

***Annual Business Plan and Medium
Term Strategy
2018/19 to 2020/21***

Cambridgeshire Pension Fund

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Introduction

This is the business plan for the Cambridgeshire Pension Fund which is managed and administered by LGSS Pensions on behalf of Cambridgeshire County Council. The business plan details our priorities and areas of key focus in relation to the Cambridgeshire Pension Fund for 2018/19, 2019/20 and 2020/21. The business plan was approved at the Cambridgeshire Pension Fund Committee meeting on 29 March 2018. The business plan is monitored throughout the year and the Pension Fund Committee may be asked to agree changes to it.

The purpose of the business plan is to:

- Explain the background and objectives of Cambridgeshire County Council in respect of the management of the Cambridgeshire Pension Fund;
- Document the priorities and improvements to be implemented by LGSS Pensions 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 2018/19 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:

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Background to the Cambridgeshire Pension Fund

The Cambridgeshire Pension Fund is a £2.988bn 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 77,300 of which 26,700 are active members from 182 contributing employers and approximately 50,600 retired, survivor, deferred and other members.

Governance and management of the Fund

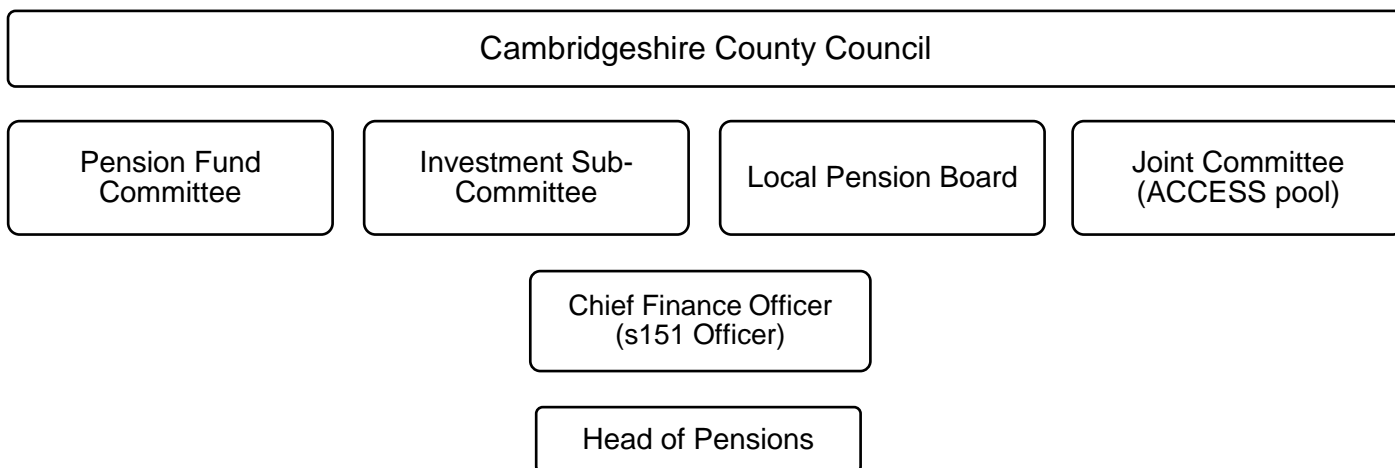
The key decision making and management of the Fund has been delegated by Cambridgeshire County Council (the administering authority) to a formal Pension Fund Committee, supported by an Investment Sub-Committee that looks at the operational governance of investment issues.

The Cambridgeshire County Council's Chief Finance Officer (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

