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## **Pensions Committee**

Friday, 28 June 2019

**10.00 am**

Oak Room, County Buildings, Stafford

John Tradewell  
Director of Corporate Services  
20 June 2019

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## **A G E N D A**

### **PART ONE**

1. **Apologies**
2. **Declarations of Interest**
3. **Minutes of the meeting held on 15 March 2019** (Pages 1 - 8)
4. **Appointment of Pensions Panel**  
Oral report of the Director of Corporate Services
5. **Minutes of the meeting of the Pensions Panel held on 5 March 2019** (Pages 9 - 12)
6. **Appointment of Co-opted Member for Small Employer Representative** (Pages 13 - 16)  
Report of the Director of Corporate Services
7. **Pensions Business Plan Outturn 2018/19** (Pages 17 - 32)  
Report of the Director of Corporate Services
8. **Risk Register** (Pages 33 - 44)  
Report of the Director of Corporate Services

9. **Review of Pensions Administration Strategy and Conflicts of Interest Policy** (Pages 45 - 78)

Report of the Director of Corporate Services

10. **Exclusion of the Public**

The Chairman to move:

'That the public be excluded from the meeting for the following items of business which involve the likely disclosure of exempt information as defined in the paragraph of Part 1 of schedule 12A of the Local Government Act 1972 indicated below'

## **PART TWO**

11. **Exempt minutes of the meeting held on 15 March 2019** (Pages 79 - 82)  
(Exemption paragraph 3)

12. **Exempt minutes of the meeting of the Pensions Panel held on 5 March 2019** (Pages 83 - 92)  
(Exemption paragraph 3)

13. **LGPS Regulations - Admission of New Employers to the Fund** (Pages 93 - 98)  
(Exemption paragraph 3)

Report of the Director of Corporate Services

14. **LGPS Central Joint Committee**  
(Exemption paragraph 3)

Oral update by Chairman

15. **2019 Actuarial Valuation - Assumption Setting**  
(Exemption paragraph 3)

Report and Presentation by Hymans Robertson

### **Membership**

Ben Adams	Peter Noskiw (Co-Optee)
Philip Atkins, OBE	Bob Spencer
Nigel Caine (Co-Optee)	Mike Sutherland
Mike Davies (Vice-Chairman)	Stephen Sweeney
Derek Davis, OBE	Martyn Tittley
Colin Greatorex (Chairman)	Kevin Upton (Co-Optee)
Phil, Jones	Michael Vaughan

## **Note for Members of the Press and Public**

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### **Recording by Press and Public**

Recording (including by the use of social media) by the Press and Public is permitted from the public seating area provided it does not, in the opinion of the chairman, disrupt the meeting.



**Minutes of the Meeting of the Pensions Committee held on 15 March 2019**

**Attendance**

Ben Adams	Mike Sutherland
Philip Atkins, OBE	Stephen Sweeney
Ann Edgeller	Kevin Upton (Co-Optee)
Colin Greateorex (Chairman)	Michael Vaughan (Co-Optee)
Phil Jones (Co-Optee)	

**Also in attendance:** Ian Jenkinson (Pensions Board Member)

**Apologies:** Bob Spencer and Martyn Tittley

**PART ONE**

**11. Declarations of Interest**

There were no declarations of interest on this occasion.

**12. Minutes of the meeting held on 18 December 2018**

**RESOLVED** – That the minutes of the meeting of the Pensions Committee held on 18 December 2018 be confirmed and signed by the Chairman.

**13. Minutes of the Pensions Panel held on 4 December 2018**

The Chairman referred to minute no. 3 in relation to approaching the Staffordshire Parish Council's Association with a view to them nominating one of their members to serve as the Small Employer Representative on the Committee and welcomed Cllr Mike Allen from Haughton Parish Council who was attending the meeting as an observer.

**RESOLVED** – That the minutes of the meeting of the Pensions Panel held on 4 December 2018 be noted.

**14. Staffordshire Pension Fund Audit Plan 2018/19**

The Director of Corporate Services submitted the proposed Audit Plan for the audit of the Pension Fund in 2018/19 by Ernst & Young LLP, the County Council's auditors.

The Committee considered the Audit Plan which detailed how Ernst & Young intended to carry out their responsibilities as auditors. The work the Auditors intended to undertake would provide the Fund with the following:

- The Auditor's opinion on whether the financial statements of the Staffordshire Pension Fund give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2019 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2019; and

- The Auditor's opinion on the consistency of the Pension Fund's financial statements within the Pension Fund's annual report with the published financial statements of the County Council's, as the administering authority.

It was noted that although the Fund's accounts were included in the County Council's accounts, Ernst & Young would issue a separate opinion on the Fund's accounts and produce a Fund specific Audit Findings Report. This would be reported to both the Pensions Committee and the Audit and Standards Committee.

The Director of Corporate Services indicated that the Audit Plan had identified the following "significant" risks and the action to be taken by the Auditors to mitigate those risks:

- Misstatements due to fraud or error
- Investment income and assets – Investment Journals
- Valuation of unquoted investments
- Valuation of directly held properties
- Local Government Pension Scheme Asset Pooling Arrangements
- IFRS 9 Financial Instruments

The Committee were also informed that for the purposes of determining whether the financial statements were free from material error, the Auditors had determined that overall materiality for the financial statements of the Pension Fund was £47.7 million based on 1% of the value of the net assets of the Fund. In response to a question from Mr Jenkinson as to whether the reduction in the level of materiality from 2% last year to 1% this year had resulted in an increase in the level of fees payable to the external auditors, he was informed that whilst the level of fees had not been increased, Ernst Young would consider the impact of the two new areas of focus (asset pooling and IFRS 9 and discuss any additional fee with the Chief Financial Officer

The Director of Corporate Services also indicated that the Audit Fee for 2018/19 financial year was £27,550.

**RESOLVED** – That the external auditor's plan for the audit of the Staffordshire Pension Fund (the Fund) for the 2018/19 financial year be noted.

## **15. Proposed Changes to the Pensions Consultative Forum Terms of Reference**

The Committee received a report of the Director of Corporate Services concerning proposed amendments to the Pensions Consultative Forum Terms of Reference.

They were informed that the Committee on 27 September 2018 approved a revised Pension Fund Governance Statement which included an update to the Pensions Consultative Forum terms of reference. The update recognised that the existing arrangements for the Pensions Consultative Forum were not achieving the levels of participation and engagement from Employers for which the Forum was intended. In addition, due to the growth in the number of Academies and the externalisation of services previously provided in house by the County Council, the number of Employers in the Staffordshire Pension Fund had increased dramatically in recent years and now

stood at over 400. It was therefore proposed to alter the format of Forum meetings in an attempt to encourage an increase in Employer attendance and engagement. The new governance arrangements proposed that rather than two Forum meetings each year, there should be one Annual General Meeting, aimed predominantly at senior/decision making level Employer representatives, to receive the Annual Report, Accounts and Fund performance updates. This would be supplemented by other 'practical' based events for Employers, such as centrally hosted Training Days and local site visits to groups of Employers on request. Separately, an Employer Focus Peer Group would be formed consisting of 15 representatives from a cross section of the Fund's Scheme Employers which would be used for more regular engagement for the purposes of delivering appropriate training and timely information via Employer Focus Newsletters.

**RESOLVED** – That the proposed amendments to the Pensions Consultative Forum Terms of Reference, as outlined in the report, be approved.

## **16. Staffordshire Pension Fund Business Plan 2019/20**

The Director of Corporate Services presented the Pensions Business Plan 2019/20 and explained that for reasons of best practice and good governance, it was important for the Committee to consider and approve an annual Business Plan for the Pension Fund.

The Committee noted the progress against the current year's Business Plan which showed that significant successes had been achieved in several areas including;

- Implementing Hymans Employer Asset Tracker (HEAT) in preparation for the 2019 Actuarial Valuation;
- Ensuring full compliance with the General Data Protection Regulations (GDPR);
- Making real progress with i-Connect;
- Engaging with Employers through Employer Focus Newsletters, an Employer Training Day and the creation of an Employer Focus Peer Group;
- Redesigning the Staffordshire Pension Fund Website;
- Embedding the Governance of the LGPS Central pool, including the working of the Shareholders Forum, Joint Committee and the Practitioners Advisory Forum and its working groups; and
- Preparing for the transition of Assets into LGPS Central Limited.

The Committee had been made aware in previous year's reports of the challenges implicit in administering the LGPS, since the introduction of the 2014 scheme and the regulatory complexity that brought with it. At its meeting in December 2018 the Pensions Committee approved a 6-month extension to the backlog project, undertaken with an external provider, to assist with the competing demands on internal resources. Whilst performance in certain areas might not be back to the optimum target levels the Pensions Services Teams aspired to, there was a real sense that things were improving.

