Northamptonshire County Council

lgps

Cambridgeshire Local Government Pension Fund

Governance Policy & Governance Compliance Statement

January 2013

Cambridgeshire Local Government Pension Scheme (LGPS)

Governance Policy Statement

1) Contents Page No.

Regulation	2
Compliance against the Regulation	3
Performance and Risk Monitoring	3
Accountability and Publication of Information	4
Governance Compliance Statement	5
Best Practice Principles	5
Appendix A: Article 8 and part 5 of the Constitution	17
Appendix B: Guidance Note for Co-opted Members	23
Appendix - Disclosable Pecuniary Interests	27

2) Regulation

Governance of local government pension schemes is covered in administration regulations, which require administering authorities to set out in a Governance Compliance Statement how they govern their respective scheme. Such Statements should address the requirements of the regulation, as detailed below:-

31.-
(1) This regulation applies to the written statement prepared and published by an administering authority under regulation 73A of the 1997 Regulations.
(1A) An administering authority that has not published the first such statement as prescribed by regulation 73A(2), must do so on or before 1st November 2008. (SI 2008/2425. /Amended/SI/20082425.htm.)

(2) The authority must-`
- (a) keep the statement under review;
- (b) make such revisions as are appropriate following a material change in respect of any of the matters mentioned in paragraph (3); and
- (c) if revisions are made-

(i) publish the statement as revised, and
(ii) send a copy of it to the Secretary of State.

(3) The matters are-
(a) whether the authority delegates its function, or part of its function, in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the authority;
(b) if it does so-
(i) the terms, structure and operational procedures of the delegation,
(ii) the frequency of any committee or sub-committee meetings,
(iii) whether such a committee or sub-committee includes representatives of employing authorities (including authorities which are not Scheme employers) or members, and, if so, whether those representatives have voting rights;
(c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent it does not so comply, the reasons for not complying.

(4) In reviewing and making revisions to the statement, the authority must consult such persons as it considers appropriate.

3) Compliance against the Regulations

This section refers to the sub sections of regulation 31 as detailed above.

1) The Cambridgeshire Fund (the Fund) has published a Governance Compliance Statement since the original required date of November 2008.

2) The Fund has undertaken an annual review of the Governance Compliance Statement since inception.

3) The Fund sets out in
    a. Appendix 1 the Operating Protocol of the Pension Fund Board and the Investment Sub Committee;

4) The review of the Governance Arrangements of the Fund has undergone extensive consultation with Pension Committee members and senior officers, supported by the Fund's Actuary Hymans. The County Council approved changes to the constitution to reflect the review of the Powers and creation of the Pension Fund Board and Investment Sub Committee.

4) Performance and Risk Monitoring

1) In respect of investments the Fund employs professional and Industry recognised investment performance measuring providers to measure and report on the performance and risk of individual portfolios and the Total Fund.

2) The Fund employs a professional and industry recognised actuary, who provides wider Fund specific performance and risk information in particular covering Fund and Employer matters.

3) All such arrangements are governed by formal agreement.

4) The Pension Fund Board, the Investment Sub-Committee and the Funds Officers consider formally the performance and risk issues in relation to managers and the Total Fund. Additionally, quarterly reports provided by suitable external providers are distributed to members of the Investment Sub-Committee on a quarterly basis.

5) An annual review of performance is undertaken, in line with the production of the Annual Report and Statement of Accounts.

5) Accountability and Publication of Information

Details of Pension Fund Board meetings are published on the Cambridgeshire County Council website together with agendas, reports to be considered by the Board and minutes of proceedings. The meetings of the Pension Fund Board which are usually held at the County Council Offices in Shire Hall, Cambridge, CB3 0AP, are open to the public.

An Annual Pension Scheme Report and Accounts is published on the County Council's website, (pensions.cambridgeshire.gov.uk, within the Key Documents Library), reporting on the activities and investment performance during the year. Details of matters considered during the year and meetings held are reported and a copy of the annual report is available on the Council's website. Extracts of the annual report and details of its availability are also reported in the members newsletters sent to all scheme members.

Published
January 2013

Governance Compliance Statement

Best Practice Principles

This section sets out the extent to which the delegation complies with guidance from the Secretary of State, with reasons.

PART II/A - Structure

Recommended Principle:

a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.

b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.

c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.

d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.

Existing CCC Position:

II/A	**Not Compliant**				**Fully Compliant**
a)					X
b)					X
c)					X
d)					X

a) Cambridgeshire County Council agreed at the Full Council meeting of 17th July 2012 to establish a Pension Fund Board (PFB) and Investment Sub-Committee (ISC) with both having decision making powers.

b) Pension Fund Board and Investment Sub Committee Membership are set out on the following table. Membership of the Investment Sub-Committee is drawn from Pension Fund Board membership.

<table>
<tr><th>Representatives of</th><th>PFB</th><th>ISC</th></tr>
<tr><td>Cambridgeshire County Council</td><td>6</td><td>4</td></tr>
<tr><td>All other local authorities and police</td><td>2</td><td rowspan="2">2</td></tr>
<tr><td>All other employers</td><td>1</td></tr>
<tr><td>Active Scheme Members</td><td>1</td><td rowspan="2">1</td></tr>
<tr><td>Deferred and Pensioner Scheme Members</td><td>1</td></tr>
<tr><td>Total Board Membership</td><td>11</td><td>7</td></tr>
</table>

c) Investment Sub-Committee meetings take place a number of weeks before Pension Fund Board meetings, to facilitate the monitoring of ISC business through vehicles such as ISC minutes. The same members sit on both, therefore members receive papers for both. Hence the two bodies are closely linked.

d) All members of the Investment Sub-Committee sit on the Pension Fund Board.

Proposed Action:

b) Implement and embed the new Board and Investment Sub Committee structures and governance arrangements.

Timescale:

2013-14

PART II/B - Representation

Recommended Principle:

a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-

i) employing authorities (including non-scheme employers, e.g. admitted bodies);

ii) scheme members (including deferred and pensioner scheme members),

iii) where appropriate independent professional observers, and

iv) expert advisors (on an ad-hoc basis).

b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process with or without voting rights.

Existing CCC Position:

II/B	**Not Compliant**				**Fully Compliant**
a) i)					X
a) ii)					X
a) iii)					X
a) iv)					X
b)					X

a) i) & ii) Pension Fund Board membership

The Fund is fully compliant with this principle as demonstrated on the table from section PARTII/A above.

Note: each employer group as the autonomy to select its representatives including substitutes.

iii) According to guidance, an independent professional observer could be invited to:

- Participate in the governance arrangement to enhance the experience, continuity, knowledge, impartiality and performance of committees or panels.

- Carry out independent assessments of compliance against Myners' principles, together with other benchmarks that the Scheme authority's performance is measured against.

- Offer a practical approach to address and control risk, their potential effects, what should be done to mitigate them and whether the costs of doing so are proportionate.

The Scheme has access to actuarial and benefits support through Hymans Robertson.

iv) In addition an independent Investment Consultant (Hymans) is invited to attend all Pension Fund Board Meetings and Investment Sub Committee meetings.

Other expert advisors are available to the scheme as required ie WM Universe.

b) A lay member, according to guidance, is a formal member of the committee other than an elected member. Membership of the Pension Fund Board and Investment Sub-Committee consists of a mixture of elected, non-elected and scheme representatives. All members have full voting rights and receive all papers.

Proposed Action:

b) Implement and embed the new Board and Investment Sub Committee structures and governance arrangements.

Timescale:

2013-14

PART II/C - Selection and role of lay members

Recommended Principle:

a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.
b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.

Existing CCC Position:

II/C	Not Compliant*				Fully Compliant
a)					X
b)					X

a) Members are briefed on what is required of them on election to the Pension Fund Board and Investment Sub-Committee meetings. Members and officers are required to undergo regular training to develop their skills and knowledge and awareness. The training programme and log of attendance is maintained.

b) At the start of Pension Fund Board and Investment Sub-Committee meetings, members are invited to declare any interests in any items to be discussed on the agenda.

Elected members of the County Council need only declare the existence of any interest if that interest is **not** already listed in their register of Members' interests.

Members of the Pension Fund Board and Investment Sub-Committee need to consider whether any of the matters for discussion and/or decision conflict with their own interests. These could include areas such as: -

i) Membership of the Local Government Pension Scheme as an individual, Councillor or dependent.
ii) Being in receipt of or potential future receipt of benefits from the Local Government Pension Scheme.
iii) Decisions that could impact or conflict with their own financial or pecuniary interests.
iv) Decisions that could impact on or be impacted on by their status, role or function within any other Committee.

A list of disclosable pecuniary interests is enclosed at Appendix C together with a Guidance Note (Appendix B) in respect of Co-opted Members.

Proposed Action:
a) Develop an Operating Protocol for the Cambridgeshire Fund.

Timescale:
2013-14

PART II/D – Voting

Recommended Principle:

a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

Existing CCC Position:

II/D	**Not Compliant***				**Fully Compliant**
a)					X

a) All committee representatives appointed to either the Pension Fund Board or the Investment Sub-Committee and have full voting rights.

Proposed Action:

a) No further action proposed.

PART II/E - Training/Facility time/Expenses

Recommended Principle:

a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.

b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.

Existing CCC Position:

II/E	Not Compliant*				Fully Compliant
a)					X
b)					X

a) A training policy is in place.

Part 6 of the Council's Constitution – Members Allowances Scheme cover reimbursement of expenses for members.

b) Training and reimbursement of expenses applies equally to all members of the Pension Fund Board and Investment Sub-Committee.

Proposed Action:

a) To deliver the training plan approved at the October 2012 Pension Fund Board.

b) To review the process of reimbursement of expenses to make more efficient and easier to use.

Timescale:

2013-14

PART II/F - Meetings (frequency/quorum)

Recommended Principle:

a) That an administering authority's main committee or committees meet at least quarterly.

b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.

c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.

Existing CCC Position:

II/F	Not Compliant*				Fully Compliant
a)					X
b)					X
c)					x

a) The Pension Fund Board meets at least five times per year.

b) The Investment Sub-Committee meets at least four times per year.

c) Lay members are represented as shown in the structure of the Pension Fund Board. In addition, Employer seminars are held on an ad hoc basis.

Proposed Action:

No further action proposed.

PART II/G - Access

Recommended Principle:

a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that fails to be considered at meetings of the main committee.

Existing CCC Position:

II/G	Not Compliant*				Fully Compliant
a)					X

a) To be on the Investment Sub Committee members must be on the Pension Fund Board, therefore members of the Investment Sub Committee receive all papers of both bodies.

Non Investment Sub Committee members receive electronic copies of Investment Sub Committee papers, and are able to attend the Investment Sub Committee in an observatory capacity.

Proposed Action:

a) No further action proposed.

PART II/H - Scope

Recommended Principle:

a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.

Existing CCC Position:

II/H	**Not Compliant***				**Fully Compliant**
a)					X

a) The Pension Fund Board’s business covers all Fund matters with the exception of operational investment issues, which is delegated to the Investment Sub Committee.

Officers who work in Pensions Services or the Investment Team attend Pension Fund Board and Investment Sub-Committee meetings as required.

Members and Officers also keep abreast of wider scheme issues and developments by attending external seminars (e.g. NAPF, LAPFF) and Local Authority Pension User Group meetings.

With reference to the powers of the Pension Fund Board and Investment Sub-Committee it is clear that the Administering Authority has facilitated wider scheme issues within the scope of their wider governance arrangements.

The Fund has approved a training plan which requires members to attain and maintain Skills and Knowledge standards and attend external seminars and conferences to maintain knowledge and awareness of current issues.

Proposed Action:

a) Embed the new training plan. Review and update training plan for March 2014.

Timescale:

2013-14

PART II/I - Publicity

Recommended principle:

a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

Existing CCC Position:

II/I	**Not Compliant***				**Fully Compliant**
a)					X

a) The revised Governance Policy & Governance Compliance Statement will be made available on the Council's internet site and the Fund's specific website: pensions.cambridgeshire.gov.uk.

Proposed Action:

a) Add Governance Policy & Governance Compliance Statement to the website once it has been approved by the Pension Fund Board.

Timescale:
March 2013

Appendix A

Article 8 of the Constitution

Pension Fund Board (Pensions Committee) – Functions

- Overall responsibility for all administering authority pension fund matters.
- Responsibility for developing and reviewing all policies and strategies in relation to administering authority pension fund matters.
- Responsibility for the governance of the pension fund and ensuring that the fund complies with all relevant legislation.
- Responsibility for ensuring that appropriate arrangements for the administration of benefits are in place.

Part 3 of the Constitution

Pension Fund Board (Pensions Committee)

Membership

Representatives of	Number of Seats	Term of Appointment	Method of Appointment
Cambridgeshire County Council Members	**6**	4 years from County Council elections	Determined by Cambridgeshire County Council Full Council.
All other local authorities, police and fire	**2**	4 years	Nominations determined by a leaders/CEX group. Selection would be linked to the respective employers' election cycle. Details of process to be agreed by the Chairman
All other employers	**1**	4 years from 2014	Nominations to be determined by eligible employers. Details of process to be agreed by the Chairman.
Active scheme members	**1**	4 years from 2014	Determined by Unison. Where Unison fails to nominate a Board Member for any period of 6 months or more, nominations will be requested from all eligible active scheme members and a representative will be picked following interviews. Details of process to be agreed by the Chairman.