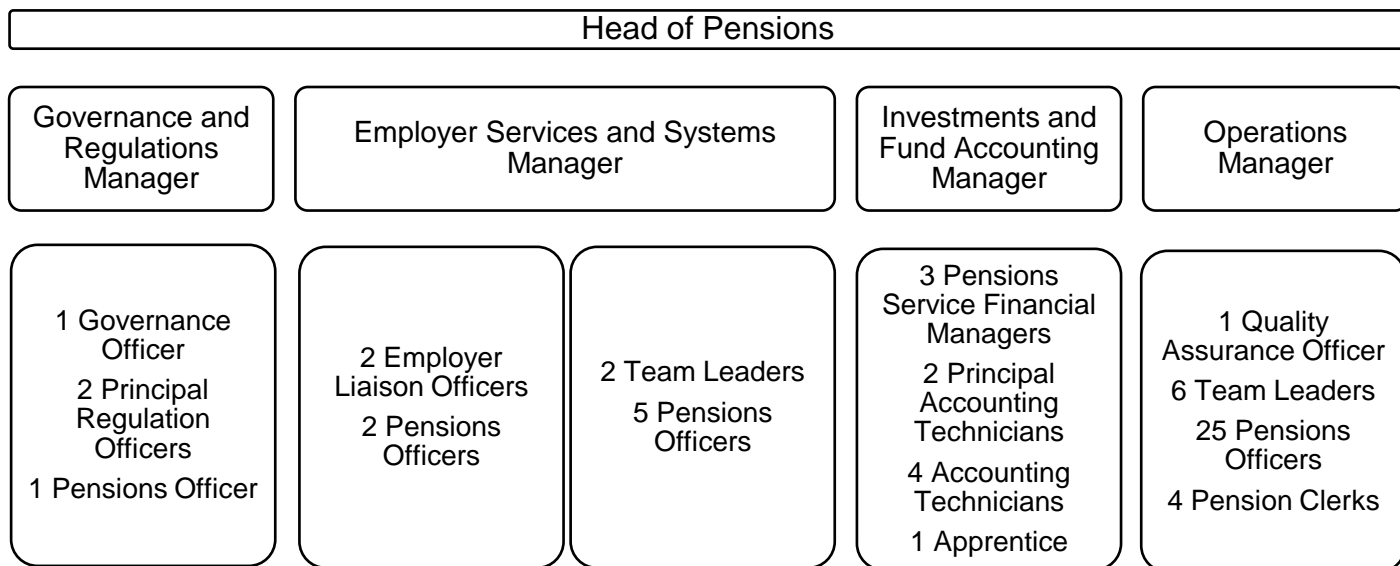
In 2012, the administration of the Cambridgeshire Pension Fund was converged with that of the Northamptonshire Pension Fund following the creation of LGSS, a shared service joint committee arrangement between Cambridgeshire County Council and Northamptonshire County Council. The Funds, however remain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

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

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

- The Operations Team is responsible for providing the full range of pension administration services. The team delivers a service that includes the calculation of retirement, deferred, death and survivor benefits, transfers in and out, refunds and member record maintenance.
- The Systems Team is responsible for maintaining the pension administration, payroll, employer and member self-service systems, reconciling membership data received from employers and the production of annual benefit statements.
- The Employers Team provide support to employers being admitted to and leaving the scheme, managing the triennial actuarial valuation process and liaison with scheme employers with regards to the responsibilities required of them. Scheme member and employer communications form a significant part of the team's function which ranges from the design and management of the Fund's website, presentations, workshops, newsletters and written communications.
- The Governance and Regulations Team is responsible for managing agendas, producing reports and delivering training to each Pension Fund Committee and Local Pension Board. In addition the team takes the lead in the development of strategic policies relating to the operation, governance and management of the Fund and monitors compliance with prevailing LGPS specific and overriding legislation. The team specialises in data quality, data protection and pension taxation.
- The Investments and Fund Accounting Team is responsible for providing 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 Investment 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 structure of the LGSS Pensions, which provides administration services to both the Cambridgeshire Pension Fund and the Northamptonshire Pension Fund, as at 31 March 2018 is illustrated below:



Objectives for the management of the Fund

The Fund's agreed objectives are detailed as follows;

- Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance.
- Manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers.
- Ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment.
- Continually monitor and measure clearly articulated objectives through business planning.
- Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.
- Ensure regular monitoring of employer covenants, putting in place mitigations of adequate strength to protect the Fund.
- Ensure appropriate exit strategies are put in place both in the lead up to and termination of a scheme employer.
- Put in place performance standards for the Fund and its employers and ensure these are monitored and developed as necessary.
- Ensure employer contributions are as stable as possible, recognising the characteristics, circumstances and affordability constraints of each employer.
- Administer the Fund in a professional and efficient manner, utilising technological solutions and collaboration.
- Maintain accurate records and ensure data is protected and used for authorised purposes only.
- Promote the scheme as a valuable benefit.
- Deliver consistent plain English communications to stakeholders.
- Provide scheme members with up to date information about the scheme in order that they can make informed decisions about their benefits.
- Seek and review regular feedback from all stakeholders and use the feedback appropriately to shape the administration of the Fund.
- Ensure cash flows in to and out of the Fund are timely and of the correct amount.
- 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.