Issues due to the increasing number of payroll providers were being addressed and remained a key priority. The wider implementation of i-Connect would assist in the quality and timeliness of data, however this created additional pressure on the teams in the short term as it generated more errors and queries.

A full set of performance statistics would be provided as part of the Outturn reporting for the next meeting of the Committee.

The Committee also noted that the Business Plan for 2019/20 had been split into two distinct sections. The first dealing with Key Development Activities which aimed to make the way we work more efficient and effective; and the second section dealing with the activities that needed to be undertaken as part of the day job, but which impacted the team significantly at certain points in the year or which happened as a by-product of another activity e.g. finalising the year end data.

Areas which the Pensions Services Teams had identified as Key Development Activities in 2019/20 included:

- Undertaking a Mortality / Living as Stated / Tracing Exercise prior to the issue of Deferred Members Annual Benefit Statements in 2020;
- Continuing to implement i-Connect software for data collection with Fund Employers, with the aim of having as close to 100% of Active Fund Member data being submitted monthly;
- Continued development of the Pension Fund's website ([www.staffspf.org.uk](http://www.staffspf.org.uk)) and the promotion of Member Self Service;
- Reviewing the Fund's Strategic Asset Allocation alongside the Actuarial Valuation;
- Maintaining effective pool Governance and monitoring asset transitions into LGPS Central as more sub-funds were launched; and
- Appointing 4 Members of the Local Pensions Board.

The Committee were also informed that the primary risks to the continued delivery of a pension's administration, accounting and investment monitoring service to the high standards achieved were;

- Having a team of staff, sufficiently resourced, with the right experience to cope with changes to Government Legislation;
- The ability to deal with an increasing number of Employers and the challenge and complexities their different requirements present;
- The increasing fragmentation of payroll provision and the requirement for accurate and timely data; and ultimately



- The need to ensure that the correct Pensioner Members are paid on time with the correct amount.

These, and other risks, are further analysed in the Pension Fund's Risk Register, the latest version of which would be presented in full to the Committee's meeting in June 2019. In response to a question from Mr Adams, the Director of Corporate services also undertook to include in the report some data in relation to complaints.

In response to a question from Mr Sutherland in relation to Investment Management fees, the Director of Corporate Services indicated that these fees vary dependent on the value of the assets under management (AUM) and the level of manager performance. Mr Jenkinson also requested that the Committee be provided with separate information in relation to the cost to the Fund for the running of LGPS Central Limited.

**RESOLVED** – That the Pensions Business Plan for 2019/20 be approved and the key challenges be noted.

## **17. Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS)**

The Director of Corporate Services informed the Committee that all Local Government Pension Scheme (LGPS) Funds were required to prepare, maintain and publish Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) documents. The FSS must be formulated, maintained and published in accordance with the Public Service Pension Act 2013, whilst the ISS must be formulated, maintained and published in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

In preparing maintaining and reviewing both statements, the administering authority must have regard to guidance published by CIPFA. The latest such guidance for both documents was published in September 2016.

Whilst a full review of the FSS should be undertaken at each valuation and at least every three years for the ISS, it was considered good practice to review and update both documents annually, to reflect changes in the year. The FSS was consulted upon and approved by the Pensions Committee at its meeting in March 2017. Since March 2017, only minor amendments have been made to the FSS. As part of the review of the Fund's various policies, it was decided that there was a need to separate the Bulk Transfer Policy from the Administration Strategy, as it should really form part of the FSS. The FSS had been reviewed on this basis, in conjunction with the Pension Fund's Advisors Hymans Robertson, and this had also resulted in several other minor amends to the FSS. A full review of the FSS would be required later in 2019/20, following the 2019 Actuarial Valuation and it would be at this stage that the document would be put out to wider consultation.

With regard to the Investment Strategy Statement (ISS), the Committee were informed that the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force in 2017 and under Regulation 7(6) and 7(7), the ISS had to be published by 1 April 2017 and kept under review and revised from time to time and at least every three years. The ISS was a document that replaced and largely replicated, the previous Statement of Investment Principles (SIP). Authorities were

required to prepare and maintain an ISS which documents how the investment strategy for the Fund was determined and implemented. The ISS was required to cover a number of areas, specifically:

- The requirement to invest money across a wide range of investments.
- An assessment of the suitability of particular investments and investment types.
- The maximum percentage authorities deem should be allocated to different asset classes or types of investment, although limits on allocations to any asset class are not prescribed as they previously were under the 2009 Regulations.
- The authority's attitude to risk, including the measurement and management of risk.
- The authority's approach to investment pooling;
- The authority's policy on social, environmental and corporate governance considerations.
- The authority's policy with regard to stewardship of assets, including the exercise of voting rights.

The Committee were informed that the April 2018 version of the ISS had recently been reviewed and changes were considered necessary to better reflect the arrangements in place for asset pooling and the transfer of assets into LGPS Central Limited. However, the Committee noted that the document may need further substantial revision following the outcome of the MHCLG's informal consultation on the Statutory Guidance on Asset Pooling in the LGPS, which was due to close on 29 March 2019. At this stage, wider consultation on the ISS might also be considered appropriate.

**RESOLVED** – (a) That the minor amendments to the Funding Strategy Statement (FSS), which now includes the Pension Fund's Bulk Transfer Policy, be noted.

(b) That the requirement for further updates to the Investment Strategy Statement (ISS) once the outcome of the Ministry of Housing Communities and Local Government's (MHCLG) informal consultation on the Statutory Guidance on Asset Pooling in the LGPS is known be noted.

## **18. Exclusion of the Public**

**RESOLVED** - That the public be excluded from the meeting for the following items of business which involve the likely disclosure of exempt information as defined in the paragraphs of Part 1 of Schedule 12A of the Local Government Act 1972 indicated below.

## **PART TWO**

The Committee then proceeded to consider reports on the following issues:

**19. Exempt minutes of the meeting held on 18 December 2018**  
(Exemption paragraph 3)

**20. Exempt minutes of the Pensions Panel held on 4 December 2018**  
(Exemption paragraph 3)

**21. Admission of New Employers to the Fund**

(Exemption paragraph 3)

**22. Local Government Pension Scheme Regulations Administration - Debt Write-off**

(Exemption paragraph 3)

**23. LGPS Central and Pooling Update**

(Exemption paragraph 3)

**24. 2019 Actuarial Valuation Training**

(Exemption paragraph 3)

**Chairman**



**Minutes of the Pensions Panel Meeting held on 5 March 2019**

**Attendance**

Philip Atkins, OBE (Chairman)	Colin Greatorex
Derek Davis, OBE	Mike Sutherland

**Also in attendance:** Carolan Dobson (Independent Advisor), Graeme Johnston (Hymans Robertson), Ian Jenkinson (observer) and David Thomas (Independent Advisor).

**Apologies:** Stephen Sweeney

The Chairman reported that this was Graeme Johnston's last Panel meeting as he was shortly to retire. The Panel expressed their thanks to Mr Johnston for the contribution he had made since he first commenced advising the Panel in May 2008.

**PART ONE**

**37. Declarations of Interest**

Carolan Dobson (Independent Advisor) informed the Panel that she had joined the Aberdeen Standard Fund Managers Board.

**38. Minutes of meeting held on 4 December 2018**

**RESOLVED** – That the minutes of the Meeting of the Pensions Panel held on 4 December 2018 be confirmed and signed by the Chairman.

**39. Dates of Future Meetings**

**RESOLVED** – That the dates of future meetings of the Panel, as set out below, be noted:

- 14 June 2019
- 11 September 2019
- 3 December 2019
- 3 March 2020

(Note: All meetings are scheduled to start at 9.30am at County Buildings, Stafford.)

**40. Pension Fund Performance and Portfolio of Investments as at 31 December 2018**

The Director of Corporate Services submitted a summary of the performance of the Pension Fund, together with a portfolio of the Fund's investments, as at 31 December 2018.

The Panel were informed that the Fund had a market value of £4.8 billion as at 31 December 2018 which had since increased to £5.047 billion as at 4 March 2019. Over the quarter the Fund returned -6.8%, matching its strategic return benchmark. The best performing asset class relative to its benchmark was the Alternatives portfolio. Equities were the main detractors from performance, with UK equities in particular faring the worst.

The Panel noted that the Fund had outperformed its strategic return benchmark over the 1, 3, 5 and 10- year periods. Annualised returns over the 3, 5 and 10-year periods were more than 8% per annum, well above the investment return assumptions used by the Actuary as part of the triennial valuation.

**RESOLVED** – That the Pension Fund Investment performance and the portfolio of investments for the quarter ended 31 December 2018 be noted.