Deferred and pensioner scheme members	**1**	4 years from 2014	Determined by Unison. Where Unison fails to nominate Board Member for any period of 6 months or more, nominations will be requested from all eligible deferred and pensioner scheme members and a representative will be picked following interviews. Details of process to be agreed by the Chairman.
Total Board Members	**11**		

Substitutes: Full Council may appoint substitute members to the Pension Fund Board in accordance with the scheme of substitution.

Delegated Authority	Statutory Reference/ Condition
Authority to set the pension fund's objectives and determine and maintain appropriate strategies, policies and procedures with ongoing monitoring in relation to the following areas: • Funding Strategy - ongoing monitoring and management of the liabilities including ensuring appropriate funding plans are in place for all employers in the Fund, overseeing the triennial valuation and interim valuations, and working with the actuary in determining the appropriate level of employer contributions for each employer. • Investment strategy - to determine the Fund's investment objectives and to set and review the long-term high level investment strategy to ensure these are aligned with the Fund's specific liability profile and risk appetite. • Administration Strategy – the administration of the fund including collecting payments due, calculating and paying benefits, gathering from and providing information to scheme members and employers. • Communications Strategy – determining the methods of communications with the various stakeholders including scheme members and employers. • Discretions – determining how the various administering authority discretions are operated for the Fund. • Governance - the key governance arrangements for the Fund, including representation. • Risk Management Strategy – to include regular monitoring of the Fund's key risks and agreeing how they are managed and/or mitigated.	Regulations under the Superannuation Act 1972.
Authority to approve and apply the policy on, and to take decisions relating to, employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.	As above
Authority to agree the terms and payment of bulk transfers into and out of the Fund in consultation with the S.151 Officer.	As above
Authority to consider and agree business plans at least annually and monitor progress against them and to monitor compliance with the Myners Principles on an annual basis.	As above
Authority to develop and maintain a training policy for all Pension Fund Board and sub-committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring attendance at training events.	As above
Authority to select, appoint, monitor and where necessary terminate advisors to the Fund not solely relating to investment matters.	As above
Authority to approve and issue Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.	As above
Authority to consider and determine where necessary, alternative investment strategies for participating employers.	As above
Authority to oversee the work of the Investment Sub-Committee and consider any matters put to them by the Investment Sub-Committee	As above
Authority to set up Sub-Committees and Task and Finish Groups including jointly with other LGPS Administering Authorities	As above

Authority to review and amend the Statement of Investment Principles on an annual basis, in consultation with the S.151 Officer.	As above
Authority to manage any other strategic or key matters pertaining to the Fund not specifically listed above.	As above

Pension Fund Board Investment Sub-Committee
The Pension Fund Board shall establish an Investment Sub-Committee with the following membership and powers:-

Membership
All Investment Sub-Committee Members shall be drawn from Board membership. The Chairman and Vice Chairman of the Investment Sub-Committee shall be the Chairman and Vice Chairman of the Board respectively.

Representatives of	Number of Seats	Term of Appointment	Method of Appointment
Cambridgeshire County Council Members	**4**	**As above**	Determined by Cambridgeshire County Council representatives on the Board. Details of process to be agreed by the Chairman.
All other employers	**2**	Up to term of office ceasing in accordance with Board membership or six years whichever is later	Determined by non-Cambridgeshire County Council employer representatives at the Board. Details of process to be agreed by the Chairman.
Scheme member representative	**1**	Up to term of office ceasing in accordance with Board membership or six years whichever is later	By agreement between Active and Deferred/Pensioner Representatives on Board. Details of process to be agreed by the Chairman.
Total Board Members	**7**		

Substitutes: the Pension Fund Board may appoint substitute members to the Investment Sub-Committee in accordance with the scheme of substitution.

Delegated Authority	Statutory Reference/ Condition
Authority to implement the Fund’s investment strategy	Regulations under the Superannuation Act 1972.
Authority to review and maintain the detailed asset allocation of the Fund within parameters agreed with the Board.	As above
Authority to appoint and terminate investment managers to the Fund and to monitor the performance of investment managers leading to review and decisions on termination where necessary.	As above
Authority to appoint and monitor and where necessary terminate external advisors and service providers solely relating to investment matters, for example, the Fund Custodian, independent investment advisers, investment consultants and investment managers.	As above
Authority to set benchmarks and targets for the Fund’s investment managers	As above
Authority to monitor the risks inherent in the Fund’s investment strategy in relation to the Fund’s funding level.	As above
Authority to determine operational matters such as rebalancing and the most appropriate methodology for asset transitions within parameters agreed by the Pension Fund Board.	As above
Authority to monitor and review: • Legislative, financial and economic changes relating to investments and their potential impact on the Fund; • The investment management fees paid by the Fund and to implement any actions deemed necessary; • The transactions costs incurred by the Fund across its investment mandates and raise relevant issues and concerns with the investment managers as necessary; • The investment managers’ adoption of socially responsible investment considerations, on an annual basis, including corporate governance matters and a review of compliance with the UK Stewardship Code.	As above
Authority to receive reports on Interim Manager meetings and other operational meetings	
Authority to undertake any task as delegated by the Pension Fund Board.	
Authority to refer any matter to the Pension Fund Board as they consider appropriate. Authority to provide minutes and such other information to the Pension Fund Board as they may request from time to time.	As above

Special Rules of Procedure for the Pension Fund Board and Investment Sub-Committee.

The Council's Rules of Procedure set out in Part 4 of the Constitution apply to the Pension Fund Board and the Investment Sub-Committee except where they concern the following matters:-

- Frequency of meetings
- Appointment of Chairman and Vice Chairman
- Voting Rights
- Quorum
- Training Requirement

in which case the rules are modified as necessary to accommodate the provisions set out in the table below.

Frequency of Meetings	The Board will meet a minimum of five times a year. The date, hour and place of routine meetings shall be fixed by the Board, but the Chairman may call additional meetings if deemed necessary. The Investment Sub-Committee will meet a minimum of four times a year. The date, hour and place of routine meetings shall be fixed by the Board, but the Chairman may call additional meetings if deemed necessary.
Chairman and Vice Chairman's Term of Office	The normal term for the Pension Fund Board's Chairman and Vice Chairman's shall be one year subject to earlier removal by vote of Council or the Pension Fund Board in the case of the Vice Chairman. The appointment or removal of the Pension Fund Board's Chairman shall be a function of Full Council. The appointment of the Pension Fund Board's Vice Chairman shall be a function of the Pension Fund Board.
Voting Rights	All Board Members and Investments Sub-Committee Members shall have the right to vote in meetings.
Quorum	5 (1/3 plus 1) Board Members shall form a quorum for meetings of the Board. 4 (1/3 plus 1) of Investment Sub-Committee Members shall form a quorum for meetings of the Investment Sub-Committee. No business requiring a decision shall be transacted at any meeting of the Board or Investment Sub-Committee unless the meeting is quorate. If it arises during the course of a meeting that a quorum is no longer present, the Chairman shall either suspend business until a quorum is re-established or declare the meeting at an end and arrange for the completion of the agenda at the next meeting or at a special meeting
Training Requirement	Members may not take part in meetings of the Pension Fund Board or Investment Sub-Committee unless they have complied with any training requirements set out by the Chairman of the Pension Fund Board.

Appendix B

**Guidance Note
in Respect of Co-opted Members**

Any person who is not a Councillor and is appointed to a County Council committee, board or similar body will be bound by the provisions of the Localism Act 2011 in the same way as any Councillor. Such persons are often referred to as co-opted members. However, the Guidance set out in this note in respect of disclosable pecuniary interests will only apply to co-opted members who are able to vote at the appropriate council body to which they are appointed.

Accordingly, a non-councillor member of a Local Authority body who can partake in discussions and vote will need to register and if necessary declare what is termed:

- disclosable pecuniary interests; and
- non-statutory interests.

Disclosable pecuniary interests are set out in the Appendix to this note and failure to declare such an interest or interests is a criminal offence punishable by a fine of up to £5,000 and/or disqualification for up to 5 years to hold such a position. As stated above, this statutory provision only applies if you have the ability to vote on a matter at the meeting which you are attending.

<u>What is a disclosable pecuniary interest?</u>

These are set out in the enclosed Appendix 'C' to this note and such interests have to be declared if they held by not only yourself, but also your spouse, civil partner or similar person.

All such interests have to be registered with the Monitoring Officer of the Council within 28 days of appointment to a Local Authority body etc. and if a co-opted member has a disclosable pecuniary interest in a matter under consideration at a meeting then they must not participate or vote on that matter.

The need to declare a disclosable pecuniary interest only arises if you have such an interest or you are aware that your spouse, civil partner etc. has such an interest. You are not under legal obligation to ask them but if you are aware that they have such an interest, then you must register it as if it were your own.

If your interests change then you are under a similar obligation to declare them to the Monitoring Officer and/or the meeting you are attending where such an interest arises.

<u>Consequences of having a disclosable pecuniary interest</u>

You cannot speak or vote or remain in the meeting when the matter is being considered. This means you will not be able to participate in any debate unless you have obtained a dispensation to speak from the Council's Monitoring Officer. It is important to note that before you have any meeting where such an interest arises you are entitled to make representations, give evidence or answer questions prior to the commencement of the debate on that matter.

The Monitoring Officer has limited power to grant a dispensation and these can be far ranging, but examples are:

- • it may be appropriate to grant a dispensation; or
- • without a dispensation there would not be a required quorum for the meeting.

If you consider that you will need a dispensation then the matter can be raised with the Council's Monitoring Officer, but in general it should only be granted in exceptional circumstances.

The Register of Disclosable Pecuniary/Interests:

The Council maintains a register of all such interests and there is a legal obligation to make such a register available for inspection and to publish it on the Council's website. You are not required to disclose the name of your spouse or civil partner etc. when listing such interests.

An interest can be exempted from publication if it is a "sensitive interest". This can arise if a co-opted member or someone connected to them might be subject to intimidation or violence. The decision or sensitivity is a matter for the Monitoring Officer to consider and decide.

Non-Statutory Interests – What are they?

In addition to the legal requirement to declare disclosable pecuniary interests, the Council has elected in addition, to adopt what is termed "non-statutory disclosable interests". Failure to disclose such interests does not carry any criminal penalty as in the case of "disclosable pecuniary interests".

Non-statutory interests fall into two groups:

- Items of business that affect your wellbeing or the wellbeing of any family members or close associate to a greater extent than they would affect the wellbeing of the majority of Council Tax payers.
- the items of business to be declared relate to the categories of interest listed in Appendix C but in respect of any family member or close associate.

What are the consequences of having a non-statutory interest?

If you have a non-statutory interest in any matter then you must declare at the meeting unless you have already referred it to the Monitoring Officer to be entered into the Council's register of interests. You may of course, voluntarily register such interests in the Council's register and then no longer have an obligation to declare them at the meeting you are attending.

Must I leave the meeting if I have a non-statutory interest?

If the non-statutory interest is one which a member of the public would reasonable regard as so significant that it is likely to prejudice you judgment of the public interest, then you must leave the meeting whilst the matters is being debated. Although you may make representations, give evidence or answer questions prior to the commencement of the debate on the matters.

Conclusion

The need to be aware of disclosable pecuniary interests and non-statutory interests is largely a matter of common sense. The sanctions for failure to disclose disclosable pecuniary interests are criminal, but not in the case of a similar failure to disclose a non statutory interests. These still fall within those set out in Appendix C, but only as they would apply to other members of your family, besides a spouse, civil partner etc. and will also include a close associate.

nb. Please do not hesitate to raise any question/query you may have on this note with any officer present at the meeting you are attending or of course, contact the Council's Monitoring Officer.

Appendix C

Disclosable Pecuniary Interests

The duties to register, disclose and not to participate in respect of any matter in which a member has a Disclosable Pecuniary Interest are set out in Chapter 7 of the Localism Act 2011. Disclosable pecuniary interests are defined in the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 as follows:

Interest	*Prescribed description*
Employment, office, trade, profession or vocation	Any employment, office, trade, profession or vocation
Sponsorship	Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by M in carrying out duties as a member, or towards the election expenses of M. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992).
Contracts	Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority – (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	Any tenancy where (to M's knowledge) – (a) the landlord is the relevant authority; and (b) the tenant is a body in which the relevant person has a beneficial interest.
Securities	Any beneficial interest in securities of a body where- (a) that body (to M's knowledge) has a place of business or land in the area of

the relevant authority; and

(b) either –

(i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or

(ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

‘M’ means a member of a relevant authority.

Cambridgeshire Pension Fund

Funding Strategy Statement

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Contents

Funding Strategy Statement PAGE

1	Introduction	1
2	Basic Funding issues	4
3	Calculating contributions for individual Employers	8
4	Funding strategy and links to investment principles	18

Appendices

Appendix A – Regulatory framework	20
Appendix B – Responsibilities of key parties	22
Appendix C – Key risks and controls	24
Appendix D – The calculation of Employer contributions	29
Appendix E – Actuarial assumptions	32
Appendix F – Glossary	34

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 25th December 2013.

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;
- 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.

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 of 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 (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, and in what circumstances you might need to pay more. 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 principles.

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 Paul Tysoe, LGSS Funding and Governance Manager in the first instance at e-mail address phtysoe@northamptonshire.gov.uk or on telephone number 01604 368671..

2 Basic Funding issues

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

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being built up from year to year, referred to as the "*future service rate*"; plus

b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the "*past service adjustment*". If there is a deficit the past service adjustment will be an increase in the employer's total contribution; if there is a surplus there may be a reduction in the employer's total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the "deficit recovery period").

2.2 How is a deficit (or surplus) calculated?

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

- the market value of the employer's share of assets, 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.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

2.3 How are contribution rates calculated for different employers?

The Fund's actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in Appendix E. Note that this is a notional Fund-wide, not employer specific, contribution rate.