- Put in place a Strategic Asset Allocation ensuring it is appropriately maintained taking into account the Funding Strategy.
- Maximise investment returns over the long term within agreed risk tolerances.
- Ensure an appropriate cash management strategy is in place so that net cash outgoings can be met as and when required.

Business as usual

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

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

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

Governance

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

Accountancy

- Preparing and publishing the Fund’s annual report.
- Completing the annual accounts and assisting with external auditors.
- Preparing the annual budget and monitoring quarterly.
- Preparation of statutory and non-statutory returns as required.
- Conducting monthly bank reconciliations.
- Quarterly cash flow and treasury management.
- Monthly monitoring of income and expenditure including employer and scheme member contributions.
- Invoicing of employers for pensions strain and unfunded benefits.

Funding

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

Investments

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

Administration

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

Payroll

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

Communication

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

Technical

- Maintaining and updating the pensions administration system.
- 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 are an unprecedented volume of external factors that could impact the management of the Fund:

- Creation and implementation of the Local Pension Board.
- Increased oversight by the Pensions Regulator including compliance with the code of practice on governance and administration.
- Implementation of the new Local Government Pension Scheme from 1 April 2014 and each year introducing innovative ways of working.
- The national requirement to reconcile contracting out data held by the scheme with that held by HMRC following changes to the state pension.
- Increasing number of scheme members affected by the new tax regime and reducing allowances on pension savings.
- Implementing the Government's requirements of the pooling of LGPS pension fund assets with the other Funds in the ACCESS pool.
- Seeking improved investment returns by making strategic allocations to non-traditional asset classes.
- Responding to the requirements of MIFIDII including maintaining the skills and knowledge required of professional investors.
- Increasing diversity of scheme employers including academies and multi-academy trusts.

The Fund is in a strong position to meet the challenges ahead. The following are the main areas which we will need to be managed and responded to, some of which may necessitate a review of the Fund's objectives.

- Implementing any changes required as a result of the national LGPS cost control mechanism.
- Achieving the objectives of the Fund's strategy on administration and communications and employer engagement.
- Increasing scrutiny and transparency on data quality.
- Increased accountability on protecting and processing data.
- Evidencing savings and improved investment governance arising from asset pooling.

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

- Governance and compliance.
- Communications, systems and employer management.
- Operations.
- Investments, accounting and cash flow management.

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 2018/19 to 2020/21

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

	2017/18 Estimate	2017/18 Forecast	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£000	£000	£000	£000	£000
Contributions	(128,000)	(128,000)	(129,000)	(132,000)	(135,000)
Transfers in from other pension funds	(5,400)	(2,100)	(4,907)	(4,907)	(4,907)
TOTAL INCOME	(133,400)	(130,100)	(133,907)	(136,907)	(139,907)
Benefits payable	100,000	100,000	101,000	103,000	105,000
Payments to and on account of leavers	5,400	7,200	7,246	7,246	7,246
TOTAL PAYMENTS	105,400	107,200	108,246	110,246	112,246
	(28,000)	(22,900)	(25,661)	(26,661)	(27,661)
Management expenses	8,156	8,114	8,492	8,593	8,788
TOTAL INCOME LESS EXPENDITURE	(19,844)	(14,786)	(17,169)	(18,068)	(18,873)
Investment income less Taxes on income.	(29,000)	(29,000)	(30,000)	(31,000)	(32,000)
(profit) and losses on disposal of investments and changes in the market value of investments	(75,000)	(75,000)	(77,000)	(79,000)	(81,000)
NET RETURN ON INVESTMENTS	(104,000)	(104,000)	(107,000)	(110,000)	(113,000)
Net (increase)/decrease in net assets available for benefits during the year	(123,844)	(118,786)	(124,169)	(128,068)	(131,873)

Notes: Contributions and benefits are based upon underlying trends in membership and contribution rates, pensions in payment and expected increases.

