 high likelihood, 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 required likelihood.

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

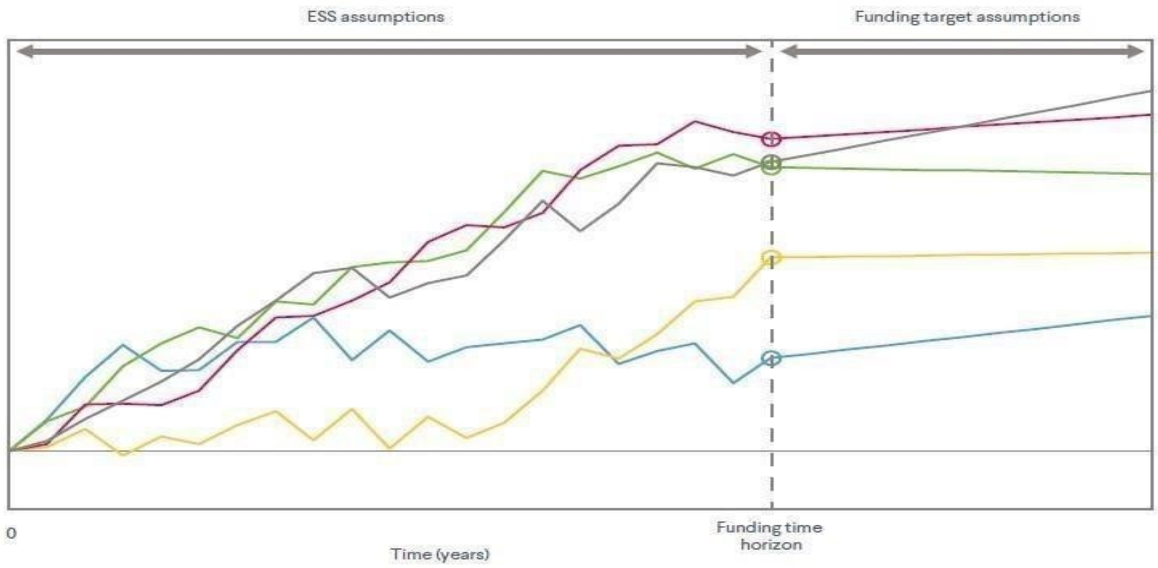
E1 What are the actuarial assumptions used to calculate employer contribution rates?

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 What assumptions 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 employees 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 employers in the Fund.
Valuation	A risk management exercise to review the **Primary and Secondary contribution rates**, and other statutory information for a Fund, and usually individual employers too.

Cambridgeshire
Pension Fund

Pension Fund Committee

Date: 25th March 2021

Report by: Head of Pensions

Subject:	Review of the effectiveness of the Pension Fund Committee
Purpose of the Report:	To provide feedback on the results from the effectiveness review survey.
Recommendations:	That the Committee notes the feedback and approves the plan of action to improve the effectiveness of the Pension Fund Committee in the areas identified.
Enquiries to:	Name: Michelle Oakensen, Governance Officer E-mail: moakensen@northamptonshire.gov.uk

1. Background

1.1 The need to regularly review the effectiveness of the Pension Fund Committee is considered good governance and is undertaken as an annual exercise. In January 2021 members were invited to complete a survey on how adequate they felt the current arrangements of the Committee are and how efficiently it is operating.

1.2 The previous survey was undertaken in January 2019 and the 2020 survey was delayed due to the pandemic. The survey covers the pandemic period to date for us to ascertain whether the Committee feels standards have been maintained during this time.

1.3 The survey consisted of 24 questions and members were encouraged to add extra clarity to answers provided. There was also an opportunity at the end of the survey to provide any additional supporting comments.

1.4 The surveys were to be completed by 12th February 2021.

2. Response to the review

2.1 The survey to ascertain the view of the Pension Fund Committee was sent to 10 members and 6 completed questionnaires were returned. This represents a return rate of 60% which was not as high as desired but was still an acceptable sample size. Completion of the survey is a mandatory feature of the Fund's Training Strategy.

3. Results of the effectiveness survey

3.1 Participants were required to rate the statements from strongly disagree to strongly agree and additional comments boxes were included on every question to encourage further narrative where needed.

3.2 A full analysis of the results of the survey can be found in appendix 1 of the report.

4. Conclusions drawn from the effectiveness survey

4.1 The effectiveness of the Pension Fund Committee was positive as a whole with the majority of participants agreeing with the statements provided.

4.2 The following areas have been highlighted as to where improvements could be made and corresponding actions/comments for each. Areas for improvement are those areas where more than one member provided a ‘disagree or strongly disagree’ response.