The Fund's actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in Section 3. It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund's Rates and Adjustments Certificate.

Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances. These may be suitably adjusted for employers who are approaching cessation from the Fund.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report dated 31st March 2014, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

2.4 What else might affect the employer's contribution?

Employer covenant, and likely term of membership, are also considered when setting contributions: more details are given in Section 3. This will also include consideration of whether the employer appears to be heading for cessation from the Fund (eg due to having a low and reducing number of active members).

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.

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

2.5 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; in addition, other forms of school (such as Free Schools) can be established under the academies legislation. All such academies, 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 DCLG 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.

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;
- 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.

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 provision of benefits to ex-employees and their families has broader benefits to society, such as a healthier local economy and reduced means-tested State benefit payments;
- Unlike other public sector pension schemes, the LGPS Funds 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;
- 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 Fund 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. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will 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, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

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

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, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range (“stabilisation”)
- the use of extended deficit recovery periods
- the phasing in of contribution rises or reductions
- the pooling of contributions amongst employers with similar characteristics
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

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 may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. 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 choice of method,
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and
- it will take longer to reach full funding, 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 and Designating Employers		Transferee Admission Bodies
Sub-type	**Local Authorities**	**Police, Fire, Colleges etc**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)				Attained Age approach (see Appendix D – D.2)	Projected Unit Credit approach (see Appendix D – D.2)
Stabilised rate?	Yes - see Note (b)	Yes - see Note (b)	Academies' Contribution rates - see Note (b)	No	No	No but see Note (i)
Maximum deficit recovery period – Note (c)	20 years	20 years	20 years	Average expected future working lifetime	Average expected future working lifetime	Outstanding contract term (or future working lifetime, if less)
Deficit recovery payments – Note (d)	Monetary amount	Monetary amount	Percentage of pay	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority		Reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes – Note (e)	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Covered by stabilisation arrangement	3 years	3 years	3 years or outstanding contract term if less
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Reviewed annually by request in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt 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 principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement, or similar. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising. If cessation prior to end of contract then see Note (j).

Note (a) (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 vary the *discount rate* used to set employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to 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 headings in table 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).

On the basis of extensive modelling carried out for the 2013 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	Less mature* tax-raising authority, police and fire authorities	More mature* tax-raising authority	Academy **	College or University
Base cont rate	Actual 2013-14 rate	Actual 2013-14 rate	County rate plus 1% of pay	Actual 2013-14 rate
Max cont increase each year	+1% of pay	+2% of pay	+1% of pay	+1% of pay
Max cont decrease each year	-1% of pay	-2% of pay	-1% of pay	-1% of pay

The 4th year (2017-18) contributions are being held exactly as the 3rd year (2016-17 contributions), subject to adverse market conditions not making it unsafe to do so.

*The split in maturity is based on criteria such as ratio of liabilities to payroll (“gearing”) and current contribution rate, after discussion between the actuary and Administering Authority, on the basis of analysis carried out by the actuary.

**The Academy stabilised rate is a single minimum rate applicable for all academies in the Fund as an alternative to their individual calculated rate, if the latter is higher. This rate will normally be close to (but not exactly equal to) the rates applicable to the ceding Local Authority.

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2018. This will take into account the employer’s membership profiles, the issues surrounding employer security, and other relevant factors. At the 2013 valuation the Administering Authority adopted a policy of ensuring the stabilised rates would remain in force 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.

Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, not to exceed 10 years, unless other arrangements are in place (such as pooling).

Note (d) (Deficit Recovery Payments)

Deficit recovery payments for each employer covering the four year period until the next valuation will typically 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:

- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

For certain employers the Fund may split contributions in recognition of different groups of employees, and apply different contribution approaches accordingly. Any such arrangements will be identified in the Rates & Adjustments Certificate produced with the formal valuation report.

Note (e) (Phasing in of contribution changes)

It has been agreed at the 2013 valuation that contributions will be set for the next four years (i.e. to 2017/18), moving to three-yearly thereafter: this will assist employers in their budget planning process in future. All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

Employers which have no active members at the date of this valuation will not be phased.

Note (f) (Regular Reviews)

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

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee. In other words, if higher contributions are required then these will be implemented immediately (and will therefore supersede the rates put forward at the formal 2013 valuation), to be in force for the remaining period to the next valuation.

Note (g) (New Academy employers)

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

a) 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 those of the other academies in the MAT;

b) 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;

c) 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 asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

d) The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion;

e) As an alternative to (d), the academy will have the option to elect to pay contributions outlined in Note (b) above (regarding stabilised contribution rates).These have been calculated in line with the ceding Local Authority. However, this election will not alter the academy's asset or liability allocation as per (b) and (c) above. Ultimately, all academies remain responsible for their own allocated deficit.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (d) and (e) 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 of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

For all new Transferee Admission Bodies, 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.

The Administering Authority will only consider requests from Community Admission Bodies (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, guaranteeing their liabilities and also providing a form of security as above.

In some cases it may be deemed that the risk is minimal, in which case no security will be required: this will only apply with the agreement of the Administering Authority, and recorded as such.

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.

Under the standard approach, 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).

Instead of the above approach, employers which "outsource" have flexibility and can share the pension risk potentially taken on by the contractor. In particular there are three different risk-sharing routes that such employers may wish to adopt, in place of the above standard approach. 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 the 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 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 and doesn't pay any cessation deficit. A variation of this is where the letting employer is paying a "stabilised" contribution rate, and permits the contractor to pay the same rate.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in a side agreement between the contractor and letting employer (such as the transfer agreement), as opposed to the Admission Agreement. The side 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;
- redundancy and early retirement decisions.

  Note that, as such risk-sharing arrangements are by agreement between the letting employer and the contractor (as opposed to the Fund), then these will normally fall outside the Admission Agreement: the Admission Agreement will still require that the contractor pays full (and variable) contributions to the Fund, and any adjustments are then settled between the letting employer and the contractor separately.

  It should be noted that a letting employer which establishes a number of risk-sharing arrangements will inevitably face different (and possibly higher) pension costs and risks to itself in the future. This arises due to the retention of risk but the transfer-out of staff and revenue. This situation may require further analysis, and changes in contribution arrangements, for the letting employer.

Note (j) (Admission Bodies and Designating Employers Ceasing)

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

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

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

Where a cessation event has been triggered as per the above, or for non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, 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 there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;

b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;

c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing 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.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

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

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

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers, and change or alter the membership of such pools. This will always be in line with its broader funding strategy.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions 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.

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. Transferee Admission Bodies are usually also ineligible for pooling.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools (other than academies) are generally pooled with their funding Council. However there may be exceptions for specialist or independent schools.

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

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, and/or it is considered appropriate to adopt a probabilistic-based analysis on the employer's contributions and obligations.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, 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;
- 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.

Normally such payments are required in a single lump sum immediately. However, with the agreement of the Administering Authority the payment can 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

3.7 Ill health early retirement costs

At the time of writing, all employers have ill health liability insurance (see 3.8 below) which means that such costs are met (at least up to a point) by a single lump sum paid by the relevant insurer.

3.8 Ill health insurance

The Administering Authority has arranged a current insurance policy covering ill health early retirement strains for all employers in the Fund, on a mandatory basis. The employer's contribution to the Fund each year includes its share of that year's insurance premium. The existence of whole Fund insurance therefore has no impact on the total contributions paid to the Fund.

The Administering Authority will keep the employers notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

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

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

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

c) In exceptional circumstances the Fund may permit an employer with no remaining active members 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

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities;
- Notwithstanding the above, 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 principles

4.1 What are the Fund's investment principles?

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 described as the investment principles.

Investment principles are 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 Statement of Investment Principles (SIP), which is available to members and employers.

The investment principles are set for the long-term, but reviewed from time to time. Normally a full review is carried out after each actuarial valuation, and kept under review annually between actuarial valuations to ensure that they remain appropriate to the Fund's liability profile.

The same investment principles are currently followed for all employers.

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

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 principles). 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 principles?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment principles of the Fund. The asset outperformance assumption contained in the discount rate (see E3) is within a range that would be considered acceptable for funding purposes; it is 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 A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

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

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment principles, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2018, it should be noted that this will need to be reviewed following the 2016 valuation.

4.5 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 Board meetings, and also to employers through newsletters and Employers Forums.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) 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 2012) and to its Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial 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 made available for comment on the Fund website in November 2013;

b) Comments were requested within [30] days;

c) There was an Employers Forum on 15 November 2013 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 [December 2013].

A3 How is the FSS published once finalised (after the consultation)?

The FSS is made available through the following routes:

- Published on the website, at [http://pensions.cambridgeshire.gov.uk];
- A full copy linked from the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers;
- 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 triennial valuation. This version is expected to remain unaltered, until it is consulted upon as part of the formal process for the next valuation, in 2016.

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 Board and would be included in the relevant Board 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, 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 http://pensions.cambridgeshire.gov.uk

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:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

B2 The Individual Employer should:-

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

B3 The Fund Actuary should:-

- 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;
- 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);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and

- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
- 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;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- 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.

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
Large scale outsourcings affect letting employer's ability to meet legacy liabilities	Situation monitored for all such employers (mainly local authorities), and Officers liaise with Actuary to determine whether further analysis is necessary in any given case.
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	Only anticipate long-term return 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. Appropriate probability margin used in target funding level for stabilised employer.
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.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than	The focus of the actuarial valuation process is on real

Risk	Summary of Control Mechanisms
anticipated.	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).

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. Employer ill health retirement experience is monitored, and insurance is provided.
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:

Risk	Summary of Control Mechanisms
	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 results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Change in local government landscape (eg due to large scale outsourcings and reorganisations, and/or budget cuts) reduce local authorities' ability to properly fund pension obligations	Position monitored at triennial valuations, and full discussions with local authorities to ensure proper understanding of long term obligations, costs and risk.

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 (under Regulation 38) between triennial 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, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).

Risk	Summary of Control Mechanisms
	Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

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.

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 future benefits being accrued, referred to as the "future service rate"; plus

b) an adjustment for the funding position of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a reduction in the employer's contribution rate. If there is a deficit there will be an increase in the employer's contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See Section 3 for deficit recovery periods.

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of "peculiar" factors which are considered are discussed below.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

D2 How is the Future Service Rate calculated?

The future service 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 future service 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 calculation is on the "ongoing" valuation basis (see Appendix E), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis (see Section 3).

The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

[1] See LGPS (Administration) Regulations 36(5).
[2] See LGPS (Administration) Regulations 36(7).

a) Employers which admit new entrants

These rates will be derived using the "Projected Unit Method" of valuation with a one year period, i.e. only considering the cost of the next year's benefit accrual and contribution income. If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers' contributions, the "Attained Age" funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

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

D3 How is the Solvency / Funding Level calculated?

The Fund's actuary is required to report on the "solvency" of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

'Solvency" is defined to be the ratio of the market value of the employer's asset share to the value placed on accrued benefits on the Fund actuary's chosen assumptions. This quantity is known as a funding level.

For the value of the employer's asset share, see D5 below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

D4 What affects a given employer's valuation results?

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

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). 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 measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

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 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation). 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.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to 1% above the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed a two year restriction at 1% per annum followed by longer term growth at RPI plus 1.5% per annum.

It should be noted that, whilst this assumption will affect the pre-2013 accrual of liabilities (and hence deficits), it will no longer be relevant for most employers under the new 2014 LGPS design: this is because of the Career Average approach replacing the current final salary basis.

c) 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. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund’s liabilities (all other things being equal).

d) 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.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with “medium cohort” and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

The combined effect of the above changes from the 2010 valuation approach is to add around 1% per annum per year of life expectancy on average. 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.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: 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

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **liabilities**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are **members**. There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5).
Common contribution rate	The Fund-wide **future service rate** plus **past service adjustment**. It should be noted that this will differ from the actual contributions payable by individual **employers**.
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.
Deficit	The shortfall between the assets value and the **liabilities** value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
Deficit repair/recovery period	The target length of time over which the current **deficit** is intended to be paid off. A shorter period will give rise to a higher annual **past service adjustment** (deficit repair contribution), and vice versa.
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.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **liabilities** value which is consistent with the present day value of the assets, to calculate the **deficit**. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the **future service rate** and the **common contribution rate**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **liabilities** values for each employer are individually tracked, together with its **future service rate** at each **valuation**.
Funding level	The ratio of assets value to **liabilities** value: for further details (see 2.2).
Future service rate	The actuarially calculated cost of each year's build-up of pension by the current active **members**, excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of **actuarial**

	assumptions. It is usually expressed as a percentage of pay.
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 their main use in funding is as an objective measure of solvency.
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.
Liabilities	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
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 101 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).
Past service adjustment	The part of the employer's annual contribution which relates to past service **deficit** repair.
Pooling	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of **deficit**, or (if formally agreed) it may allow **deficits** to be passed from one employer to another.

For further details of the Fund's current pooling policy (see 3.4).

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 least every three years 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 three year period until the next valuation is completed.

Scheduled Bodies Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Solvency In a funding context, this usually refers to a 100% **funding level**, ie where the assets value equals the **liabilities** value.

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. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.

Theoretical contribution rate The employer's contribution rate, including both **future service rate** and **past service adjustment**, which would be calculated on the standard **actuarial basis**, before any allowance for **stabilisation** or other agreed adjustment.