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 2017/18.

Management expenses

	2017/18 Estimate	2017/18 Forecast	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£000	£000	£000	£000	£000
Total administration expenses	2,494	2,452	2,656	2,591	2,615
Total governance expenses	432	432	449	453	458
Total investment expenses	5,230	5,230	5,387	5,549	5,715
TOTAL MANAGEMENT EXPENSES	8,156	8,114	8,492	8,593	8,788

Notes: Investment expenses are mainly driven by fees paid to managers and are based upon the current year uplifted by 3% per annum.

Governance and investment expenses are expected to remain at levels similar to the current year, increasing in line with inflation. Within the governance expenses for 2018/19 is

£100,000 in respect of ACCESS related costs (2017/18 £100,000). At the point of drafting this business plan the fees and cost savings associated with the ACCESS project for 2018-19 onwards remain indicative in nature, as the Operator contract was only made effective in March 2018.

Administration expenses

	2017/18 Estimate	2017/18 Forecast	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£000	£000	£000	£000	£000
Staff related	1,321	1,305	1,434	1,448	1,462
Altair administration and payroll system	261	280	287	290	292
GMP/Payroll Reconciliation	150	95	60	-	-
CRM and new website	-	-	25	-	-
Communications	54	28	23	21	19
Other non pay and income	100	135	212	211	215
County Council overhead recovery	608	609	615	621	627
TOTAL ADMINISTRATION EXPENSES	2,494	2,452	2,656	2,591	2,615

Notes: The GMP and Payroll reconciliation costs are intended to be a one-off expenditure in order to meet the requirements of HMRC as a result of the introduction of the new state pension and cessation of contracting-out in defined benefit schemes. External expertise is required to complete this project in the most effective manner. This project will continue into 2018/19 and the unused budget from 2017/18 has been carried forward to meet this.

Staff related expenses

	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£000	£000	£000
2017/18 posts plus inflationary uplift	1,380	1,393	1,406
New posts established from 2018/19	83	84	85
Vacancy factor	(29)	(29)	(29)
TOTAL ESTIMATED STAFF COSTS	1,434	1,448	1,462

Notes: In 2017/18 staff related expenses are forecast to be lower than estimated due to the underspend on the staff budget not being fully utilised in sourcing agency staff. The future estimates include the Cambridgeshire Pension Fund share of four additional posts established in response to increased activity, and an inflationary uplift of 1%.

Delivering the business plan

Monitoring and reporting

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

The quarterly 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.

Key risks

The Cambridgeshire Pension Fund has embedded risk management into the governance of the Fund. The Pension Fund Committee has approved a Risk Strategy and a detailed Risk Register is maintained. Changes to the level of risk are reported to the Pension Fund Committee.

To follow is a summary of the main risks managed by the Fund and the level of risk expected when compared with the current position. Where the risk is both higher than expected and controllable the Fund's business plan will include an action on how to mitigate that risk.

The next few years will be challenging for those involved in the governance, management and operation of the Fund. The major risks as documented below are detailed in the Risk Register:

Governance

Main risks:	Those charged with governance of the Fund and are unable to fulfil their responsibilities effectively.	Current risk rating: Amber
What could increase risk?	An inappropriate governance structure, poor training, attendance and engagement, insufficient resources, conflicts of interest, absence of governance policies, absence of risk management, poor advice or impact of externally led changes outside of the Fund's control.	
Target risk	Managing governance risks are largely within the Fund's control hence risks are low. There will, however, always be some external factors outside of the Fund's direct control.	
Current risk	The current governance structure of the Fund is working well, however there are some new risks that will need attention during 2018/19: <ul style="list-style-type: none">• Relationship between the Joint Committee and the Fund• Succession planning for officers of the Fund in key areas of service delivery.	