#### **41. Approved Investment Strategy for Pension Fund Cash 2019/20**

The Director of Corporate Services reported that previously Administering authorities were required to formulate a policy for the investment of Pension Fund cash by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009; as a result, the Fund produced a separate AIS for its cash balances. The more recent 2016 regulations, infer policies for Pension Fund cash should form part of the Investment Strategy Statement (ISS). However, the Fund considered it good practice to continue preparing a separate AIS for cash balances, with reference made to it within the ISS.

The Panel noted that the Pension Fund had a small strategic asset allocation to cash of 1%, recognising that cash balances were needed for the day to day management of the Pension Fund. This cash was managed by Officers in the County Council's Treasury and Pension Fund Team, to provide liquidity and pay bills as they arose. The management of this cash would continue to remain with the Fund and would not be transferred to LGPS Central under the LGPS pooling agenda.

The cash held increases from time to time, pending investment in other major asset classes e.g. property and private debt. The proposed AIS therefore needs to allow for such situations occurring and the Panel would need to review the strategic asset allocation benchmark to cash on a quarterly basis, together with any associated ranges.

The proposed main objectives for the AIS were to invest cash prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The objective when investing cash was to strike an appropriate balance between risk and return, thereby minimising the risk of incurring losses from defaults but also taking into account the risk of receiving unsuitably low investment income.

To allow for the practical management of the treasury transactions each day, it was proposed that the change in investment limits and the choice over the investments made be delegated to the Chief Financial Officer (S151), who chairs the SCC Treasury Management Panel. Outside of this, the Pensions Panel would need to assess any specific requirements and consider any changes that may be required to the AIS.

With regard to risk. The Panel were informed that cash was only a small component of the overall investments of the Fund and the wider aspects of risk were considered in the ISS, where cash was shown to form a small part of the Fund's Strategic Asset Allocation. Looking at cash in isolation, treasury management usually recognised that the two prime risk areas were security and liquidity. It was considered that focussing primarily on these two risks was appropriate for the Fund's relatively low 1% allocation to cash, for day to day cash management purposes. However, the AIS provided the flexibility to consider higher yields using Non-Standard Investments. Should the Pensions Panel decide to make a higher strategic allocation to cash at some point in the future, where seeking a higher return would become more important, the balance of risk and reward would need to be revisited and the AIS reviewed.

The Panel noted that the main circumstances where a revised strategy would be prepared included a significant change in:

- the Fund's Strategic Asset Allocation;
- the economic environment;
- the financial risk environment; and
- the regulatory environment.

In response to questions from Mr Jenkinson in relation to mitigating risk to the Fund, particularly via deposits with other local authorities, the Panel were informed that deposits with other local authorities could provide a higher return than other government investments, such as T-Bills and Gilts issued by central government, depending on the liquidity in the local authority lending market. Like central government investments, local government investments were not subject to bail in risk, although they were not completely without risk. The financial risks of a few local authorities have been documented in the press recently and the County Council's Treasury Management Panel continue to monitor the situation. They were also informed that the Fund would continue to consider short-term Money Market Funds (MMFs) for investment, as short-term MMFs which offered same day liquidity could be used as an alternative to instant access bank accounts. MMFs that met the criteria listed below would be considered to have sufficient high credit quality and be included on the Fund's Approved Lending List:

- Diversified – MMFs invest across many different investments meaning they achieved more diversification than the Fund could achieve on its own account;
- Short-term liquidity – cash could be accessed daily;
- Ring-fenced assets – the investments were owned by investors and not the fund management company; and
- Custodian – the investments were managed by an independent bank known as a custodian, who operated at arms-length from the fund management company.

With the Fund having had higher cash balances in recent years, cash-plus MMF's have been invested in to enhance investment returns. Cash-plus MMF's are similar to short-term (same day) MMF's but typically have 3-5-day liquidity notice period, as they invest further along the yield curve. Cash-plus MMF's are usually structured as a variable net asset value (VNAV) MMF, where underlying assets are marked to market and the unit price fluctuates daily, hence a minimum 6-month investment period is recommended. The AIS considers cash-plus funds as Non-Standard Investments. The further use of Non-Standard investments, as detailed in the AIS, was proposed to be delegated to the

Chief Financial Officer (S151), as Chair of the County Council's Treasury Management Panel.

**RESOLVED** – (a) That the Annual Investment Strategy (AIS) for the Staffordshire Pension Fund for the investment of internally managed Pension Fund cash be approved.

(b) That, to allow for the practical management of the treasury transactions each day, the change in investment limits and the choice over the investments made, including the Non-Standard Investments detailed in the AIS, be delegated to the Chief Financial Officer (S151).

#### **42. Exclusion of the Public**

**RESOLVED** - That the public be excluded from the meeting for the following items of business which involve the likely disclosure of exempt information as defined in the paragraph of Part One of Schedule 12A of the Local Government Act 1972 (as amended) indicated below.

### **PART TWO**

The Panel then proceeded to consider reports on the following issues:

**43. Exempt Minutes of the Meeting held on 4 December 2018**  
(Exemption paragraph 3)

**44. Pension Fund Performance and Manager Monitoring for the quarter ended 31 December 2018**  
(Exemption paragraph 3)

**45. Strategic Benchmarking Review and Monitoring**  
(Exemption paragraph 3)

- a) Economic and Market Update
- b) Review of Position as at 31 December 2018

**46. Responsible Investment (RI) Report Quarter 4 2018**  
(Exemption paragraph 3)

**47. Draft Response to MHCLG on Asset Pooling**  
(Exemption paragraph 3)

**48. Property**  
(Exemption paragraph 3)

**49. LGPS Central - Corporate Bonds Sub-Fund**  
(Exemption paragraph 3)

**Chairman**



Local Members Interest	
Nil	

**PENSIONS COMMITTEE – 28 JUNE 2019**

**Report of the Director of Corporate Services**

**APPOINTMENT OF CO-OPTED MEMBER FOR  
SMALL EMPLOYER REPRESENTATIVE**

**Recommendation of the Chairman**

1. That the Committee approves the appointment of Cllr. Mike Allen as the non-voting co-opted representative on the Pensions Committee representing smaller employers within the Staffordshire Pension Fund.

**Background**

2. The Committee will be aware that this particular position has been vacant since the resignation of the previous representative, Geoff Locke, which was reported to the Committee in June 2018.
3. The Committee, at their meeting on 18 December 2018, were informed that following difficulties in recruiting an individual interested in taking on the role, the Chairman had spoken to the Staffordshire Parish Council’s Association concerning the appointment of the Small Employer Representative and that the matter was to be considered at the Associations next meeting which was due to take place on 7 January 2019. Subsequent to that meeting, Cllr Mike Allen indicated that he was interested in taking on the role and he observed the Pensions Committee meeting held on 21 March 2019.
4. Cllr Allen has now confirmed that he is prepared to represent Smaller Employers on the Committee and, following a discussion between the Chair of the Committee and the Head of Treasury & Pensions, it is their recommendation that the position of non-voting co-opted member on the Pensions Committee representing smaller employers be offered to Cllr. Mike Allen.

**John Tradewell**  
**Director of Corporate Services**

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Background Documents None



**Equalities implications:** There are no direct equality implications arising from this report.

**Legal implications:** The legal implications are covered in the body of the report.

**Resource and Value for money implications:** There are no direct resource and value for money implications arising from this report.

**Risk implications:** There are no risk implications arising from this report.

**Climate Change implications:** There are no direct climate change implications arising from this report.

**Health Impact Assessment screening** – There are no health impact assessment implications arising from this report.



**PENSIONS COMMITTEE – 28 JUNE 2019**

**Report of the Director of Corporate Services**

**Staffordshire Pension Fund Business Plan 2018/19 Outturn**

**Recommendation of the Chairman**

1. To note and approve the outturn position of the Staffordshire Pension Fund Business Plan 2018/19.

**Background**

2. At the beginning of each financial year, the Pensions Committee is asked to approve an annual Business Plan for the Staffordshire Pension Fund. This report details the final outturn position for the financial year 2018/19 and summarises the key achievements against that Business Plan.
3. The Business Plan that was approved for 2018/19 is set out in Appendix 2. The final position against the plan shows that most planned activities have been achieved or are in progress. Of those in progress, some are classed as 'business as usual' activities and these together with several other 'development' activities which require further work or ongoing activity have been carried forward into the 2019/20 Business Plan.
4. Key achievements during 2018/19 were reported to the March Pensions Committee as being:
  - (i) Pensions Administration Team
    - Implementing Hymans Employer Asset Tracker (HEAT) in preparation for the 2019 Actuarial Valuation;
    - Ensuring full compliance with the General Data Protection Regulations (GDPR);
    - Making real progress with i-Connect;
    - Engaging with Employers through Employer Focus Newsletters, an Employer Training Day and the creation of an Employer Focus Peer Group;
    - Redesigning the Staffordshire Pension Fund Website;
  - (ii) Pensions Investment Team
    - Embedding the Governance of the LGPS Central pool, including the working of the Shareholders Forum, Joint Committee and the Practitioners Advisory Forum and its working groups; and
    - Preparing for and physically transitioning Assets into LGPS Central Limited.
5. Additionally, throughout the year there have been several Internal Audit reviews across the two Teams. The Pension Fund Governance Audit received 'substantial' assurance for the second year in a row from Staffordshire Audit Services and the Pensions Administration Audit improved from 'adequate' assurance in 2017/18 to 'substantial' assurance

in 2018/19. As well as providing assurance that the necessary controls are in place, this re-affirms the hard work and effort of staff across the Teams and their ongoing commitment to the Fund, despite the increasing complexities of delivering the service.