Valuation An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

CAMBRIDGESHIRE LOCAL GOVERNMENT PENSION SCHEME

Statement of Investment Principles

July 2015

Statement of Investment Principles

Contents

A. Introduction....3
B. Compliance Statement....3
C. Funding objectives....5
C.1 Funding objective....5
D. Investment Principles....5
D.1 Investment Policy....5
D.2 Types of Investment to be held....5
D.3 Balance between different types of investment....6
D.4 Investment Risk....6
D.5 The realisation of investments....7
D.6 Expected return on investments....7
D.7 Stock Lending....7
D.8 Operational Risk....8
E. Responsible Investment Policy....9
E.1 Responsible Investment – Position, Definition and Beliefs....9
E.2 Scope....9
E.3 Governance of the RI Policy....10
E.4 Engagement – encouraging ESG best practice....10
E.5 Collaborative engagement....11
E.6 Corporate Governance and Proxy Voting....11
E.7 Manager Monitoring....12
E.8 Negative screening/investment exclusions....13
E.9 Compliance with the Myners Principles....13
Appendix A - Fund Managers and Mandates – July 2015....14
Appendix B – Performance Targets....15
Appendix C - Key Risks and Controls....16
Appendix D - Statement of Commitment to the UK Stewardship Code....17
Appendix E - Compliance with the Principles of Good Investment Practice ("the Myners Principles")....19

A. Introduction

A.1 The Pension Fund Committee (PFC) of the Cambridgeshire Local Government Pension Scheme acting with the delegated authority of the Cambridgeshire County Council (the Administering Authority) has approved this Statement of Investment Principles (SIP) in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. This statement is available to the public on the Fund's website at:
http://pensions.cambridgeshire.gov.uk/index.php/governance2/key-documents/ .
This document supersedes all previous versions of the SIP.

A.2 This Statement of Investment Principles (SIP) must cover the Fund's policy on:-

a) the types of investment to be held;
b) the balance between different types of investments;
c) risk, including the ways in which risks are to be measured and managed;
d) the expected return on investments;
e) the realisation of investments;
f) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;
g) the exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy; and
h) stock lending.

A.3 The SIP must be reviewed and if necessary, revised, by the Administering Authority from time to time and, in the case of any material change in the authority's policies or breach of compliance, within six months of such change. To meet this requirement the PFC reviews the SIP annually.

A.4 The SIP has been prepared taking into account the most recent actuarial valuation and the Funding Strategy Statement (FSS).

B. Compliance Statement

B.1 The SIP is required to state the extent to which the Administering Authority is compliant with the Guidance given by the Secretary of State and also the extent the authority does not comply and if so the reasons for non compliance.

B.2 The table below sets out the requirements of the contents of the SIP, and the section within the SIP evidences this. This document therefore demonstrates that the Fund is currently Fully Compliant with all its requirements under the Regulations.

Document Ref	**Requirement** ***That the SIP covers statements on:***	**Compliance Status**
D2	The types of investment to be held	Fully Compliant
D3	The balance between different types of investments	Fully Compliant
D4, Appendix C	Risk, including the ways in which risks are to be measured and managed	Fully Compliant
D5	The realisation of investments	Fully Compliant
D6	The expected return on investments	Fully Compliant
D7	Stock Lending	Fully Compliant
Section E, Appendices D & E	The extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments	Fully Compliant
Section E, Appendices D &E	The exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy	Fully Compliant

C. Funding objectives

C.1 Funding objective

C.1.1 The primary objective of the Fund is to achieve a funding level of 100% over the long-term (on a prudent basis) whilst ensuring that there are sufficient resources available to pay pensions and other benefits as and when they fall due. These payments will be met by contributions or asset returns and income. To the extent that the accumulated assets, then higher cash contributions are required from employers, and vice versa.

C.1.2 The Fund is subject to an actuarial review every three years, in preparation for which the Fund, in conjunction with the Fund's Actuary and taking investment advice, prepares a Funding Strategy Statement (FSS) that sets out the strategy to ensure the long-term solvency of the Fund whilst recognising the need for a minimum (where possible and subject to a level of prudence) and stable level of employer contributions. The FSS is published on the Fund's website at: http://pensions.cambridgeshire.gov.uk/index.php/governance2/key-documents/ .

D. Investment Principles

D.1 Investment Policy

D.1.1 The investment objectives are to maximise investment returns over the long term within specified reasonable risk tolerances. Investment returns are defined as the overall rates of return (capital growth and income combined).

D.1.2 The investment style is to appoint suitable expert fund managers with a clear performance benchmark and place maximum accountability for performance against that benchmark on the fund manager.

D.2 Types of Investment to be held

D.2.1 In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the acceptable types of investment which the fund managers may hold include:

- Equities
- Fixed Interest Bonds
- Index linked investments
- Property Unit Trusts
- Hedge Fund of Funds
- Private Equity Fund of Funds
- Alternatives Investments such as Infrastructure, Futures, Derivatives and Commodities
- Cash Instruments

- Relevant Insurance Instruments

D.3 Balance between different types of investment

D.3.1. The PFC reviews the allocation over the different types of investment formally as part of the triennial funding valuation; however reviews can occur more frequently should material issues arise.

D.3.2. Following the strategic review and allocation of investment types, the Fund will review and if necessary change, its mix of external fund managers to efficiently deliver the Fund's investment portfolio.

D.3.3. The Fund holds assets across a range of products and managers in order to diversify the investment manager risk, and currently has eleven investment mandates with seven fund managers. Each will have an agreement in place that sets out the relevant benchmark against which performance will be measured, a performance target and any constraints and parameters within which the manager must operate. Appendix A and B show the detailed breakdown of managers and mandates as at the date of this report. In December 2014 the PFB approved revisions to the high level Investment Strategy as shown in Appendix A1 which will be implemented during 2015.

D.3.4. Over time the actual asset allocation will deviate from the strategic percentage allocation due to the differential relative performance of each investment type. The Fund's Investment Sub Committee has agreed that the actual value of each major investment type can vary within the following tolerances:

	<u>Allowable variation compared to the total value of the Fund</u>
Equities	+/- 5%
Bonds	+/- 3%
Alternatives	No formal range due to liquidity constraints

Asset balances are rebalanced within these tolerances and the ISC review the actual asset allocation compared to the strategic target allocation each quarter.

D.3.5. The Administering Authority believes the current strategic asset allocation and blend of fund managers, provides a strong diversification, specialisation and spread of risk for the investments of the Fund's assets.

D.4 Investment Risk

D.4.1. Managers are monitored relative to their long term return targets and stated risk levels. Care is also taken to understand the circumstances under which managers are expected to perform well and the converse, with the aim of avoiding short term decision making. The appointment of more than one fund manager introduces a level of diversification of manager risk and style.

D.4.2. Fund managers are expected to exhibit a diversified portfolio within their strategy remit and demonstrate that risks are sufficiently controlled and the potential for losses is reduced. The nature and extent of risks arising from financial instruments is disclosed in the Pension Fund Statement of Accounts each year. Fund managers are also instructed to observe the Fund's restrictions in investments as set out in the Investment Regulations 2009.

D.4.3. Fund managers will bias their portfolios towards stocks which are expected to out-perform in rising or falling markets, but not take such contrarian positions that major under-performance occurs if they are incorrect in their strategies. They are required to operate in such a way that the possibility of under-performance against the long term target is kept within an acceptable limit. Fund managers will use and report on the risk measures employed on a regular basis.

D.5 The realisation of investments

D.5.1. Some fund managers are required to maintain portfolios that consist of assets that are readily realisable. The majority of the Fund's investments are quoted on major stock markets and thus may be realised relatively quickly if required.

D.5.2. The PFC has delegated to the fund managers responsibility for the selection, retention and realisation of assets.

D.6 Expected return on investments

D.6.1. The Fund is expected to produce a return over the long term in excess of the investment return assumed in the actuarial valuation. The majority of the Fund's assets are managed on an active basis and, overall, the Fund is expected to out-perform its benchmarks over the long term.

D.6.2. At the last actuarial valuation, an excess return of 1.6% p.a. over gilts was assumed for the Fund's assets. The Fund monitors investment return against the valuation assumptions, through quarterly performance monitoring from WM Company (the Fund's performance reporter) and meeting with managers at quarterly ISC and Interim meetings to discuss performance relative to their benchmark and longer term objectives. Additionally WM Company and the Fund's Investment Consultant, Mercer Limited, report on fund performance and manager prospects annually at the PFC and ISC.

D.7 Stock Lending

D.7.1. The Fund actively engages in Stock Lending as permitted by the LGPS regulations through the Fund's custodian with a formal agreement in place and approved collateral to protect the Fund's assets. Lending is limited to 25% of the stock held by the Fund, although actual activity in 2012-13 averaged 11.1% and in 2011-12 10.2%.

D.8 Operational Risk

D.8.1. The overall risk for any Pension Scheme is that its assets will be insufficient to meet its liabilities. The risk is negligible for Local Authority Funds as they are open to future accrual and new members and the overall covenant of the major employers is generally strong.

D.8.2. In terms of specific investment risk, the Cambridgeshire Pension Fund is managed in a way that is designed to control and mitigate against this.

D.8.3. Further Asset Liability Studies will be undertaken to help the PFC and ISC determine, from time to time, appropriate asset allocation ranges. The aim of these is to ensure that the Fund's assets are prudently spread across different asset types and markets, whilst maintaining the required level of expected return. The asset allocation will be formally reviewed following the triennial valuation, and at other times as required.

D.8.4. The Fund will normally hold a large proportion of its assets in equities, which although they don't match the liabilities, are expected to give a long term return in excess of gilts and so will help recover the deficit and keep future contributions low. There is a risk associated with this view and so the Fund also invests in a range of diversified assets and is looking to build up a level of protection against high inflation (which along with interest rates is the biggest risk in relation to the deficit increasing).

D.8.5. The performance of the Fund's Custodian and associated activities of the Investment Managers will be reviewed annually. The aim of this is to;

- Gain feedback on the quality of services from the existing providers and comparisons with alternative providers.
- Provide transparency and openness with regard to the investment operations of the Fund and the related fees and costs.

E. Responsible Investment Policy

E.1 Responsible Investment – Position, Definition and Beliefs

E.1.1 The Fund is a long-term investor, with a commitment to responsible investment (RI). The Fund defines "responsible investment" as the "integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices.

E.1.2 The Fund recognises that effective management of ESG issues can enhance long-term financial performance of investments, and therefore ESG factors should be a feature of investment analysis and management. This aligns with the best interests of the Fund's beneficiaries and is consistent with fiduciary duty.

E.1.3 With regard to RI, the Fund is mindful of recent Law Commission recommendations on pension trustees' duties when setting an investment strategy which state that:

E.1.3.1 Trustees should take into account factors which are financially material to the performance of an investment. Where trustees think ethical or environmental, social or governance (ESG) issues are financially material they should take them into account.

E.1.3.2 Whilst the pursuit of a financial return should be the predominant concern of pension trustees, the law is sufficiently flexible to allow other, subordinate, concerns to be taken into account. The law permits trustees to make investment decisions that are based on non-financial factors, provided that:

(a) they have good reason to think that scheme members share the concern; and

(b) the decision does not involve a risk of significant financial detriment to the fund.

E.2 Scope

E.2.1 This RI Policy covers the Fund's activities as an asset owner, specifically the decisions and activities that we undertake as we manage the Fund's assets and liabilities.

E.2.2 The Fund's assets are managed by third-party investment managers. Monitoring how the investment managers are meeting the Fund's expectations set out in this policy is therefore a major part of how we meet our objectives in this area.

E.3 Governance of the RI Policy

E.3.1 The Fund's PFC is responsible for the development, implementation and monitoring of this policy.

E.3.2 The PFC is also responsible for reviewing and, if necessary, updating this policy on an annual basis.

E.3.3 The PFC has delegated responsibility for monitoring the Fund's investment managers to the Fund's ISC. The ISC is responsible for monitoring the RI activities of the Fund's investment managers and for reporting on the Fund's RI activities to members.

E.3.4 RI reporting will focus on areas such as the development of the Fund's manager monitoring activities, including their voting and engagement activities.

E.4 Engagement – encouraging ESG best practice

E.4.1 The Fund's objective in addressing RI and related issues is to use its influence to encourage ESG best practice by its investment managers. All managers have statements which detail the principles by which they invest in and engage with companies.

E.4.2 The Fund supports the UK Stewardship Code and expects the Fund's investment managers to comply with the UK Stewardship Code. In Appendix D, the Fund has issued a Statement of Commitment to the UK Stewardship Code highlighting how the Fund is discharging its stewardship responsibilities.

E.4.3 The Fund will exercise its ownership responsibilities by:

- Ensuring that all investment management agreements clearly set out the Fund's expectations regarding the consideration of ESG issues.
    - Managers should have a clear process for integrating ESG considerations into investment decision-making processes
    - Managers will be expected to adhere to all relevant stewardship guidelines (e.g. the UK Stewardship Code) on a comply or explain basis

- Monitoring the Fund's investment managers annually to determine the extent to which our expectations are being met.
    - Where portfolio companies fail to meet certain minimum ESG standards, investment managers must explain what steps are being taken to bring them up to the minimum level.
    - Managers will report regularly (at least annually) and in detail to the ISC on how they are meeting or addressing the Fund's ESG requirements.

E.5 Collaborative engagement

E.6.1 At times the Fund finds it more effective to work in collaboration with other investors to achieve its aims. For example, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF) This initiative enables the Fund to work with other investors to understand the impacts of ESG considerations on financial performance.