Funding and investment

Main risks:	Market yields move at variance with actuarial assumptions resulting in increases in liability, reduced solvency levels and increased employer contribution rates.	Current risk rating: Red
What could increase risk?	A sustained fall in global markets, low interest rates, high inflation, inappropriate investment and funding strategy, failure of fund managers to meet investment	

	targets, on-going austerity reducing employer budgets and the impact of externally led changes outside of the Fund's control.
Target risk	There will always be economic, funding and investment risks that cannot be controlled by the Fund. The aim is to mitigate these risks as much as possible through a diversified investment portfolio and prudent funding strategy.
Current risk	A strategic asset allocation review will continue throughout 2018-19 to identify appropriate strategic asset allocations in light of the Fund's Funding Strategy and the current and future economic environment. The Funding Strategy will be revisited as part of the triennial valuation process in 2019-20 with close monitoring of scheme employers over the inter-valuation period, using a risk based approach.

Administration and communication

Main risks:	Failure to include all required information in documents issued to members under Disclosure regulations.	Current risk rating: Amber
What could increase risk?	A lack of a trained workforce, poor IT and reporting systems, poor communications, inefficient or inadequate procedures and increasingly complex pension and taxation laws and regulations.	
Target risk	The majority of these risks can be managed by the Fund, hence the risks are well managed and low. There will, however, always be some external factors such as the complexity and number of regulatory changes which are less controllable.	
Current risk	<p>The Fund has reviewed both the Administration and Communication Strategy which have ambitious targets. The Fund, like others in the LGPS universe, has some difficulty recruiting suitably knowledgeable and skilled staff which ultimately may start to impact on performance targets. Further external pressures and complexities which would increase risks, workloads and costs may prove problematic. The new risks are:</p> <ul style="list-style-type: none"> • Delays in HMRC responding to queries on the contracting-out reconciliation before the service closes on 31 December 2018. • Proposed changes to legislation regarding exit payments that will increase the complexity of administration processes. • Additional communication burden of the national pension dashboard. 	

Appendix 1 – Business Plan 2018/19 to 2020/21

Service delivery

Reference	Key action/task	2018/19				Medium term	
		Q1	Q2	Q3	Q4	2019/20	2020/21
SD1	Review staff retention		✓				
SD2	Obtain full Customer Service Excellence standard accreditation		✓			✓	
SD3	Implement additional posts		✓				

Governance and compliance

Reference	Key action/task	2018/19				Medium term	
		Q1	Q2	Q3	Q4	2019/20	2020/21
GC1	Legal services procurement		✓				
GC2	Mortality screening / member tracing services procurement			✓			
GC3	Soft market testing for administration and payroll system procurement						✓
GC4	Review Additional Voluntary Contribution fund range				✓		
GC5	The General Data Protection Regulation compliance	✓					
GC6	Data improvement plan				✓		
GC7	Liability reduction exercises					✓	
GC8	Guaranteed Minimum Pension reconciliation / rectification			✓			
GC9	Pensioner administration v pensioner payroll records rectification		✓			✓	

Operations

Reference	Key action/task	2018/19				Medium term	
		Q1	Q2	Q3	Q4	2019/20	2020/21
Ops1	Processing of undecided leavers			✓			
Ops2	Establish ESCROW account for 'out of scheme' payments	✓	✓				

Communications, Systems and Employer Management

Reference	Key action/task	2018/19				Medium term	
		Q1	Q2	Q3	Q4	2019/20	2020/21
CSEM1	Employer covenant monitoring			✓			
CSEM2	Investigate and prepare for move to electronic communications as standard			✓			
CSEM3	Promotion of member self service			✓			
CSEM4	Monitoring/understanding the member experience		✓				
CSEM5	Review resilience to cyber crime	✓		✓			
CSEM6	In-house hosting by LGSS IT			✓			
CSEM7	Development of employer resources			✓		✓	
CSEM8	Implementation of HEAT		✓				
CSEM9	Implementation of ill health self-insurance/pooling	✓					
CSEM10	Preparation for the 2019 valuation				✓		

Investments, accountancy and cash flow management

Reference	Key action/task	2018/19				Medium term	
		Q1	Q2	Q3	Q4	2019/20	2020/21
IA1	Investment consultancy services re-tender						✓
IA2	Global custody services re-tender					✓	
IA3	Direct investment			✓			
IA4	Responsible investment			✓			
IA5	Asset pooling						
IA6	Strategic Asset Allocation review			✓			