### **Pensions Administration - Performance Standards**

6. The Pensions Administration Team's Service Standards for 2018/19 are attached at Appendix 3. The Committee are asked to note the continued improvement in these standards over the previous two years and the number of performance targets achieved in 2018/19. A summary of the position is as follows:
  - 2016/17 shows that a 90% performance target was achieved in 4 of the published 15 standards.
  - 2017/18 shows that a 90% performance target was achieved in 8 of the 14 published standards.
  - 2018/19 shows that a 90% performance target was achieved in 9 of the 14 published standards and for the month of March 2019 this increased to 12 out of the 14 published standards.
7. Of the 5 published standards where the performance target was not achieved in 2018/19, the reasons for such include:
  - significant increases in the number of cases, c33% in one instance;
  - the 4-month suspension of the Transfers Team being able to calculate Transfer Payments whilst waiting for the Government Actuaries Department to publish a series of 'factors' on which calculations are based; and
  - the ongoing clearance of backlog by Jardine Lloyd Thomson (JLT), who are now part of the Mercers Group.
8. Whilst extremely pleasing to report this continued improvement, the Pensions Senior Management Team (PSMT) are cognisant of the fact that this may be in some part down to timing. It is important, therefore, that the work that has been started in capturing the 'throughput' of cases in each service area is developed further to enable any trends and peaks and troughs in caseloads to be identified. The PSMT are also mindful that the backlog work being carried out by JLT needs to be absorbed back into the resourcing across the Teams for certain activities and this may impact target performance in the short term.

### Ongoing workloads and impact on Performance Standards

9. In previous years, the Committee has received reports predicting that performance standards would reduce for a number of reasons:
  - the introduction of a more complex Pension Scheme on 1 April 2014, meaning that there are effectively 3 schemes under administration;
  - an ever-increasing number of Scheme Employers;

- difficulty in recruiting experienced employees; and more recently,
- the fragmentation of the County Council's payroll services, which means that direct access to Employer data has been removed, making doing the day job in terms of the benefit calculations that little bit more involved.

Whilst the Performance Standards appear to indicate that this may no longer be the case, it is important to remind the Committee, that the Scheme continues to become more and more complex and the number of Employers and their arrangements for continuing to participate in the Scheme are in themselves becoming more complex as a result. Going forward both old and new challenges remain.

10. Day to day challenges are often added to, by a number of unexpected larger Employer restructuring exercises, whereby access to the LGPS is being withdrawn or restricted to certain Employees. This in turn results in a significant amount of extra work for the Pensions Administration Team in providing scheme members with estimates for deferred and retirement benefits and Employers often request priority for these exercises, over and above our statutory obligations and reporting deadlines, to fit in with their own consultation deadlines.
11. Unforeseen changes in Regulations also have an impact on workload that needs to be accommodated. E.g. last year's report cited the LGPS (Amendment) Regulations 2018, which came into being on 14 May 2018, and made provision for '*the payment of deferred benefits from age 55 for leavers before 1 April 1998 and between 1 April 1998 and 31 March 2014*'. The impact of this change is now clearer, with the section having processed approximately 2,000 additional cases for retirees between the ages of 55 and 60. The Fund's records further indicate that there remains just under 7,000 members holding deferred benefits in the 55 to 60 age group, and with continued interest in this option, an additional ongoing caseload of around 1,000 cases each year is anticipated, for the foreseeable future.
12. At the time of writing, the Government are consulting on a change to the Employment Regulations (Restricting Exit Payments in the Public Sector). And whilst this may not appear to have direct consequences for the LGPS, there are several significant implications in terms of the need to amend the LGPS Regulations and Pensions Administration systems to comply. But on a far more practical level there will be a need to ensure that Pensions Teams are adequately resourced to assist Employers in preparing several alternative calculation options for Scheme Members, where the £95,000 exit payment cap will be exceeded.

#### Other considerations

13. Not all administration processes are benchmarked but most are usually complex and time-consuming areas of work for example:
  - Payment of transfers between Local Government Pension Funds.

- Combining pension records for re-joining members known as aggregation.
- Concurrent employment cases.
- Data cleansing.
- Software upgrades & testing ICT infrastructure.
- Record maintenance.
- Issue of Annual Benefit Statements.
- Attending retirement sessions to support members being made redundant.
- Communication projects for example Academy training sessions.
- Introducing new software to Employers for the monthly transmission of data to the pension system and onboarding (i-Connect).
- Pensions Increase exercise
- Production of HR costing data for Employers.
- Regulatory and legal support to Employers.

Many of these are included in the Business Plan as Business as Usual activity.

### **Pensions Administration Team Staffing**

14. Due to the complex nature of the LGPS, recruiting experienced staff is always difficult and so the focus has to be on 'training and growing our own'.
15. The Team lost several experienced staff in 2017/18 due to retirement, but it is extremely pleasing to be able to report that a successful recruitment exercise in 2018 led to 3 new staff joining the Team on 2 July 2018. The 3 new staff have proved to be excellent appointments and are almost fully up to speed on their daily activities. This takes the number of full-time equivalent staff in the Team to 42.70 FTE which has been the result of a gradual and measured increase in staff from 37.50 FTE in 2014/15.
16. The backlog project with JLT comes to an end on 30 June 2019 and whilst it was anticipated that current staffing levels would prove sufficient to absorb this work back across the Teams, caseloads in these areas continue to increase. Additionally, the short-term goal of getting all Employers onto i-Connect is proving to be extremely resource intensive and although this will lead to efficiencies longer term, it does mean that staffing resources will need to be enhanced in the short to medium term to accommodate this additional caseload falling on the service.
17. Whilst there is inevitably a direct cost implication of any increase in staff numbers, this is anticipated to be limited to 1 or 2 entry grade staff. This will not only ensure that performance against published standards does not decline significantly but more importantly that the service to the end user i.e. the Scheme Member, is not sub-standard and in direct contravention of the Pensions Regulators Disclosure requirements.



## **Pensions Investment Team**

18. As well as undertaking their day to day accounting and contract monitoring activities, the investment team were kept busy during the year with several projects:
- Following LGPS Central Limited's launch on 3 April 2018, work has continued at pace, with several members of the team involved in the continuing development of the LGPS Central pool and the various Officer Working Groups. After significant planning, with the Company and the Transition Manager, over a number of months, the first transfer of assets from Staffordshire was completed in February 2019 with an investment in the LGPS Central External Active Global Equity Multi-Manager sub-fund. In line with the Company's wider business plan, transition activity will continue for a considerable number of years going forward.
  - Working with the Fund's appointed Investment Advisor, Hymans Robertson, a preliminary review of the Fund's Strategic Asset Allocation was undertaken ahead of the commencement of the 2019 Actuarial Valuation. This considered how any reduction in growth assets (e.g. Equities) might impact the Fund's forecast investment returns and contribution strategy. Work was also undertaken in reviewing the Fund's investment structure across the asset classes (e.g UK versus Global Equities). The outcome of this review will be reported to the Pensions Panel and Pensions Committee in due course.
19. In 2018/19, the Fund's investment return was 8.1% which was 0.2% ahead of the return of its strategic benchmark return target. Whilst nowhere near the highs of the 20%+ returns seen in 2016/17, it is 5% higher than the 2017/18 investment return and well ahead of the long-term investment return assumptions used by the Actuary in the triennial valuation.
20. Over the longer term, the Fund has outperformed its strategic benchmark return in the 3, 5 and 10 year time periods with annualised excess returns over 3 and 5 years in excess of 8%, again well ahead of the investment return assumptions used by the Actuary in the triennial valuation.
21. The Committee will receive a presentation from the Fund's independent performance measurer, Portfolio Evaluation Limited on the detail of the Fund's investment performance in 2018/19, at their next meeting in July.

## **Pension Fund Budget and Costs**

22. At previous Pensions Committee meetings Members were asked to note that instead of setting an annual budget and relying on budget monitoring to manage cost, the Committee should place more reliance on cost comparisons, benchmarking and trends to ensure that value for money is delivered. Considering comparative figures is considered a better approach to understanding and managing the cost base of the Fund, thus ensuring that value for money is consistently delivered.