E.6 Corporate Governance and Proxy Voting

E.6.1. The Fund has used best practice standards to develop a view on the most important high-level governance issues. With respect to investments in the UK, we expect the managers to have due regard to the UK Corporate Governance Code. With respect to overseas investments, we expect the managers to have due regard to relevant recognised standards, including the ICGN's [International Corporate Governance Network] Global Governance Principles and Securities Lending Code of Best Practice as well as the OECD [Organisation for Economic Co-operation and Development] Corporate Governance Guidelines.

E.6.2 These principles are as follows:

- **Effective Boards:** An effective board of directors is essential to the long-term success of a company. The board provides strategic guidance to as well as oversight of the executive directors on behalf of shareholders. The board should also consider the interests of company stakeholders including employees, suppliers, customers, the environment and society. To do this requires sufficient independence from the executives as well as the right mix of skills, competence and experience.

- **Accountability & Risk Management:** The board must at all times be conscious of its accountability to shareholders. It is responsible for determining the nature and extent of any significant risks taken on by the company in the pursuit of its strategic objectives. Risk management should be dynamic and comprehensive, considering operational, reputational and ESG risks in addition to financial risks.

- **Shareholder Rights:** Shareholders should be encouraged to participate in supporting good governance – voting rights should be equal across all shareholders; the exercise of voting rights should not be subject to unnecessary hurdles; directors should engage shareholders to explain voting issues where necessary; shareholders should have a say on major decisions (e.g. approving executive remuneration and major share issuance, nominating and appointing directors and external auditors etc.)

- **Shareholder responsibilities:** Shareholders should remain conscious of their duties to beneficiaries at all times including when considering corporate governance and other ESG issues. This can be achieved by considering ESG issues when assessing the risk of portfolio companies; exercising voting rights actively and intelligently and by collaborating with other investors. Beneficial owners should also aim to integrate ESG criteria into investment management mandates where appropriate.

- **Remuneration:** Remuneration policies should reinforce (rather than undermine) company culture. The board should use remuneration policies to align the interests of executives and shareholders, incentivising behaviour that encourages long-term financial health and promotes sound risk management. Significant aspects of remuneration policy should be developed through formal and transparent processes and be adequately disclosed to and approved by shareholders.

- **Transparency:** The board should ensure that shareholders receive accurate, relevant and timely information regarding financial, strategic, operational, and ESG issues. Accounting, governance, remuneration and wider corporate responsibility policies should be clearly disclosed and come with a statement of support by the board.

- **Stock lending:** Prior to engaging in a programme of stock lending beneficial owners should consider the risks inherent in this activity.

E.6.3 The Fund's investment managers exercise voting rights and undertake engagement in accordance with their own corporate governance policies, including escalation procedures to protect investment value. Each manager's policy is expected to be provided to the Fund and is reviewed by the ISC as part of the Fund's manager monitoring processes.

E.6.4 The Fund expects its investment managers to demonstrate adherence to the above principles in the proxy voting decisions undertaken in relation to the Fund's assets. The PFC will capture the extent to which this has happened through the Fund's manager monitoring process.

E.6.5 The Fund expects that its delegated investment managers will:

- Vote all shares (for listed equity assets) without exception unless a valid reason is provided as to why not (such as share blocking)
- Not undertake stock-lending to any third party without the prior agreement of the Fund.

E.7 Manager Monitoring

E.7.1 Manager monitoring is a key element of the Fund's RI strategy. The PFC monitors the progress of its investment managers regarding the integration of ESG issues into their investment decision-making processes.

E.7.2 The Fund's monitoring process will look for evidence of positive momentum towards its ESG expectations by:

- Developing a formal but straightforward system of monitoring our investment managers based on the Fund's ESG expectations

- Using this system to keep track of progress
- Using information obtained from this monitoring process to demonstrate progress to the Fund's members via reporting on the Fund's website

E.7.3 The Fund's manager monitoring process for the integration of ESG covers all asset classes.

E.8 Negative screening/investment exclusions

E.8.1 The Fund adopts the view that it should seek out investment opportunities on the basis that they meet the needs of its long-term investment strategy and the nature of its liabilities.

E.8.2 In line with this policy and the Fund's commitments to responsible investment, the Fund recognises that it must do this whilst considering ESG issues whenever they are relevant.

E.8.3 The Fund has adopted a policy of engagement rather than exclusion.

E.8.4 The PFC will continue to review the Fund's position on exclusions on an annual basis.

E.9 Compliance with the Myners Principles

E.9.1 In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the Fund's compliance with the Myners principles is set out in Appendix E.

Appendix A - Fund Managers and Mandates – July 2015

Target Asset Allocation and Fund Specific Benchmarks July 2015

The table below shows the Fund's asset allocation together with the specific benchmarks (indices) as at July 2015 against which to measure investment performance.

UK Equity		**21.0%**	
State Street	11.0%*		FTSE All-Share index
Schroder	10.0%*		Composite benchmark
Global Equity		**43.5%**	
State Street	11.5%		FTSE All World
JO Hambro	12.5%		MSCI AC WI NR Index
Dodge & Cox	12.5%		MSCI World
Skagen	7.0%		MSCI Emerging Markets Index
Bonds and Fixed Income		**14.5%**	
Schroder	12.0%*		Composite benchmark
M&G	2.5%		3 month Libor +4%
Property		**11.0%**	
Schroder	11.0%		IPD UK PPF All Balanced Funds
Private Equity		**5.0%**	
Adams Street	2.0%		MSCI World
HarbourVest	2.0%		MSCI World
Cambridge and Counties Bank	1.0%		MSCI World
Infrastructure		**5.0%**	
UBS	**		MSCI World
Equitix	**		MSCI World
Partners Group	**		MSCI World
		100.0%	

*Provisional. The ISC to determine whether 5% is allocated to UK Index-Linked bonds.

Appendix B – Performance Targets

The Managers appointed to the Scheme and their individual performance targets over the benchmark indices above [over a rolling three-year program] are:

	Asset class	**Performance Target above benchmark**
Schroder Multi Asset	Multi Asset	1.00%
Schroder Property	Property	0.75%
JO Hambro	Global Equities	3.00%
Dodge & Cox	Global Equities	3.00%
Skagen EM Equity	Emerging Markets Equities	2.00%
State Street UK Equity	Passive UK Equities	n/a
State Street Global Equity	Passive Global Equities	n/a
M&G Loans	Loans	0.00%
Private Equity	Private Equity	3.00%
Infrastructure	Infrastructure	n/a
Total Fund – the overall performance target is calculated taking into account the weightings for each manager		1.10%

Appendix C - Key Risks and Controls

Risk	Summary of Controls	Risk Index 1:Low...5:High
KEY RISKS AND CONTROLS		
Inappropriate long-term investment strategy.	• Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.	3
Inappropriate investment decisions are made due to inaccurate or unreliable data, insufficiently trained or competent members to make decisions or inappropriate advice.	• Performance measurement is produced by the Fund's external providers and reviewed by Officers. • Market data, such as the performance record of alternative Fund Managers is sourced by the investment consultants from their proprietary database. • Members participate in a Skills & Knowledge programme that is refreshed regularly. • Only reputable professional advisers are employed following a rigorous procurement process.	3
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	• Only anticipate long-term return on a relatively prudent basis to reduce the risk of under-performing. • Analyse progress at three yearly valuations for all employers. • Inter-valuation monitoring of investment performance.	5
Fall in risk-free returns on government bonds, leading to a rise in the value placed on liabilities.	• Inter-valuation monitoring of investment performance. • Asset Allocation reviews	3
Active investment manager under performance relative to benchmark over the medium term.	• Quarterly monitoring of market performance and active managers' performance relative to their benchmark and longer term objectives.	3
Pay and price inflation significantly more than anticipated.	• The focus of the actuarial valuation process is on the real return on assets, net of price and pay increases. • Inter valuation monitoring provides early warning. • Some investment in index-linked bonds helps to mitigate this risk.	3

Appendix D - Statement of Commitment to the UK Stewardship Code

The Cambridgeshire Local Government Pension Scheme (the "Fund") believes that good stewardship can enhance long-term portfolio performance, and is therefore in the best interests of the Fund's beneficiaries and aligned with fiduciary duty. Therefore, the Fund supports the principles of the UK Stewardship Code (the "Code").

The Fund believes that Environmental, Social and Corporate Governance ("ESG") issues can affect the performance of investment portfolios and are therefore considered as part of the Fund's investment process.

Principle	Evidence of compliance
Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities	The Fund has given its managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations relating to the Fund's investments. This policy is outlined in the Fund's Responsible Investment Policy in section D.3 of the SIP, which is publicly available and is reviewed on an annual basis. The Fund supports the UK Stewardship Code and expects the Fund's investment managers to comply with the UK Stewardship Code. The Fund monitors the investment managers in this regard on an annual basis.
Principle 2 – Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed	The Fund encourages the investment managers to adopt effective policies addressing potential conflicts of interest with regards to stewardship activities. The Fund monitors the investment managers in this regard. The Funds' overriding obligation is to act in the best financial interests of the members. Our policy of constructive engagement with companies is consistent with the Funds' fiduciary responsibilities.
Principle 3 – Institutional investors should monitor their investee companies	The Fund has delegated responsibility of the management of its equity holdings to investment managers and monitoring investee companies is part of this responsibility. The Fund encourages investment managers to monitor companies, intervene where necessary and report back regularly on activity undertaken. The Fund undertakes regular monitoring of the activities of the investment managers.

Principle	Evidence of compliance
Principle 4 – Institutional investors should establish clear guidelines on when and how they will escalate their Stewardship activities	Responsibility for stewardship activities is delegated to the Fund's investment managers. As highlighted above, responsibility for day-to-day interaction with companies is delegated, including the escalation of engagement when necessary and the Fund monitors the investment managers in this regard. We expect the approach to engagement on our behalf to be value orientated and focussed on long term profitability. We expect the Fund's investment managers to disclose their guidelines for such activities in their own statements of commitment to the Code.
Principle 5 – Institutional investors should be willing to act collectively with other investors where appropriate	The Fund is willing to work collaboratively with other investors, where appropriate, to enhance the influence that it has on individual companies. The Fund is a member of the Local Authority Pension Fund Forum ("LAPFF"), which engages with companies over ESG issues on behalf of its members.
Principle 6 – Institutional investors should have a clear policy on voting and disclosure of voting activity	The Fund's investment managers exercise voting rights and undertake engagement in accordance with their own corporate governance policies, including escalation procedures to protect investment value. Each manager's policy is expected to be provided to the Fund and is reviewed as part of the Fund's manager monitoring processes. The Fund expects its delegated investment managers to vote on all shares held (without exception unless a valid reason is provided as to why not (such as share blocking)). Reporting on voting and engagement activities is provided to the Fund on a regular basis and the Fund monitors the investment managers in this regard.
Principle 7 – Institutional investors should report periodically on their stewardship and voting activities	The Fund expects the investment managers to report regularly on their stewardship and voting activities. In addition, the Fund encourages the investment managers to consider and report the impact of engagement activity. The Fund reports annually on stewardship activity through a specific section on Responsible Investment in the Funds' annual report and accounts.

Appendix E - Compliance with the Principles of Good Investment Practice ("the Myners Principles")

The Myners Principles are a set of principles for good investment governance, originally created in 2001 and subsequently updated in 2008. Local government pension funds are required to produce a statement in their annual report regarding compliance with these Principles on a 'comply or explain' basis. The Myners Principles are:

Principle	Evidence of compliance
Effective Decision Making Administering authorities should ensure that: • Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	The Pension Fund Committee meets on a quarterly basis and is the main committee for the Fund addressing strategic and policy matters. The Pension Fund Committee is supported by the Investment Sub Committee - formed to specifically implement Investment and funding strategy. They consider the Fund's strategic asset allocation following the results of the triennial actuarial valuation. The Investment Sub Committee has appointed suitably qualified investment managers to manage the investments of the Fund on their behalf. The Fund takes advice from its appointed professional investment consultants who attend the quarterly Investment Sub Committee meetings. This is in addition to the advice received from the Fund's actuary. A formal training programme, in accordance with the requirements of the CIPFA Knowledge and Skills Framework, has been implemented to support informed decision making. Compliance with the Fund's Skills and Knowledge Framework is reported in the Business Plan when appropriate.