Statement	Concern	Comments/Action
I am satisfied that undertaking meetings virtually as a result of the pandemic has enabled the equivalent amount of effective discussion when compared with face to face meetings.	No comments provided.	The future format of meetings needs to be addressed with the Committee once legislation has been amended. In the meantime it would be useful to understand how meetings can be improved to address the concerns raised.
I am able to fulfil my responsibilities as a Member without being issued with hard copy report packs.	200-400 page agendas, try to read every page (including tables) and have many comments. Locating them in a meeting is impossible without a hard copy.	Cambridgeshire County Council does not currently permit the printing of Committee agenda packs. This concern will be raised formally with Democratic Services for a response.

5. 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 attributed 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.

6. Risk Management

6.1 The Pension Fund Committee are expected to have an awareness of how the Fund is operated and maintain appropriate skills and knowledge. The Pension Fund Committee make decisions on how the Fund operates and therefore should periodically review how effective processes are and whether there are any skills gaps within membership.

6.2 The risks associated with Pensions Fund Committee members not having the required level of awareness and knowledge have been captured in the Fund's risk register as detailed below.

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

6.3 The Fund risk register can be found at the following link - Pension Fund Risk Register

7. Communication Implications

7.1 There are no communication implications as a result of accepting the recommendations within this report.

8. Finance & Resources Implications

8.1 There are no financial or resource implications as a result of accepting the recommendations within this report.

9. Legal Implications

9.1 There are no legal implications as a result of accepting the recommendations within this report.

10. Consultation with Key Advisers

10.1 There has been no consultation with professional advisers in the writing of this report.

11. Alternative Options Considered

11.1 Not applicable.

12. Background Papers

12.1 None

13. Appendices

13.1 Appendix 1 – Full analysis of the results of the survey

Checklist of Key Approvals

Has this report been cleared by Section 151 Officer? Sarah Heywood – 15/3/21

Has this report been cleared by Head of Pensions? Mark Whitby – 24/02/2021

Has the Chairman of the Pension Committee been consulted? Councillor Rogers – 12/3/21

Has this report been cleared by Legal Services? Fiona McMillan – 1/3/21

Appendix 1 - Full analysis of the results of the survey

Question	Responses					Comments
	Strongly Agree (%)	Agree (%)	Neither Agree nor Disagree (%)	Disagree (%)	Strongly Disagree (%)	
There are a sufficient number of meetings held in the financial year.	16.67	66.67		16.67		
I am satisfied that undertaking meetings virtually as a result of the pandemic has enabled the equivalent amount of effective discussion when compared with face to face meetings.		50	16.67	33.33		
I am able to fulfil my responsibilities as a Member without being issued with hard copy report packs.	16.67	33.33		33.33	16.67	200-400 page agendas, try to read every page (including tables) and have many comments. Locating them in a meeting is impossible without a hard copy.
The quality of reports meets the expected standard.	16.67	66.67		16.67		In too many areas we are given a choice of 1 without alternatives.
Members are provided with sufficient information in order to make effective and timely decisions.		83.33	16.67			Agree subject to answer (disagree) to item 4.
I am satisfied that risks identified on the covering reports adequately identify the risks involved in taking a particular decision and are reflected in the risk register.	16.67	66.67	16.67			
I have clarity on the roles and responsibilities of both the Pension Fund Committee and the Pension Fund Board and the decision making process.	33.33	66.67				

	Responses					
Question	Responses					Comments
	Strongly Agree (%)	Agree (%)	Neither Agree nor Disagree (%)	Disagree (%)	Strongly Disagree (%)	
I consider that the Pension Board effectively delivers on its remit to assist the administering authority in securing compliance with the principal 2013 regulations along with any other requirements imposed by the Pensions Regulator in relation to the scheme.	16.67	66.67	16.67			
I consider that the Pension Board effectively delivers on its remit to assist the administering authority in ensuring the effective and efficient governance and administration of the scheme.	16.67	50	33.33			
I have a good understanding of the role of both internal and external audit in the governance and assurance process	16.67	66.67	16.67			
I am aware that I need to disclose any potential and actual conflicts of interest that may arise.	100					
I receive adequate reporting to provide assurance over the quality of the Fund's administration to scheme members and scheme employers.	33.33	66.67				
I receive adequate reporting to provide assurance that there is appropriate budgetary control of the Fund in place	33.33	66.67				

	Responses					
Question	Responses					Comments
	Strongly Agree (%)	Agree (%)	Neither Agree nor Disagree (%)	Disagree (%)	Strongly Disagree (%)	
Members are provided with good quality policies and strategies for review/ approval.	16.67	66.67	16.67			
I have good understanding of the Fund's Communication Policy with regards to scheme employer and scheme member engagement.	16.67	50	33.33			
I have a broad understanding of the implications of new employers joining the Fund and of the cessation of existing employers.	16.67	66.67	16.67			
I would know what process to follow if I suspected a breach of the law and there is a sufficient policy in place to support this.	16.67	66.67	16.67			
I have an understanding of how the Fund monitors and manages the performance of their outsourced providers.		83.33	16.67			
I have a good understanding of the Accounts and Audit Regulations and legislative requirements relating to internal controls and proper accounting practice.	33.33	50	16.67			
I understand the role of the Fund's investment advisors.	50	50				