23. Unfortunately, the availability of comparative figures continues to diminish and so going forward, it is considered beneficial to use a combination of both budget monitoring and benchmarking.
24. The headline budget reported to Pensions Committee for 2018/19, as part of the Business Plan versus the headline Actual Outturn position is provided in the following table. A comparison to 2017/18 is also provided.

	<b>2017/18</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>
Initial Budget forecast	16,150	19,040
Less LGPS Central Transition Costs*	0	(2,030)
<b>Revised Budget forecast</b>	<b>16,150</b>	<b>17,010</b>
Actual Outturn position	16,760	20,443
Under (Over) spend	(610)	(3,433)

\*Transition Costs are not a direct revenue cost and should have been excluded from the Initial Budget Forecast reported to Committee on 16 March 2018.

25. The majority of the £3.4m overspend in 2018/19 is attributable to two major factors:
- (i) A £1.2m increase in Property expenses above the amount assumed in the budget. This arose as a result of 2 significant voids in the property portfolio over the year, at Hayes (ex-Toys-R-Us) and St. Anne's Road, Industrial Estate in Bristol which was impacted by the bankruptcy of Palmer and Harvey.
  - (ii) A £2.1m increase in investment management fees above the amount assumed in the budget. Whilst a proportion of this was as a direct result of the growth in Assets Under Management (AUM) the majority £1.7m was due to the increase in costs from the Fund choosing to invest in Alternative assets (e.g. Private Equity and Private Debt) which are widely accepted to be some of the most expensive asset classes in which to invest. As well as increasing the Fund's allocation to Alternatives, there has been a move across the industry generally for greater accounting transparency of the multiple fee layers. So, whilst in previous years 'incentive' (performance) fees paid on Alternatives were not accounted for, the more transparent reporting regime means that for 2018/19, this additional layer of cost has been included.

The tables that follow break the Actual Outturn position down into more detail, as per the reporting classification in the annual accounts, they also provide comparisons to previous years' expenditure.

26. The following table shows this year's **Administration Costs** compared to the last two years:

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Pensions administration	2,074	2,124	2,099
Legal costs	71	140	114
Other costs	63	163	34
Income	(47)	(44)	(57)
Total Administration Costs	2,161	2,383	2,190

27. Administration Costs have remained fairly constant over the last three years. As well as a saving on Staffing, the decrease in 2018/19 was predominantly in the Other Costs line, where there was an additional one-off cost of implementing the i-Connect software in 2017/18.
28. Using the latest data available (for 2017/18), we can compare the cost per scheme member of our Pensions Administration Team to those of the 32 other Funds (out of a possible 90) captured by the CIPFA benchmarking service. The 2016/17 costs are provided in brackets for reference.

<b>2017/2018</b>	<b>Administration Costs per scheme member</b>	
	<b>SCC</b>	<b>Average</b>
<b>CIPFA benchmarking</b> - pensions administration	£21.30 (£20.63)	£21.16 (£20.14)

29. In 2017/18 the Fund's administration costs were marginally above the CIPFA average, the principal reason for this was the cost of the i-Connect software. Without this one-off cost, the Fund would have been below the benchmark (around £20.31 per scheme member).
30. The following table shows this years **Oversight and Governance Costs** compared to the last two years:

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Audit Fees	34	29	33
Actuarial Advice	249	97	130
Governance Expenses	187	176	180
Investment Oversight fees	150	165	137
LGPS Central costs	0	0	833
Other	322	545	427
Total Oversight & Governance costs	942	1,012	1,740

31. Total Oversight and Governance costs have increased significantly in 2018/19. This is entirely due to the Fund now incurring its share of the

ongoing running costs of LGPS Central. These costs are included as a separate line item in the previous table.

32. The following table shows the comparative **Investment Management Costs** of the Fund for the past three years.

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Investment managers	11,524	11,763	13,940
Property costs	1,050	1,301	2,349
Custody costs	182	136	130
Other	566	155	93
Total investment costs	13,322	13,355	16,512

33. Based on AUM alone, there would automatically be an increase in investment management costs in 2018/19. However, as explained in paragraph 21, there have also been additional property expenses and increased expenditure on investment management fees from the Fund's increased levels of investments in Alternative assets.
34. The market value of the Fund's assets has increased by over 12% over the last 2 years; hence with most the Fund's investment management fees based on the value of AUM, the overall level of fees paid would be expected to rise accordingly. However, despite the increase in investment management fees (as detailed above), the table below shows that the fees have stayed relatively consistent as a percentage of assets.

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
IM Fees	11,524	11,763	13,940
Fund value at 31/3	4,587,100	4,775,829	5,128,319
Fee level (%)	0.25	0.25	0.27

35. With an increased allocation to Alternative assets and the Fund's return to active global equity management through investment in LGPS Central's sub-fund, (as opposed to current passive global equity management which incurs lower fees), the investment management costs of the Fund are expected to rise in the short-term. Over the long-term, however, as the economies of scale from asset pooling are achieved it is anticipated that these costs will stabilise before eventually falling to provide savings. As always, these costs are largely dependent on the Fund's Strategic Asset Allocation and should always be justifiable on a 'net return' basis.

### **Cost Benchmarking**

36. In previous years it was possible to benchmark the Fund's Investment Management Costs, using data taken from the SF3 Government return, but this service is no longer being offered by MHCLG LGPS Statistics. With the advent of pooling and the wider agenda for cost savings as a result, LGPS Central Partner Funds are keen to work together to explore options, to ensure that they can put some appropriate and meaningful

metrics in place, both for peer benchmarking within and potentially across pools. With the focus on getting pools up and running, over the last 2 years, this piece of work is yet to be developed.

37. To seek further reassurance about cost, Staffordshire Pension Fund continues to take part in an extended benchmarking exercise with international company CEM Benchmarking. CEM benchmark 400+ global pension funds with plan sizes ranging between £35m and £600bn.
38. The 2017/18 CEM survey grouped Staffordshire Pension Fund with 21 LGPS and international funds ranging in size from £3.2bn to £8.6bn (a median size of £5.5bn versus our £4.8bn). Based on a comparative cost base and taking into account embedded costs, our Fund's costs of 53.9 basis points (bps) was 3.2bps below the peer median of 57.2bps. This demonstrates that the Staffordshire Pension Fund is a low-cost scheme, with our lower cost being attributable to the fact that we have a low-cost implementation style but also because we paid less than our peers for similar services.
39. Measuring trends is also important and whilst it is pleasing to note that our costs have fallen from 58.4bps in 2013/14 to 53.9bps in 2017/18, comments made previously in this report about Strategic Asset Allocation and the implementation of such, in terms of active and passive investment management styles, should be noted.
40. CEM have been appointed to continue to work with the 8 LGPS Central Partner Funds going forward and have been invited to talk more about cost benchmarking and the Fund's costs at the Committee's next meeting in July.

**John Tradewell**  
**Director of Corporate Services**

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Contact : Melanie Stokes, Head of Treasury & Pensions  
Telephone No. (01785) 276330

Background Documents: None

**Equalities implications:** There are no direct equalities implications arising directly from this report.

**Legal implications:** There are no direct legal implications arising from this report.

**Resource and Value for money implications:** Resource and value for money implications are considered in the report.

**Risk implications:** There are no direct risk implications the report does contain some actions to address risks identified in the risk register.

**Climate Change implications:** There are no direct climate change implications arising from this report.

**Health Impact Assessment screening** – There are no health impact assessment implications arising from this report.

Area of Service	Key Development Activity	Progress
<b>LGPS Pensions Administration</b>	Develop new working Practices with Third Party Payroll Providers including the introduction of i-Connect (see below)	<b>Partially Achieved.</b> Good progress made and continuing effort as new providers emerge.
	Full implementation of Hymans Employer Asset Tracker (HEAT) including mechanism for Ill-health self-insurance	<b>Achieved</b>
	Improve quality of data prior to 31 March 2019 Valuation	<b>Achieved</b> (albeit data quality improvement will always be of ongoing benefit)
	Ensure full compliance with new General Data Protection Legislation (GDPR)	<b>Achieved</b>
	Demonstrate a general improvement in KPI's	<b>Partially Achieved</b> (Improvement in some areas with ongoing challenges in others)
<b>Pensions Administration System</b>	Implement i-Connect with a range of small / larger Employers to achieve an overall target of 50% of Active Fund Membership	<b>Partially Achieved</b> (33% as at 31 March with pipeline to achieve 60% by 31 August 2019)
	Government Actuaries Department transactional data project	<b>Achieved</b>
<b>Contracting Out Reconciliation</b>	Phase 1 Finalise enquiries with HMRC for Deferred and Pension Members	<b>Achieved</b>
	Phase 2 Finalise enquiries with HMRC for Active Members	<b>Achieved</b>
	Finalise under/overpaid pensioner members	Ongoing, pending responses from HMRC
<b>Governance</b>	To develop a Training Plan for Pensions Committee Members focusing on any collective knowledge gaps identified from the Training Needs Analysis (TNA)	<b>Achieved</b> Annual review deferred to Q319 to align with appointment of new