Principle	Evidence of compliance
Clear Objectives • An overall investment objective(s) should be set for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers through employer contributions, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.	The overall Fund objective is directly linked to the risks and returns outlined in the Actuary's report, with the expected return on investments contained within the Statement of Investment Principles. The Fund's strategic asset allocation is specifically designed to achieve the Fund objective. Specific asset allocation weightings are detailed in the Statement of Investment Principles. In determining the Fund's asset allocation, the Pension Fund Committee and Investment Sub Committee consider all asset classes in terms of their suitability and diversification benefits.
Risk and Liabilities • In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. • These include the implications for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	The overall risk for any pension scheme is that its assets will be insufficient to meet its liabilities. The risk is negligible for Local Authority Funds as these are assessed on an actuarial basis every 3 years (Fund Valuation) and contribution rates are adjusted to ensure solvency. The Funding Strategy Statement specifically addresses employer issues. The Fund is subject to actuarial review every three years. The Fund's position is based on the market values of the assets at the time of the review. The Fund's actuary calculates the contributions required from employing authorities to ensure the solvency of the Fund. The Fund is managed in a way that is designed to control and mitigate against specific investment risk. Further Asset Liability Studies will be undertaken to help the Pension Fund Committee and Investment Sub Committee determine, from time to time, appropriate asset allocation ranges. The aim of these is to ensure that the Fund's assets are prudently spread across different asset types and markets. As the Fund's liabilities are based in sterling, the majority of the Fund's assets

Principle	Evidence of compliance
	are likely to be sterling denominated. The asset allocation will be formally reviewed following the triennial valuation, and at other times as required. The Fund will normally hold a large proportion of its assets in equities, which are considered to be the most appropriate match with the Fund's liabilities. Over the long term, they should provide a hedge against inflation and grow in line with the underlying economy. To minimise the risks associated with this policy, a broadly based portfolio of stocks is held, spread across different countries and different industrial sectors.
Performance Assessment • Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. • Administering Authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.	The Fund monitors manager performance, through quarterly performance monitoring from WM Company (the Fund's performance reporter) and meeting with managers at quarterly Investment Sub Committee and interim manager review meetings to discuss performance relative to their benchmark and longer term objectives. Additionally WM Company and the Fund's Investment Consultant, Mercer Limited, report on Fund performance annually at the Pension Fund Committee and Investment Sub Committee. There is a regular review (at least biennially) of the effective working of the Pension Fund Committee and Investment Sub Committee, the results of which are reported back to the Pension Fund Committee.
Responsible Ownership Administering authorities should: • adopt, or ensure their investment managers adopt the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents • include a statement of their policy on responsible ownership in the Statement of Investment Principles	The Fund has a clear policy regarding Responsible Investment (section D of this document) and will exercise its ownership responsibilities by: Ensuring that all investment management agreements clearly set out the Fund's expectations regarding the consideration of ESG issues. Monitoring the Fund's investment managers annually to determine the extent to which our expectations are being met. The Fund's investment managers exercise voting rights and undertake engagement in accordance with their own corporate governance policies, including escalation procedures to protect investment value. Each manager's

Principle	Evidence of compliance
• report periodically to scheme members on the discharge of such responsibilities.	policy is expected to be provided to the Fund and is reviewed by the ISC as part of the Fund's manager monitoring processes.
Transparency and Reporting Administering Authorities should: • Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. • Provide regular communication to scheme members in the form they consider most appropriate.	The following documents are published on the Pension Fund's website: Pension Fund Annual Report and Statement of Accounts Statement of Investment Principles Governance Policy & Compliance Statement Funding Strategy Statement Administration Strategy Communications Strategy Cash Management Strategy Administering Authority Discretions Actuary Valuation Report Pension Fund Committee and Investment Sub Committee Agendas and Minutes are available on the Cambridgeshire County Council's website.

Cambridgeshire Pension Fund **Northamptonshire** Pension Fund

CAMBRIDGESHIRE PENSION FUND &
NORTHAMPTONSHIRE PENSION FUND

JOINT ADMINISTRATION STRATEGY &
JOINT COMMUNICATION STRATEGY

January 2015

LGSS

Contents Page

1. Introduction	2
2. Administration Strategy	2
3. Further information	10
4. Appendices	11
Appendix A – Key performance standards	11
Appendix B – Whole Fund administration performance standards	13
Appendix C – Scheme employer performance standards	14
Appendix D – LGSS Pensions Service performance standards	16
Appendix E – Communications Strategy	2

1. Introduction

This document incorporates the joint Administration and Communication Strategies of Cambridgeshire Local Government Pension Fund and Northamptonshire Local Government Pension Fund, managed by Cambridgeshire County Council and Northamptonshire County Council respectively (the Administering Authorities). The administration of these Funds is carried out by LGSS, the shared service partnership between Cambridgeshire County Council and Northamptonshire County Council.

Together the two Funds have around 400 scheme employers with contributing members and a total membership of over 119,000 scheme members.

2. Administration Strategy

The Local Government Pension Scheme (LGPS) represents a significant benefit to scheme members. Much of the success in promoting the scheme amongst scheme members and ensuring a high quality service delivery depends upon the relationship between the administering authority and scheme employers in the day to day administration of the scheme. Good quality administration can also help in the overall promotion of the scheme and remind or alert employees to the value of the LGPS, thereby helping with recruitment, retention and motivation of employees.

Development of an administration strategy, as allowed for by the regulations governing the LGPS, is seen as one of the tools which can help in delivering a high quality administration service to the scheme member and other interested parties. Delivery of a high quality administration service is not the responsibility of one person or organisation, but is rather the joint working of a number of different parties.

This Administration Strategy has been developed following consultation with scheme employers in the Cambridgeshire and Northamptonshire Pension Funds.

The aim of this strategy statement is to set out the quality and performance standards expected of Cambridgeshire County Council and Northamptonshire County Council in their roles of administering authority and scheme employer, as well as all other scheme employers within the Funds. It seeks to promote good working relationships, improve efficiency and enforce quality amongst the scheme employers and the administering authority.

The efficient delivery of the benefits of the LGPS is dependent on sound administrative procedures being in place between a number of interested parties, including the administering authorities and scheme employers. This Strategy Statement sets out the expected levels of performance of the administering authorities and their scheme employers, as well as details on how performance levels will be monitored and the action that might be taken where persistent failure occurs.

This Administration Strategy is effective from the 1st April 2015. It will be reviewed annually to ensure the strategic objectives remain relevant.

A separate Business Plan including actions in relation to administration matters is published and reviewed annually. This outlines how the Funds intend to deliver this strategy, including how the Funds achieve their objectives, the measurements in place to monitor success and a timetable of events.

Regulatory framework

This document has been produced in accordance with Regulation 59 of the Local Government Pension Scheme Regulations 2013. The Regulations provide that administering authorities may prepare, maintain and publish a written statement setting out their policy concerning administration matters, and the administering authority and its scheme employers must then have regard to that strategy when carrying out their functions.

The Regulations state that the strategy may include some of these areas:

- procedures for liaison and communication with its scheme employers;
- levels of performance which the administering authority and its scheme employers are expected to achieve in carrying out their Scheme functions such as:
    - the setting of performance targets;
    - the making of agreements about levels of performance and associated matters;
    - the use of such other means as the administering authority considers appropriate;
- procedures which aim to secure that the administering authority and its scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;
- procedures for improving the communication by the administering authority and its scheme employers to each other of information relating to those functions;
- the circumstances in which the administering authority may consider giving written notice to any of its scheme employers with regard to recovering additional costs on account of that scheme employer's unsatisfactory performance in carrying out its Scheme functions;
- the publication by the administering authority of annual reports dealing with:
    - the extent to which that authority and its scheme employers have achieved the levels of performance;
    - such other matters arising from its pension administration strategy as it considers appropriate; and
- such other matters as appear to the administering authority, after consulting its scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

The Regulations also require that the administering authority should consult with its scheme employers (and any other persons it considers appropriate) in preparing or reviewing its administration strategy.

In addition, regulation 70 of the Local Government Pension Scheme Regulations 2013 allows an administering authority to recover additional costs from a scheme employer where, in its opinion, they are directly related to the poor performance of that scheme employer. Where this situation arises the administering authority is required to give written notice to the scheme employer, setting out the reasons for believing that additional costs should be recovered, the amount of the additional costs, together with the basis on which the amount has been calculated and the provisions of the Administration Strategy relevant to the decision.

Therefore, this Administration Strategy of the Cambridgeshire Pension Fund and Northamptonshire Pension Fund sets out the information as required by the Regulations mentioned above.

Current trends

This Administration Strategy is produced during a considerable period of change. Key issues currently around are:

- major changes impacting the LGPS and other public sector schemes which provide significant communication challenges;
- ongoing conversion of schools to academies which requires a considerable amount of employer liaison;
- increased governance and regulatory requirements to ensure the LGPS offers value for money;
- scheme employers outsourcing activity in a variety of ways which requires a considerable amount of employer liaison and also impacts the number of people eligible to be members of the LGPS;
- changes to scheme membership which will accelerate the maturity point of the LGPS (the point where annual expenditure exceeds annual income); and
- increasing awareness of the value of the LGPS among the membership and the consequent demands for relevant information.

Key objectives

The administration of Cambridgeshire Pension Fund and Northamptonshire Pension Fund will be delivered in line with these objectives. We aim to:

- provide a high quality, friendly and informative administration service to the Funds' stakeholders;
- administer the Funds in a cost effective and efficient manner utilising technology;
- ensure the Funds and their stakeholders are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Funds;
- put in place standards for the Funds and their scheme employers and ensure these standards are monitored and developed as necessary;
- ensure the Funds and their stakeholders have the appropriate skills and receive training to ensure those skills are maintained in a changing environment;
- ensure benefits are paid to, and income collected from, the right people at the right time in the right amount;

- maintain accurate records and ensure data is protected and has authorised use only; and
- understand the issues affecting scheme employers and the LGPS in the local and national context and adapt strategy and practice in response to this.

Measurements are in place to determine if these objectives are being met which are published in the Administration Section of the Funds' Business Plans.

*References to the Funds refer to the staff employed by the Administering Authority to carry out the administration of the Funds.

Delivering the objectives

Method of delivery

There are a number of options to administering the Funds, including in-house administration, and third party administration.

The Funds' administration benefits from the efficiencies of joint delivery whilst retaining control within the two administering authorities in order to meet the objectives outlined above, e.g. in relation to a quality service and accurate record keeping. The Funds will be proactive in setting strategies to which the LGSS services should adhere, including this Administration Strategy.

At the time of writing, LGSS provides administration services to the Cambridgeshire Pension Fund and the Northamptonshire Pension Fund, though it is envisaged further LGPS Funds will join LGSS in the future, which will benefit the Funds through increased efficiencies, particularly sharing of development costs between greater numbers of Funds. At that point LGSS will encourage those Funds to adopt this Administration Strategy so as to maximise the efficiency opportunities.

Procedures for liaison and communication with employers and other stakeholders

The delivery of a high quality administration service is not the responsibility of just the administering authority, but depends on the joint working of the administering authority with a number of individuals in different organisations to ensure scheme members, and other interested parties, receive the level of service in line with the Funds' objectives as well as ensuring that statutory requirements are met.

Agreements will be made with the Funds' key stakeholders so that service standards are explicit. Key stakeholders are:

- Scheme employers and their payroll and other providers;
- AVC providers;
- Fund Actuaries; and
- Approved Independent Registered Medical Practitioners

In particular, each administering authority relies on its scheme employers in providing them with the appropriate information to maintain accurate records and pay accurate benefits. The Funds acknowledge that this is a partnership arrangement:

- Each Fund is committed to providing a service in line with the objectives outlined above. This will include:

    - providing a named contact (and deputy) at the Fund for all employer communications and queries;
    - providing clear instructions and forms/interfaces to allow seamless transfer of information by employers;
    - aim to provide information and services within the performance standards outlined in this Strategy;
    - ensure all information provided is correct by having appropriate quality review in place; and
    - be helpful and courteous when dealing with all employers.

- In return, the employers within each Fund are expected to:
    - provide a named contact (and deputy) at the employer for all Fund communications and queries. Where multiple contacts are provided (for different duties) name one person who is ultimately responsible for ensuring the employer carries out their roles and responsibilities;
    - provide information to the Fund as outlined in instructions using the Fund's approved forms and/or interfaces;
    - aim to provide information within the performance standards outlined in this Strategy;
    - ensure all information provided is correct by having appropriate quality review in place;
    - be helpful and courteous when dealing with the Fund; and
    - provide feedback to the Fund on an ad-hoc basis, at performance review meetings or as part of consultations, e.g. around how services are delivered or about changes to the funding strategy.

Full details of the procedures for liaison and communication between the Funds and their stakeholders are included within the Funds' Communication Strategy – see Appendix E. .

Performance standards
The LGPS prescribes that certain decisions be taken by either the administering authority or the scheme employer, in relation to the rights and entitlements of individual scheme members. In order to meet the Funds' administration objectives as outlined above, and also to comply with overriding disclosure requirements, the Funds must ensure that appropriate standards are in place and being measured. These standards fall into two distinct areas; quality and timeliness.

Quality
The Funds will ensure that all functions/tasks are carried out to agreed quality standards. In this respect the standards to be met are:

- compliance with relevant regulations including the Local Government Pension Scheme Regulations, Pensions Acts, etc;

- aiming to achieve the Funds' agreed objectives and compliance with all Fund agreed strategies, policies and procedural guides;
- ensuring appropriate checking of work by an appropriately qualified member of staff, in particular calculations of benefits; and
- all payments information provided to be authorised by an agreed signatory and other designated duties to be carried out in line with internal Schemes of Delegation.

Timeliness

Overriding legislation dictates minimum timescales that pension schemes should meet in providing certain pieces of information to the various parties associated with the scheme. The scheme itself sets out a number of requirements for the administering authority or scheme employers to provide information to each other, scheme members and prospective scheme members, dependants, other pension arrangements or other regulatory bodies. Locally agreed performance standards have been agreed which cover all aspects of the administration of the scheme, where appropriate going beyond the overriding legislative requirements. Standards for the Funds are set out in Appendix B. Headline standards for scheme employers are set out in Appendix C.

Procedures for ensuring compliance with statutory requirements and measuring levels of performance

Various means will be employed, as determined from time to time, to assist in monitoring compliance with this Administration Strategy. More detailed methods may be included in the individual employer SLA.

Methods may include:

Audit

The Funds will be subject to regular audits of their processes and internal controls. Fund auditors may require employer auditors to carry out relevant checks e.g. of employee contribution collection.

Performance monitoring

The Funds will monitor their timeliness performance against specific tasks as outlined in Appendix D. In addition, they may monitor employers against the employer requirements outlined in Appendix C and Service Level Agreements.

The Funds will monitor performance regularly by benchmarking with other administering authorities by using the CIPFA Pensions Benchmarking Club.

The Funds may also put in place other measurements to determine how, or if, they are achieving the objectives of this Administration Strategy.