Question	Responses					Comments
	Strongly Agree (%)	Agree (%)	Neither Agree nor Disagree (%)	Disagree (%)	Strongly Disagree (%)	
I understand the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long term risks.	50	50				
I have an understanding of the risk and return characteristics of the main asset classes (equities, bonds, property etc.).	33.33	50	16.67			
I have an understanding of the contents of the Fund's Investment Strategy Statement.	33.33	66.67				
I understand my fiduciary responsibility to scheme members	50	50				

Agenda Item No: 10

Cambridgeshire
Pension Fund

Pension Fund Committee

25th March 2021

Report by: Head of Pensions

Subject:	Employer Admissions and Cessations Report
Purpose of the Report:	1. To report the admission of three admitted bodies to the Cambridgeshire Pension Fund 2. To report the admission of one designating body to the Cambridgeshire Pension Fund 3. To notify the Committee of seven bodies ceasing participation 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 Limited • Stevenage Leisure Limited • YTKO Limited 2. Notes the admission of the following designating body to the Cambridgeshire Pension Fund: • CMAT Educational Services Limited 3. Notes the cessation of the following bodies from the Cambridgeshire Pension Fund: • Carers Trust (Caring Together Charity) • Kingdom Services Group • Lunchtime UK Limited x 3 • Chartwells Catering • Easy Clean Contractor Limitd • Adec (Arts Development in East Cambridgeshire)
Enquiries to:	Name – Cory Blose, Employer Services and Systems Manager Tel – 07990 560829 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 Limited (Brewsters Avenue Infant School)	Brewster Avenue Infant School, a Cambridgeshire County Council LEA school, entered into a contract with ABM Catering Limited to provide school catering services. As a result, a group of staff were transferred to the new admission body and a full admission agreement has been put in place. This agreement has been backdated to 1st August 2019 and backdated contributions are due by 12th March 2021.
01/12/2019	Stevenage Leisure Limited (Sawtry Leisure Centre)	The management of Sawtry Leisure Centre was transferred from Huntingtonshire District Council to Cambridge Meridian Academy Trust (CMAT) and CMAT entered into a contract with Stevenage Leisure Limited to provide the leisure centre service. As a result, a group of staff were transferred to the new admission body. CMAT has agreed to retain the pension risk under a Pass Through agreement. This agreement has been backdated to 1st December 2019 and the contract has already ceased. Backdated contributions have been collected.

15/02/2021	YTKO Limited	Cambridgeshire and Peterborough Combined Authority (CPCA) created a company known as Cambridgeshire and Peterborough Business Growth Company Limited (Growth Co) and entered into a joint agreement with YTKO Limited to manage efforts to stimulate economic growth in the Greater Cambridgeshire and Peterborough area. As a result a group of staff were transferred from CPCA to YTKO Limited. CPCA has agreed to retain the pension risk under a Pass Through agreement.

3. New Designating Body

3.1 Regulation 3 (1) of the Regulations provides for a person employed by a body listed in Schedule 2 and is designated, or belongs to a class of employees designated, by the body, to be an active member of the Local Government Pension Scheme.

3.2 The designating body has to pass a resolution to designate employees as eligible for membership of the Local Government Pension Scheme.

3.3 Paragraph 6 of Part 2 of Schedule 2 provides for a company under the control of a body listed in paragraphs 6 to 24 (e.g Academy Trusts) to pass such a resolution.

3.4 Where such a body passes a resolution designating one or more employees as eligible for membership, the Fund must provide access to the Scheme for those employees. The Committee has no discretion over allowing the employer to participate in the Fund.

3.5 The Committee is asked to note that the following employer is a designating body by means of being a body controlled by Cambridge Meridian Academy Trust within the meaning of paragraph 6 of Part 2 of Schedule 2 to the Regulations.

Date of admission	Scheduled Body (with designation)	Background information
01/08/2020	CMAT Educational Services Limited	CMAT Educational Services Limited (CMAT ES) is a subsidiary of Cambridge Meridian Academies Trust (CMAT). The service contract with Stevenage Leisure Limited (SLL) *to* provide the services in Sawtry Leisure Centre ended on 31st July 2020 and the services were taken over by CMAT ES. As a result a group of staff were transferred from SLL to CMAT ES. A resolution was passed designating the transferring staff as eligible to join the LGPS.