Area of Service	Key Development Activity	Progress
		Pensions Board Members
	Review published policies e.g Governance Policy	<b>Partially Achieved.</b> Register of policies produced. Several policies reviewed with plan in place to review others during 2019/20
	Develop Covenant Monitoring Process	Outstanding. Deferred to 2019/20
<b>Communications – Scheme Members</b>	Review website content and structure including Member Self Service / My Pension	<b>Partially Achieved.</b> Significant progress made but due to enormity of task, work will continue into 2019/20. New version of MSS to be promoted to Scheme Members Q419
<b>Communications - Employers</b>	Develop Employer Administration policies / guides / practices and promote such to relevant Employers	<b>Partially Achieved.</b> Employer consultation on Administration Strategy complete. Significant progress made elsewhere but need to continue to review guides alongside website development. Work continuing into 2019/20 with ongoing review thereafter
	Run Employer Practitioner Workshop(s) E.g Breaches, Ill-health retirement, IDRPs and produced focussed Newsletters	<b>Achieved</b> Second Employer Training Day scheduled June 2019. Employer Focus Newsletters and new Employer Peer Group now established. Ongoing development in 2019/20



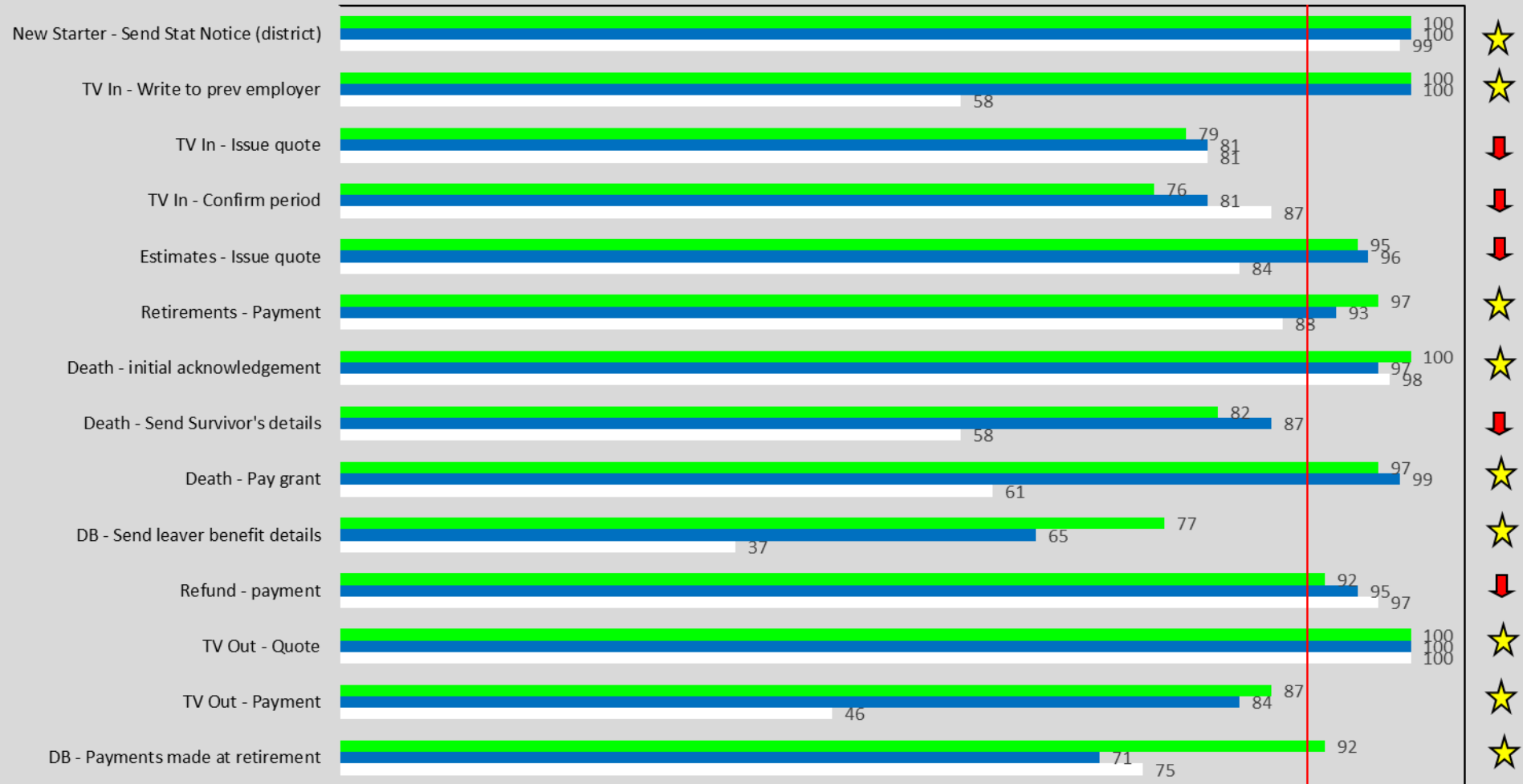
Area of Service	Key Development Activity	Progress
<b>Pension Fund Investment</b>	Implement new Governance Arrangements in relation to LGPS Central to include meetings and reporting to / from the Shareholder Forum, the Joint Committee and the Practitioners Advisory Forum to Pensions Committee and Pensions Panel	<b>Achieved</b>
	Continue to review SPF Strategic Asset Allocation in the context of the Investment Offering of LGPS Central Limited	<b>Achieved</b> in year. Ongoing review as LGPSC investment offering develops. Meetings with Investment Advisors and LGPS Central as required.
	Monitor process, reconcile data and report performance impact following asset transitions into LGPS Central Limited E.g Global Equities	<b>Achieved</b> in year. Global Equity Transition February 2019. Post transition analysis and reconciliations completed for 31 March 2019 accounts. Report to June 2019 Pensions Panel.
Area of Service	Resource Intensive – Business as Usual Activity	Period
<b>LGPS Pensions Administration</b>	Review Pensions Services staffing levels and structure	1 April – 30 September
	Finalise Year end data	1 April - 30 July
	Issue Active Annual Benefit Statements	1 July – 31 August
	Issue Deferred Annual Benefit Statements	1 May – 30 June
	Record Keeping Data Integrity Checks (pre-2019 Valuation)	1 April – 31 March
	Management of JLT backlog project and response to resulting queries	1 April - 31 January
<b>The Pensions Regulator (tPR)</b>	Continually review compliance with The Public Service Scheme Code of Practice and Public Service Regulatory Strategy in	1 April – 31 March

Area of Service	Key Development Activity	Progress
	relation to Disclosure of Data	
	Maintain and review Breaches Log and improve reporting to tPR	1 April - 31 March

SERVICE STANDARDS - comparison of performance between 2016/17, 2017/18 and 2018/19

Performance TARGET

0 20 40 60 80 90 100



★ Maintained or improved standard compared to last year (or over 95%)

↓ Lower standard than last year

2018/19 2017/18 2016/17



Local Members Interest	
Nil	

**PENSIONS COMMITTEE – 28 JUNE 2019**

**Report of the Director of Corporate Services**

**STAFFORDSHIRE PENSION FUND RISK REGISTER**

**Recommendations of the Chairman**

1. That the Pensions Committee notes the high-level summary and emerging risks from the current Staffordshire Pension Fund Risk Register, as presented in Appendices 3 and 4 respectively.
2. That the Pensions Committee notes the content and recommendations of the Local Pensions Board review of the Staffordshire Pension Fund Risk Register, attached at Appendix 2, and considers asking the Local Pensions Board to continue to play an active role in the ongoing review process.

**Background**

3. CIPFA Guidance recommends the production and monitoring of a Risk Register for Local Government Pension Scheme (LGPS) funds. Risk management is being increasingly recognised as an element of good corporate governance and it is widely considered best practice to maintain and regularly review a Risk Register for the Pension Fund. The Risk Register also forms a key part of the Pension Fund’s Risk Policy
4. At their meeting in June 2018, the Pensions Committee noted the contents of the Pension Fund Risk Register at that time and asked the Local Pension Board to continue to undertake a regular detailed review of the identified risks and the process for maintaining the Risk Register and report back on any areas of concern. It was also agreed that the Pensions Committee would continue to carry out an annual review of the high level and emerging risks identified from the Fund’s Risk Register.