Employer liaison

Employer liaison will take place as follows:

- key performance information will be shared annually with each scheme employer;
- the opportunity for a biennial review meeting between a representative of the administering authority and the scheme employer to monitor and review performance against targets, the quality of information exchange and ensure compliance with statutory obligations and review the SLA for the period until the next review meeting;
- where an employer is not delivering in accordance with an SLA a performance improvement plan will be agreed with appropriate liaison arrangements. This may be initiated outside of the biennial reviews where necessary;
- the administering authority will run seminars and training sessions;
- Employer Pension Forums will be held, at least on an annual basis; and
- the administering authority will ensure an employer liaison helpdesk is available from 9 am to 5 pm during normal working days to answer one-off queries by telephone or email. The helpdesk may be available outside these hours.

Improving administration

Using the means mentioned above, the Funds will monitor progress against this Administration Strategy. This information will from time to time be reported to the respective Funds' Pension Fund Board where any ongoing action will be agreed. In addition, key performance indicators relating to the Funds' performance will be reported in their respective Annual Report and Accounts.

Circumstances where the administering authority may levy costs associated with the scheme employer's poor performance

Regulation 70 of the Local Government Pension Scheme Regulations 2013 provides that an administering authority may recover from a scheme employer any additional costs associated with the administration of the scheme incurred as a result of the poor level of performance of that scheme employer. Where an administering authority wishes to recover any such additional costs they must give written notice stating:-

- the reasons in their opinion that the scheme employer's poor performance contributed to the additional cost;
- the amount of the additional cost incurred;
- the basis on how the additional cost was calculated; and
- the provisions of the pension administration strategy relevant to the decision to give notice.

In instances where the performance of the scheme employer results in fines being levied against the administering authority by the Pensions Regulator, Pensions Ombudsman or other regulatory body, these costs will be recoverable immediately.

Circumstances where costs might be recovered

It is not the policy of either Cambridgeshire Pension Fund or Northamptonshire Pension Fund to move immediately to recovering additional costs incurred in the administration of the LGPS as a direct result of the poor performance of the administering authority, any scheme employer or third party service provider. Instead, the Funds will seek, at the earliest opportunity, to work closely with employers in identifying any areas of poor performance, provide the necessary training and development and put in place an improvement plan to improve the level of service delivery into the future.

Where persistent failure occurs and the improvement plan is not followed by a scheme employer additional administration costs will be recovered. In particular, this will only be pursued where the Fund has carried out the following steps:

- written to the scheme employer, setting out area(s) of poor performance;
- met with the scheme employer to discuss area(s) of poor performance, and how these can be addressed, and agreed an improvement plan, but no or little improvement has been demonstrated; and
- the appropriate Pension Fund Board has agreed to reclaim administration costs following a report to them on the circumstances. Before making a decision the Pension Fund Board shall offer the employer the opportunity to make representations in person to the Board, or in writing if the employer so chooses, and to facilitate this will provide 21 days before the meeting a copy of the report to be considered by the Board.

The circumstances where this might be necessary are:

- persistent failure to provide relevant information to the administering authority, scheme member or other interested party in accordance with specified performance targets (either as a result of timeliness of delivery or quality of information);
- failure to pass relevant information to the scheme member or potential members, either due to poor quality or not meeting the agreed timescales outlined in the performance targets;
- failure to deduct and pay over correct employee and employer contributions to the Fund within the stated timescales;

Where the respective Pension Fund Board agrees costs should be reclaimed, the following sets out the steps the Fund will take in dealing with poor performance by a scheme employer:

- issue formal written notice, where no improvement is demonstrated by the scheme employer/failure to take agreed action by the scheme employer, setting out the area(s) of poor performance that have been identified, the steps taken to resolve those area(s) and notice that the additional costs will now be reclaimed;
- clearly set out the calculations of any loss resulting to the Fund or administering authority, or additional cost, taking account of time and resources in resolving the specific area of poor performance, including any fines levied against the administering authority by the Pension Regulator, Pensions Ombudsman or other regulatory body resulting from the employer's poor performance; and

- make a claim against the scheme employer, setting out reasons for doing so, in accordance with the Regulations.

3. Further information

If you would like more information about the Scheme please contact us at the address below.

LGSS Pensions Service
PO Box 202
John Dryden House
8-10 The Lakes
Northampton
NN4 7YD

01604 366537

pensions@northamptonshire.gov.uk

http://pensions.northamptonshire.gov.uk
http://pensions.cambridgeshire.gov.uk

4. Appendices

Appendix A – Key performance standards

The following are the key performance indicators which will be published annually by LGSS Pensions. These key indicators also appear in the relevant Appendix B, C or D below, depending on whether they represent the performance of the whole Fund, the scheme employer only or the administering authority only.

Function / Task	Indicator	Target
Notify leavers of deferred benefit entitlements	Deferred award letter sent within 40 working days of last day of employment.	90%
Payment of retirement benefits from active employment	Payment of lump sum within 5 working days of payable date or date of receiving all necessary information if later. First pension paid in the month of leaving or in month of receiving all necessary information if later.	95%
Award dependant benefits	Issue award within 5 working days of receiving all necessary information.	95%
Arrange for the correct deduction of employee and employer contributions and pay contributions to Pension Fund in a timely manner, providing an associated monthly statement/schedule in a format acceptable to the Administering Authority	Number of months in the year where contributions were in the Pension Fund by the 19th calendar day of month after deduction and statement/schedule was received by the same date as payment	100%
Provide LGSS Pension Service with accurate year end information in prescribed format	Accurate year end information to be provided for all Scheme members by 30 April following contribution year end	100%
Provide LGSS Pensions Service with all necessary information regarding new starters and hours/weeks per year variations in a format acceptable to Administering Authority	Accurate information provided within 10 working days of the relevant calendar month end or within 30 days of commencement/change if earlier where employer automatic enrolment duties apply	95%

Function / Task	Indicator	Target
Notify the employer and scheme members of changes to the scheme rules	Within one month of the LGSS Pensions Services being informed of the change	95%
Issue annual benefit statements to active members as at 31 March each year	By the following 31 August (pending timely receipt of satisfactory year end data from the scheme employer)	100%
Provide a maximum of one estimate of benefits to active members per year on request	Estimate in agreed format provided within 10 working days from receipt of all information	90%
Provide transfer-in quote to scheme member	Letter issued within 10 working days of receipt of all appropriate information	95%

Appendix B – Whole Fund administration performance standards

The following are key indicators where the target can only be achieved by the administering authority and scheme employers both delivering high levels of administration.

Function / Task	Indicator	Target
Notify leavers of deferred benefit entitlements	Deferred award letter sent within 40 working days of last day of employment.	90%
Payment of retirement benefits from active employment	Payment of lump sum within 5 working days of payable date or date of receiving all necessary information if later. First pension paid in the month of leaving or in month of receiving all necessary information if later.	95%

Appendix C – Scheme employer performance standards

The following are the performance targets that the scheme employer will be expected to meet.

Function/Task	Indicator	Target
Confirm nominated representatives	Representative confirmed within 30 working days of employer joining und or change to nominated representative	100%
Arrange for the correct deduction of employee and employer contributions and pay contributions to Pension Fund in a timely manner, providing an associated monthly statement/schedule in a format acceptable to the Administering Authority	Number of months in the year where contributions were in the Pension Fund by the 19th calendar day of month after deduction and statement/schedule was received by the same date as payment	100%
Upon receipt of a notification from an Additional Voluntary Contribution (AVC) provider of an employee's election to pay, vary the amount or cease AVCs (or Shared Cost AVCs where applicable), to apply the notification accordingly and where applicable deduct from a member's pay the contributions as instructed by the AVC provider	Within 1 month of receipt of notification from the AVC provider	100%
Pay over to the specified AVC provider contributions deducted from a member's pay	Within 7 days of deduction from pay	100%
Upon receipt of a notification from the LGSS Pensions Service of an employee's election to pay Additional Pension Contributions (to buy additional pension), to apply the notification accordingly and where applicable deduct from a member's pay and pay over to the LGSS Pensions Service, the contributions as instructed by LGSS Pensions Service	Within 1 month of notification from LGSS Pensions Service	100%
Provide LGSS Pension Service with accurate year end information	Accurate year end information to be provided for all Scheme members by	100%

Function/Task	Indicator	Target
in prescribed format	30 April following contribution year end	
Respond to enquiries from LGSS Pensions Service in respect of retirements, estimates or any other query identified as urgent	Response received within 5 working days from receipt of enquiry.	100%
Respond to enquires from the LGSS Pensions Service in respect of those queries deemed as non urgent	Response received within 10 working days from receipt of enquiry.	95%
Provide new employees with scheme information	Within the automatic enrolment joining window.	100%
Determine appropriate rate of employee contributions for new scheme members in the LGPS	Decisions made by time of first salary payment.	100%
Provide LGSS Pensions Service with all necessary information regarding new starters and hours/weeks per year variations in a format acceptable to Administering Authority	Accurate information provided within 10 working days of the relevant calendar month end or within 30 days of commencement/change if earlier where employer automatic enrolment duties apply	95%
Determine reason for leaving and Final/Cumulative Pensionable Pay, issue leavers certificate to LGSS Pensions Services for leavers NOT entitled to immediate payment of pension	Certificate received within 15 working days of date of leaving	95%
Determine reason for leaving and Final/Cumulative Pensionable Pay, issue retirement pack to member and leavers certificate to LGSS Pensions Service for retirees entitled to immediate payment of pension	Certificate received at least 10 working days before date of leaving.	95%
Must have published Employer Discretions, accessible by all employees and copy provided to LGSS Pensions Service	Discretions published and provided to LGSS Pensions Service within 30 days of approval	100%
Discretions must be reviewed and amended as necessary	Any amendments to discretion must be confirmed in writing within 30 days from change	100%

Appendix D – LGSS Pensions Service performance standards

The following are the headline performance targets that LGSS Pensions Service will be expected to meet.

Function / Task	Indicator	Target
LIAISON AND COMMUNICATION		
Confirm nominated employer liaison officer	10 working days of employer joining fund or change to nominated officer	100%
Publish and keep under review the administration strategy	Within three months of decision to develop an administration strategy or one month of any changes being agreed with scheme employers	100%
Keep up to date the employer website, including procedural guides, scheme guide and all other documents and forms	20 working days from date of change/amendment	100%
Formulate and publish policies in relation to all areas where the Administering Authority may exercise a discretion within the scheme	Within 30 working days of policy being agreed by the Pension Fund Board	100%
Organise bespoke training sessions for Scheme employers, subject to fair use of training resource	Training date agreed with employer within one month of request	100%
Notify the employer and scheme members of changes to the scheme rules	Within one month of the LGSS Pensions Services being informed of the change	95%
Notify the employer of any issues relating to its poor performance (including arranging meeting if required)	Within 20 working days of performance issue becoming apparent	90%
Notify the employer of decisions to recover additional costs associated with their poor performance (including any interest that may be due)	Within 10 working days of the decision of the Pension Fund Board	100%
Issue annual benefit statements to active members as at 31 March each year	By the following 31 August (pending timely receipt of satisfactory year end data from the scheme employer)	100%

Function / Task	Indicator	Target
Issue annual benefit statements to deferred benefit members as at 31 March each year for those which we have an up to date address	By the following 30 June	100%
FUND ADMINISTRATION		
Issue formal valuation results (including individual employer details)	20 working days from receipt of results from Fund Actuary (but in any event no later than 31 March following the valuation date)	100%
Carry out cessation valuation exercise on cessation of admission agreements or employer ceasing participation in the Cambridgeshire Pension Fund or Northamptonshire Pension Fund	Initiated within 40 days with Fund Actuary plus results issued to employer within 2 months of clean data	100%
Publish, and keep under review, the Administering Authority's governance policy statement	Within 30 working days of policy being agreed by the relevant Pension Fund Board	100%
Publish and keep under review the Pension Fund's funding strategy statement	To be reviewed at each triennial valuation, following consultation with scheme employers and the Fund's Actuary. Revised statement to be issued with the final valuation report	100%
Publish the Pension Fund annual report and any report from the auditor	By 31 August following the year end	100%
Provide an FRS17/IAS19 report to employers for their chosen accounting date	Within one month of the 31 March, 31 July or 31 August accounting date, providing employer has returned required data to LGSS Pensions Service by the 1st of the month in which the accounting date falls	100%
SCHEME ADMINISTRATION		
Provide transfer-in quote to scheme member	Letter issued within 10 working days of receipt of all appropriate information	95%

Function / Task	Indicator	Target
Confirm transfer-in payment and service credited to scheme member	Letter issued within 10 working days of receipt of transfer payment by Pension Fund (or receipt of all information needed to complete calculations if later)	90%
Notify the employer of scheme member's election to pay or cease paying additional pension contributions (to buy additional pension) and other contracts, including all required information to enable deductions to commence or finish	Email sent within 5 working days of receipt of election from scheme member	95%
Calculate revised cost of additional regular/additional pension contributions, and notify scheme member	Letter sent within 10 working days of receipt of revised factors from DCLG	90%
Provide requested estimates of benefits to employers including any additional fund costs in relation to early payment of benefits from ill health, flexible retirement, redundancy or business efficiency	Estimate in agreed format provided within 10 working days from receipt of all information	90%
Provide a maximum of one estimate of benefits to employees per year on request	Estimate in agreed format provided within 10 working days from receipt of all information	90%
Provide a maximum of one cash equivalent transfer value (CETV) to employees per year on request	Provided within 10 working days from receipt of all information	90%
Provide a divorce quotation to employees on request	Provided within 10 working days from receipt of all information	90%
Notify leavers of deferred benefit entitlements or concurrent amalgamation	Notification issued within 15 working days of receiving all necessary information.	90%
Notify employees retiring from active membership of benefits award	Issue award within 5 working days after payable date or date of receiving all necessary information if later.	95%