4. Cessations

4.1 Carers Trust (Caring Together Charity)

4.1.1 Carers Trust were admitted to the Fund under a pass through agreement on 1st April 2015, after entering a contract to provide carer's support services.

4.1.2 On 30 June 2020, the last active member left employment. No exit debit or credit will be required as the pension liabilities were retained by Cambridgeshire County Council.

4.2 Kingdom Services Group

4.2.1 Kingdom Services Group were admitted to the Fund under a pass through agreement on 1st November 2017 after entering a contract to provide the cleaning services in Brampton Village Primary School.

4.2.2 On 31st October 2019, the last active member left employment. No exit payment or credit will be required as the pension liabilities were retained by Cambridgeshire County Council.

4.3 Lunchtime UK Limited

4.3.1 Lunchtime UK Limited were admitted to the Fund under a number of separate pass through admission agreements which are listed in the table in paragraph 4.3.3.

4.3.2 The last active members have left the Scheme in respect of each admission agreement listed below. The relevant cessation date is also shown. No exit payment or credit will be required as the pension liabiltiies were retained by Cambridgeshire County Council.

School	Date of admission	Date of cessation
Colville Primary School	19th April 2010	31st December 2020
St Laurence Catholic Primary School	1st October 2018	1st November 2020
Waterbeach Community Primary School	1st January 2014	31st December 2020

4.4 Chartwells Catering (Netherhall School)

4.4.1 Chartwells Catering were admitted to the Fund under a pass through agreement on 1st April 2015, after entering a contract to provide catering services in Netherall School.

4.4.2 Their service contract ended on 31st March 2018. No exit payment or credit will be required as the pension liabilities were retained by Cambridgeshire County Council.

4.5 Easy Clean Contractor Limited (The Phoenix School – Juniors)

4.5.1 Easy Clean Contractor Limited were admitted to the Fund under a pass through agreement on 2nd January 2015, after entering a contract to provide cleaning services.

4.5.2 On 1st September 2020, the last active member left employment. No exit payment or credit will be required as the pension liabilities were retained by Peterborough City Council.

4.6 Stevenage Leisure Limited

4.6.1 Stevenage Leisure Limited were admitted to the Fund under a pass through agreement on 1st December 2019, after entering a contract to manage Sawtry Leisure Centre on behalf of CMAT.

4.6.2 Their service contract ended on 31st July 2020. No exit payment or credit will be required as the pension liabilities were retained by Cambridge Meridian Academy Trust.

4.7 ADeC (Arts Development in East Cambridgeshire)

4.7.1 ADeC were admitted to the Fund under a Community Admission Body on 1st June 2000.

4.7.2 On 22nd July 2019, the last active member left employment. An exit surplus of £14,000 was calculated by the Fund Actuary. The exit surplus has been paid to the employer in accordance with the Funding Strategy Statement.

5. 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*

6. Risk Management

6.1 The Pension Fund Committee are responsible for approving some admission bodies into the Fund as well as monitoring all admissions and cessations.

6.2 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

6.3 The Fund's full risk register can be found on the Fund's website:

Pension Fund Risk Register hyperlink

7. Finance & Resources Implications

7.1 Actuarial costs incurred by obtaining a calculation of the employer's contribution rate and opening funding position at commencement are recharged directly to the employer.

7.2 The employer contribution rate contains an allowance for administration charges, and the employer is charged a fee to recover the Funds administration costs of on boarding new employers and terminating ceased employers. This means that admissions and cessations should be cost neutral.

7.3 Employers who are unable to pay monies due during the course of active membership may result in unpaid liabilities being borne by other employers in the Fund.

8. Communication Implications

Direct Communications - Direct communications will be required to facilitate employer start up in the LGPS.

Direct communications will be required with the exiting emloyers.

Training - Training will need to be provided to new employers on a number of LGPS issues.

Website - New employers are given access to the employer’s guidance available on the pension’s website.

9. Legal Implications

9.1 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.

10. Consultation with Key Advisers

10.1 Contribution rate and bond assessments are undertaken by Hymans Robertson, the Fund Actuary.

10.2 A precedent admission agreement has been drafted by Eversheds, specialist pension legal advisers in consultation with LGSS Law.

10.3 Advice has been sought from Hymans Robertson in connection with the cessation of Vivacity.

11. Alternative Options Considered

11.1 None available.

Checklist of Key Approvals

Has this report been cleared by Section 151 Officer? Sarah Heywood – 15/3/21

Has this report been cleared by Head of Pensions? Mark Whitby – 24th February 2021

Has the Chairman of the Pension Fund Committee been consulted? Councillor Rogers – 12/3/21

Has this report been cleared by Legal Services? Fiona McMillan – 1/3/21