**Risk Register**

5. Risk management is central to the management of the Pension Fund, as reflected by the coverage of risk in several key documents, such as the Funding Strategy Statement and the Investment Strategy Statement.
6. The Risk Register brings together all the Fund’s risks in a single document. It continues to be based on the 4 key areas of activity within the Fund: Governance, Funding, Administration and Investment. And, more recently the impact of LGPS Asset Pooling and the nature of the risks that brings to the Fund have been incorporated across the various areas of activity.

7. The detailed risk register matches high level risks, under each of the 4 areas of activity, to the Funds high level objectives. Each of the detailed risks has been given an impact score and a likelihood score before any controls are applied. These have then been combined to give an overall pre-control risk score, which has been assigned a Red – Amber - Green (RAG) rating.
8. Controls that are currently in place to mitigate risks and additional sources of assurance are then considered to provide a post control impact and likelihood score. Again, these have been combined to give an overall post control risk score which has been assigned a RAG rating. All risks are given a review date, risk owner and any future actions to be taken are noted.
9. Officers review the risk register every quarter, focusing in on the detail of one of the 4 areas, along with a review of any emerging risks. As part of their review, Members of the Local Pensions Board have attended the review meetings and taken an active role in the discussions. The Board's comments on the Risk Register and the review process are attached at Appendix 2. The Committee may wish to consider asking members of the Local Pensions Board to continue with their role in the ongoing review process.

### **Summary and review of high-level risks**

10. A summary of the high-level risks associated with the objectives is attached at Appendix 3. This summarises the highest score of the detailed risks associated with each of the high-level risks and provides a summary of the controls and sources of assurance currently in place. This is intended to give the Committee an overview of the main risks the Pension Fund needs to consider and the controls in place to mitigate them.

### **Emerging risks**

11. As part of the annual review it was agreed that the Pensions Committee would review emerging risks to the Fund. It is important to recognise that some of the greatest risks faced by the Pension Fund arise from change. Several transitional areas are reflected in Appendix 4; this provides more detail on the emerging risks perceived to be faced by the Pension Fund. The same scoring process and assignment of RAG ratings has been applied.

**John Tradewell**  
**Director of Corporate Services**

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#### Background Documents:

CIPFA-Managing Risk in the Local Government Pension Scheme,  
The Pensions Regulator Code of Practice,  
Staffordshire Pension Fund Investment Strategy Statement ISS,  
Staffordshire Pension Fund Funding Strategy Statement FSS.

## Appendix 1

**Equalities implications:** There are no direct implications arising from this report.

**Legal implications:** The legal implications are considered in the body of his report.

**Resource and Value for money implications:** The main resource implications have not been explicitly assessed but arise directly from either any mitigating actions or from the impact of the risk identified.

**Risk implications:** The main topic of this report is risk assessment.

**Climate Change implications:** There are no direct implications arising from this report.

**Health impact assessment screening:** There are no direct implications arising from this report.

## Report by the Local Pensions Board to the Pensions Committee

### Staffordshire Pension Fund Risk Register

#### Observations of the Local Pensions Board

1. The Risk Register is a robust and comprehensive register of risks that faces the Pension Fund.
2. The procedure for reviewing the Register is carried out regularly with each risk being evaluated and updated as required.
3. The Officer Working Group that conduct these reviews have ownership of the individual risks and the whole Register and take their responsibility seriously.
4. The Pension Board continues to recommend that the Register include a time-tracked element such that an Audit Trail can be established of the ways in which risks change over time.
5. The Board also considers that there is value in continuing to attending meetings of the Officer Working Group. The Board invites the Pensions Committee to consider if they wish the Board to continue to carry out this, light-touch, scrutiny role.

#### Background

The Pensions Committee at its meeting of 7 July 2017 decided to ask the Local Pensions Board “to undertake a more detailed review of the Pension Fund Risk Register and report back to the Pensions Committee on any issues or areas of concern arising from the review.” The Pensions Board has carried out that task and reports as follows.

*‘The Pensions Board decided to conduct its review through individual Board Members attending, as observers, a series of meetings of the Officer Working Group where the Risk Register was discussed in line-by-line detail. They observed each risk being evaluated on both a qualitative and quantitative basis and the RAG rating either being amended or maintained.*

*At their meeting in June 2018, the Pensions Committee noted the contents of the Pension Fund Risk Register at that time and the recommendations of the Pensions Board and as a result, asked them to continue to undertake a regular detailed review of the identified risks and the process for maintaining the Risk Register and report back on any areas of concern.*

*The procedure for updating the Register is a regular, quarterly, officer working group. As the meeting progresses the individual risks are evaluated, updated and a new RAG rating assigned. The one concern that the Board had was that in updating the Risk Register the new RAG rating overwrote the previous RAG rating. The Board considered that RAG ratings should be time-tracked in order to facilitate an audit trail of risk over time and made a recommendation accordingly. As a result of this recommendation previous versions of the Risk Register are now saved for audit purposes.*

*The Board continues to believe that the Officer Working Group manages the whole process through an appropriate procedure, has ownership of both the individual risks and the whole register and take their responsibility seriously.*

*The Board also considers that there is value in continuing to observe at the Officer Working Group in order to regularly monitor the Register and raise concerns as and when necessary.’*



Objective	High Level Risk	Pre-control Risk Score	Controls	Source of Assurance	Post-control Risk Score
<b>Governance</b>					
<b>1 To meet the highest standards of Governance and demonstrate key principles of accountability and transparency through clear responsibilities and reporting and an appropriate governance structure</b>	<b>Failure to meet the highest standards of Governance and demonstrate key principles of accountability and transparency through clear responsibilities and reporting</b>	12	Fund objectives are defined, reviewed annually and approved by Pensions Committee as part of a comprehensive Performance Management Framework which includes KPI's and Risk Register	Reports to Pensions Committee and Pensions Board, Total Performance Management Framework	9
<b>1.1 To ensure the Fund has an appropriate governance structure</b>	<b>Failure to have an appropriate Governance structure in place including appropriate policies e.g. Conflicts of Interest</b>	16	Governance is implemented in accordance with the Governance Policy Statement which sets out the roles and responsibilities of all parties. Officers monitor and are aware of changes to regulations.	Governance Policy Statement, Pensions Board, MHCLG.	9
<b>1.2 To ensure that all Elected Members and officers have appropriate Knowledge and skills</b>	<b>Failure to ensure that Elected Members and Senior Managers have the required skills or qualifications to perform their function effectively, and are supported by an ongoing programme of training</b>	16	Adoption of CIPFA Training and Skills Framework, Training policy, Training Log	Training records log, Pension Board, Qualifications and experience of senior officers, MPCs, appointment process.	12
<b>1.3 To ensure the Fund has appropriate financial, investment and actuarial advice</b>	<b>Failure to have proper arrangements to receive appropriate advice; including appropriate procurement and monitoring of performance of advisors</b>	12	Services of several advisors are procured, contracts in place and performance monitored.	Attendance and reports to Pensions Committee, Panel and Board. Procurement team and regulations.	12
<b>1.4 To ensure assets are safeguarded and properly accounted for and reported upon.</b>	<b>Failure to have appropriate custody arrangements in place for liquid markets and illiquid investments (Inc. property)</b>	12	Custodians with high credit ratings are in place, their records monitored against managers records. Stocklending subject to strict controls and reported to Pensions Panel.	Custodian agreements, Audit assurance, Collateral in place for all stocklending. Legal Services hold records (Property).	12
<b>1.5 To ensure that the Fund makes all information it is required to make available to stakeholders and that the information is easy to understand. To meet best practice standards wherever possible</b>	<b>Failure to publish all documents required by legislation including statutory accounts and annual report and key documents comprising Governance Strategy, ISS, FSS. Communications Policy</b>	12	Key documents list is maintained and all key documents are completed, reviewed regularly and published	Documents published, regulations, CIPFA guidance, TPR codes of practice, Pensions Board, Pensions Committee, Internal Audit, external audit	12
<b>1.6 To comply with all legislation relating to Local Government Pensions.</b>	<b>Failure to adhere to relevant statutory regulations including updates to LGPS</b>	12	Regular review and reporting of changes, training of staff and implementation of changes	Pensions Board, Pensions Committee, Audit and Audit report and LGA	8
<b>1.7 To ensure the Fund has a risk register that is comprehensive, linked to objectives and regularly reported and reviewed</b>	<b>Failure to have comprehensive risk management arrangements, including a Fund risk register in place; failure to regularly review, update, and identify controls to mitigate significant risks, including risk of fraud, and management assurance arrangements to ensure key controls are operating effectively and consistently</b>	16	Comprehensive Risk Register in place and reviewed regularly, Controls are regularly tested. New risks are identified by regular review of changes (informed by advisors, LGA, press, conferences etc.)	Risk register exists and is regularly reviewed and updated. Pensions Committee report. Pensions Board	9
<b>1.8 Participation in LGPS Central Pool of Funds</b>	<b>Failure of Pool to have proper Governance arrangements in place.</b>	12	Joint Committee, Shareholders Forum and Practitioners Advisory Forum exist, have clear terms of reference and defined membership. CIPFA guidelines.	Staffordshire Members and Officers regularly attend meetings of Joint Committee, Shareholders Forum and Practitioners Advisory Forum, with decisions reported back to Pensions Committee.	4