Function / Task	Indicator	Target
Payment of ongoing pension (not including the first pension payment)	Eligible payments made on the publicised payment date.	100%
Acknowledge death of active/deferred/pensioner member	Letter issued within 5 working days following notification of death	100%
Award dependant benefits	Issue award within 5 working days of receiving all necessary information.	95%
Provide responses to other enquiries from scheme members, scheme employers, personal representatives, dependants and other authorised persons	Full response within 5 working days from receipt of all information needed to respond to enquiry	90%
Where a full response will not be available within the published service standards send an acknowledgement and provide the expected timescale	Acknowledgement within 5 working days from receipt of initial enquiry	100%
Appoint stage 2 “adjudicator” for the purposes of the pension dispute process and notify all scheme employers of the appointment	Within 30 working days following the resignation of the current “adjudicator”	100%
Process all stage 2 pension dispute applications	Within two months of receipt of the application, or such longer time as is required to process the application where further information or clarification is required.	100%
Publish and keep under review the Pension Fund policy on the abatement of pension on re-employment	Notify scheme members and scheme employers within one month of any changes or revisions to the policy	100%

Appendix E – Communications Strategy

Cambridgeshire Pension Fund **Northamptonshire** Pension Fund

CAMBRIDGESHIRE PENSION FUND &
NORTHAMPTONSHIRE PENSION FUND

JOINT COMMUNICATION STRATEGY

LGSS

Contents

Contents	Page
1. Introduction	2
2. Communication Strategy	6
3. Further Information	17

1. Introduction

This is the joint Communications Strategy for the Cambridgeshire Local Government Pension Fund and the Northamptonshire Local Government Pension Fund managed by Cambridgeshire County Council and Northamptonshire County Council respectively (the Administering Authorities). The administration of these Funds is carried out by the LGSS Pensions Service, which incorporates administration for both the Cambridgeshire Pension Fund and the Northamptonshire Pension Fund.

Together the Funds have around 400 employers with contributing members and a total membership of over 119,000 scheme members. These members are split into the following categories and with the following approximate numbers of members in each category:

Category	Cambridgeshire Pension Fund	Northamptonshire Pension Fund
Active scheme members	24,854	18,334
Deferred scheme members	25,793	20,887
Pensioner members	14,991	14,155

This document outlines our strategic approach to communications and is effective from 1 November 2014. It will be reviewed annually to ensure the key objectives remain relevant.

2. Communication Strategy

Regulatory framework

This Statement has been produced in accordance with Regulation 61 of the Local Government Pension Scheme Regulations 2013. The Regulation requires Administering Authorities to:

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

Key objectives

The communications of Cambridgeshire Pension Fund and Northamptonshire Pension Fund will be delivered in line with these objectives. We aim to:

- Provide clear information about the Scheme, including changes to the Scheme, to educate and engage with scheme members so that they can make informed decisions about their membership, contributions and benefits
- Deliver a clear and consistent message, that is engaging, factual and presented in plain language
- Promote the Scheme as a valuable benefit
- Seek and review regular feedback from all stakeholders about communications and shape future communications appropriately
- Look for efficiencies in delivering communications including through greater use of technology and partnership working

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

Stakeholders of the Fund

There are several categories of stakeholder as detailed below.

- Active Scheme members
- Prospective Scheme members
- Deferred Scheme members
- Retired and Dependant Scheme members
- Scheme Employers
- Fund staff
- Pension Fund Committee
- External bodies
    - Trades Unions
    - Her Majesty’s Revenue & Customs (HMRC)
    - Department for Communities and Local Government (DCLG)
    - The Pensions Regulator
    - National Fraud Initiative

- Audit Commission

Brand Identity

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

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

Confidentiality

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

Disclosure

Each Fund may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund, for example, the Fund's AVC providers.

Equality

Our communications are tailored to the individual needs of our stakeholders. We will make every effort to provide communications to our stakeholders in their preferred language or format on request.

Freedom of information

This Communications Strategy identifies the classes of information that each Fund publishes or intends to publish in compliance with the Freedom of Information Act. Anyone has a right under the Freedom of Information Act to request any information held by the Fund which is not already made available. Requests should be made in writing to the Head of Pensions at the address at the end of this document.

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

Implementation of Communication Key Objectives

This table sets out the implementation of the delivery of the Funds key communication objectives.

The agreed objectives with measures for success that form the 'Communication Strategy' are:

Objective	Measures of success	Review process
Provide clear information about the Scheme, including changes to the Scheme, to educate and engage with scheme members so that they can make informed decisions about their benefits	Communication includes information and changes to the scheme that supports all stakeholder understanding	Surveys and polls (on websites and by post). Focus groups.
	Communication is delivered via the most appropriate media to the audience	Surveys and polls on websites. Focus groups. Monitor hits on website.
	Effective promotion of new media or change of processes to all stakeholders	Use appropriate media to convey relevant messages.
	Feedback from all stakeholders that they have understood the communication enough to make an informed decision	Surveys and polls on websites. Focus groups. Monitor incoming telephone call and email volumes.
Deliver a clear and consistent message, that is engaging, factual and presented in plain language	An effective implementation of the Communications Timetable to all audiences that is understood and timely.	Monitor enquiries from Stakeholders as to when events will take place. (Reduced enquiries mean effective delivery).
	Feedback from all audiences on the quality and language used in the communication sent.	Surveys and polls on websites. Focus groups.

	Feedback on the simplicity, relevance and impact of the communication sent.	Surveys and polls on websites. Focus groups.
Promote the Scheme as a valuable benefit	Identify trends in opt outs. Communication to opt outs includes positive messaging and invites feedback. Positive feedback from all stakeholders All communications promote the scheme as a valuable benefit in a way that it understood by the audience	Monitor opt out rates and reasons, to identify trends. Surveys and polls on websites. Review scheme communications for effectiveness. Online rating of document usefulness.
Seek and review regular feedback from all stakeholders about communication and shape future communications appropriately	The Communications Strategy is reviewed and adapted where appropriate, as a result of feedback from stakeholders	Regular feedback is actively sought by the most appropriate media Processes are reviewed and adapted where appropriate to ensure the effective delivery of communication to all stakeholders
Look for efficiencies in delivering communications through greater use of technology and partnership working	Appropriate media is used for all stakeholders while balancing cost efficiency Reduction in costs on printing through larger print runs covering both authorities Reduction in postage costs	Compare previous communication costs (postage, print and design) with new costs and seek continual improvements. Year on year comparisons.

	All processes that support the communication delivery are efficient More efficient communications through sharing of knowledge, resources and practice through regional communication working parties	Continual review of processes and communications. Year or year comparisons of cost and quality

Methods of Communication and Key Messages/Objectives for Stakeholders

The Funds aim to use the most appropriate method of communication when dealing with stakeholders. This may involve more than one communication method. We have recently obtained two new and improved ways of communicating with our stakeholders:

The Pensions Website

In 2012 the LGSS Pensions Service implemented a new website:

- http://pensions.cambridgeshire.gov.uk
- http://pensions.northamptonshire.gov.uk

Both domain names lead to the same site, which has joint Fund branding ensuring the identity of each Fund is respected.

Whilst the Funds aim to use the most appropriate communication medium for the audience receiving the information we hope that our website will be the first port of call for all stakeholders where appropriate. For the immediate future the Funds will continue to use paper based communications as our main means of communicating with our stakeholders, for example by sending letters and paper copies of Newsletters and Annual Benefit Statements. However, we are committed to using technology to enhance our service and reduce costs, where appropriate, and will therefore continue to explore and develop the use of electronic communications through our website, emails and Self Service.

Self Service

Member and Employer Self Service is an internet based application that allows the individual access to information held by the Pensions Service.

Employer Self Service has been implemented and employers are now able to update their member's records and carry out benefit calculations.

Access to Member Self Service has been offered to the active membership of each Fund. It gives the individual controlled access to their own details, allowing them to update their personal information and carry out benefit calculations.

One of the many benefits of self service for both scheme employers and scheme members is the increased communication and engagement it allows – whilst in its infancy now this is an avenue we will be exploring more thoroughly in the future.

Table Showing our Methods of Communication and Key Message/Objective for Stakeholders

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

Stakeholder	Communication	Key message/Objective
Active Scheme members	Annual Newsletter Annual Benefit Statements Calculations and costings (e.g. estimates) 'Short guide to LGPS' 'Full guide to LGPS' Website (in particular 'Latest News' page) Member Self Service External training sessions as requested by employer LGSS Welcome Events LGSS training events Roadshows	Key Messages: • Your pension is a valuable benefit • You need to make sure you're saving enough for retirement Objectives: • To improve understanding of how the LGPS works • To inform scheme members of their rights and benefits • For queries and complaints to be reduced • To make pensions information more readily available
Scheme employers	Pension Bulletins Ad hoc email alerts Biannual forums Website (in particular 'Latest News' page) Seminars/workshops Bespoke ad hoc training	Key Messages: • You need to be aware of your responsibilities regarding the LGPS • The Fund is a valuable benefit for scheme members and is a good tool for retention of staff Objectives: • To increase understanding of how the Fund works and the effects on

	sessions Welcome/Joiner information	scheme members of any legislation changes • To improve relationships • Continue to improve the accuracy of data being provided to us • To make pensions information more readily available
Prospective Scheme members **And Opt-Outs**	Information on website Scheme Information Leaflets LGSS Welcome Event LGSS training events	Key Messages: • The pension benefits are a valuable part of your reward package • The LGPS is still one of the best pension arrangements available Objectives: • To improve take up of the LGPS • To decrease opt out rate and increase understanding of contribution flexibility i.e. 50/50 option • To increase understanding of how the Scheme works and what benefits are provided • To make pensions information more readily available
Deferred Scheme members	Annual Benefit Statements Calculations and costings (e.g. estimates)	Key Messages: • It is important to keep in touch with the LGSS Pensions Service e.g. provide us with address changes

	Scheme Information Leaflets Retirement Packs Website	• The LGPS is still a valuable part of your retirement package Objective: • To improve understanding of how the LGPS works • To make pensions information more readily available
Retired/Dependant **Scheme members**	Annual Newsletter Payslips (when criteria is met) P60 Lifetime Allowance Calculations and costings (e.g. estimates)	Key Messages: • It is important to keep in touch with the LGSS Pensions Service e.g. provide us with address changes • The LGPS is still a valuable part of your retirement package Objectives: • To improve understanding of how the LGPS works • To make pensions information more readily available
Fund staff	Monthly service meetings Team meetings Ad hoc meetings Consultations 1:1 / Appraisals Training & Development	Objectives: • To ensure staff are kept up to date with important information regarding the Service, the Employing Authority and the wider world of pensions as a whole • For staff to feel a fully integrated member of the team • For management to feedback to staff regarding their individual progress

		• To give staff a chance to feedback their views and suggestions
Pension Fund Boards and Investment Sub Committees	Committee Papers Presentations Consultations Agendas Minutes	Objectives: • To update on the implementation of a policy • To monitor success against the agreed measures
External authorities • **Trade Unions** • **Her Majesty's Revenue & Customs (HMRC)** • **Department for Communities and Local Government (DCLG)** • **Pensions Regulator** • **Audit Commission**	Response to enquiries and consultations. Response to changes in legislation.	Objectives: • To response to enquiries/statutory requirements.

Communication Timetable

MONTH	ACTIVITY							
	Active Scheme members	**Scheme employers**	**Prospective Scheme members**	**Opt - outs**	**Deferred Scheme members**	**Retired Scheme members**	**Dependant Scheme members**	**Fund staff**
JAN								Monthly team meeting Service meeting
FEB								Monthly team meeting Service meeting
MAR						Newsletter incorporating Pensions Increase notification, plus pay dates and other relevant information to be sent out with payslip.	Newsletter incorporating Pensions Increase notification, plus pay dates and other relevant information to be sent out with payslip.	Monthly team meeting Service meeting

APR						Payslip	Payslip	Monthly team meeting Service meeting
MAY					Annual Benefit Statements - LGPS & Councillors	LTA% on payslip.	LTA% on payslip.	Monthly team meeting Service meeting
JUN	Fire Annual Benefit Statements*							Monthly team meeting Service meeting
JUL	Police Annual Benefit Statements*							Monthly team meeting Service meeting
AUG	Annual Benefit Statements - LGPS and Councillors							Monthly team meeting Service meeting
SEPT								Monthly team meeting Service meeting
OCT								Monthly team meeting

									Service meeting
NOV									Monthly team meeting Service meeting
DEC	Annual reports & accounts	Annual reports & accounts	Annual reports & accounts	Annual reports & accounts	Annual reports & accounts	Annual reports & accounts	Annual reports & accounts	Annual reports & accounts	Annual reports & accounts Monthly team meeting Service meeting
Ad hoc Comms	LGSS Training Days Website	Procedures training – road shows. Pension Bulletins Website Valuation Report (every 3 yrs)	LGSS Welcome Events Posters Website	Website	Website	Website	Annual review of entitlement – May/June. Website	Regional Pension Officer Groups Website Pension Managers Annual Conference Pension Committee Valuation Report (every 3 yrs) CLASS User Group/AGM

* Must be an active scheme member as at 31st March in the financial year that the statement relates.

3. Further information

If you have any enquiries in relation to this Communications Strategy please do not hesitate to contact us.

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