Objective	High Level Risk	Pre-control Risk Score	Controls	Source of Assurance	Post-control Risk Score
<b>Investment</b>					
2.1 The <u>actual</u> return of the Funds 'neutral' and / or 'tactical' Strategic Asset Allocation is capable of exceeding the return assumption (i.e. the Discount Rate / AOA) of the Actuary used in the triennial valuation.	Failure of the Strategic Asset Allocation (SAA) to meet the level of return underpinning the setting of contribution rates as determined in the valuation OR to take more risk than the level of risk assumed by the Actuary in setting contribution rates	15	Strategic Asset Allocation is set to meet the assumptions used by the Actuary. Ensuring the Actuary and Investment Consultant understand each others assumptions. Using stochastic modelling to show a range of outcomes and reporting and consulting on the assumption through the Funding Strategy. Use of Stabilisation policy	Pensions committee reports from Actuary and consultant. Pensions Board	8
2.2 The return of the 'actual / tactical' Strategic Asset Allocation (determined by the Pensions Panel) exceeds the return of the 'neutral' Strategic Asset Allocation	The actual/ tactical investment strategy (determined by the Panel) fails to exceed the return of the neutral SAA	12	Actual/ tactical SAA position is monitored, updated and reported to Pension Panel quarterly. Performance measurer reports.	Pensions Panel receives quarterly SAA report/ Valuation. Pensions Board. Fund Performance report.	8
2.3 To achieve performance above the return of the 'neutral / tactical' strategic benchmark return, through the appointment of active managers, where appropriate.	Failure of active managers to deliver outperformance (net of fees)	20	Active managers are appointed through robust competitive process. Their performance is regularly reviewed and reported to the Pensions Panel and in the Annual Report. Termination of managers contracts is carefully considered and reported to Pensions Panel.	Consultant advice, manager meetings, Performance measurer, Panel reports, manager presentations.	15
2.4 To ensure that asset classes and managers are understood together with their returns and correlations to each other	Failure to understand the relationships between asset classes, managers and their correlations to each other.	16	Asset class correlation, Managers strategies are understood to ensure overlap is minimised. This is understood by those responsible for the strategic asset allocation.	Quarterly strategic review, Consultant comments, Pension Panel, Pension Board	9
2.5 To ensure the Fund takes account of Responsible Investment (RI) factors in its investment decisions.	Failure to take account of RI factors in investment decisions	12	FRC UK Stewardship Code complied with. All fund managers signed up to UNPRI. RI report to Panel each quarter detailing managers voting and company engagement. Member of LAPFF and LGPS Central	Policy in ISS, Pension Board. Manager reports. Member of LAPFF	6
2.6 To minimise fee levels and total expense ratios consistent with performance targets i.e. active / passive	Failure to minimise manager fees and expenses commensurate with performance target	9	Competitive tender process, monitoring and benchmarking of fees. Transparent reporting of fees.	CEM benchmarking, Total expense ratio, Peer Benchmarking, CIPFA rules, Audit, Pension Committee, Pension Board, advisors views taken account of.	6
2.7 Understand and consider the difference between the liability benchmark and the 'neutral' SAA	Failure to understand the changes in the liability benchmark of the Fund and adjust the 'neutral' SAA accordingly	12	Cash flows of the fund are monitored and understood. The fund operates on a liability aware basis.	Actuarial Valuation, Quarterly change in the Funds liability benchmark are reported to the Pensions Panel.	9

Objective	High Level Risk	Pre-control Risk Score	Controls	Source of Assurance	Post-control Risk Score
2.8 Ensure the efficient transfer of assets to and set up of LGPS Central	Set up costs of the pool exceed budget, staff impacted and anticipated savings do not materialise, impacting Fund performance	20	Budgets in place and monitored, cost sharing mechanism in place, other members of staff aware how to do all roles and are aware of work of LGPS central. Transition plans, senior management of LGPS Central, Shareholders Forum, Joint Committee and Practitioner Forum.	Programme Board, Staff Strategy and planning meetings, Shareholders Forum, Joint committee and Practitioners Forum. Reports to Pensions Committee	16

Objective	High Level Risk	Pre-control Risk Score	Controls	Source of Assurance	Post-control Risk Score
<b>Funding</b>					
3.1 To ensure the Fund has sufficient money to meet its financial commitments in the short term	Failure to ensure the Fund has sufficient money to meet its payment commitments including benefits, transfers, and investment decisions in the short term	20	Plan and monitor cashflows regularly, Appropriate Treasury management strategy, Treasury staff are qualified and trained, review of cashflows from actuarial valuation.	Cashflows exist and are monitored, Treasury Management Strategy report to Pension Panel, Audit, Actuarial valuation report to Pensions Committee	10
3.2 To ensure the solvency of the scheme i.e. to ensure the Fund has sufficient money to meet its benefit outflow (minimum 100% funded in long term)	Failure to ensure the solvency of the Fund i.e. to ensure it has sufficient money to meet its benefit outflow in the long term (minimum 100% funded in long term)	16	Actuarial Valuation by an independent Actuary, using prudent assumptions, monitoring of funding level in between valuations, Ensure that significant changes in staffing levels as a result of austerity do not result in less income from contributions.	Actuarial report, No issues identified by GAD in respect of actuarial or investment assumptions under their Section 13 analysis, Report to Committee, Pension Board, Pension Fund Annual Accounts, Funding Strategy.	8
3.3 To ensure the long term cost efficiency of the scheme	Failure to set contribution rates that ensure the long term cost efficiency of the scheme	16	Stochastic modelling of various financial scenarios demonstrates improved funding outcome from the valuation, Actuary certified funding strategy.	No issues identified by GAD, Funding Strategy Statement, Pension Board	6
3.4 It is desirable that contributions are as stable as possible	Failure to set contribution rates that are relatively stable in order to ensure that pensions do not unnecessarily disrupt Local Authority capacity to deliver local services (subject to achieving solvency and long term cost efficiency)	16	Use of Stochastic models to smooth out changes in contribution rates (stabilisation)	Consultation responses on Funding Strategy; meetings with employers;	12
3.5 It is desirable that contribution rates are affordable commensurate with risk and meeting the funding objective	Failure to set contribution rates that are affordable to employing bodies such that it disrupts their services or pushes them into receivership (commensurate with achieving solvency and long term cost efficiency)	16	Funding Strategy and Investment Strategy designed to keep contributions affordable (subject to return on assets matching actuarial assumptions), Consultation with Employing bodies	Strategic Asset Allocation documented in ISS and monitored quarterly by Pensions Panel, Investment consultant, Responses from employers to consultation on Funding Strategy.	12
3.6 To ensure that the existing and prospective liabilities arising from circumstances unique to different scheme employers are taken into account by the Actuary	Failure to identify, monitor and reflect the unique characteristics of employer's liabilities, for example maturity in setting contribution rates, including those employing bodies getting close to having no active members	16	Monitor data to ensure Actuary receives accurate scheme data, Report from the Actuary takes account employer characteristics	Reports produced for the Pensions Regulator, Actuarial statement of data quality and club VITA report, Acceptable Audit reports, Outcome and consistency of valuation reports	16
3.7 To ensure the Fund is protected from any employer failing to meet its liabilities to the Fund	Failure to protect the fund from an employer failing to pay any amounts due including contributions or cessation payments	16	Valuation identification, Covenant reviews, Bonds/Guarantees in admission agreements, Cessation valuations carried out whenever an employing body leaves the fund	Valuation risk analysis, Active member numbers reviewed annually, Standard Admission agreements include requirements for bonds/guarantees, Cessation valuation completed by Actuary.	12
3.8 To ensure ceding employers are protected from transfers	Failure to protect the Fund from inappropriate transfer of assets as part of bulk transfers	12	FSS includes appropriate policy on transfers out taking account of the existing funding level and amends transfer values accordingly	Documented in the Funding Strategy Statement	8
3.9 To ensure that the Strategic Investment Strategy meets the actuarial assumptions	Failure to ensure the Strategic Investment Strategy matches the Actuarial assumptions to achieve full funding in the long term	0	SEE SEPARATE INVESTMENT SECTION	n/a	0



Objective	High Level Risk	Pre-control Risk Score	Controls	Source of Assurance	Post-control Risk Score
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**Administration**

4.1 Deliver a consistently high level of performance and customer service	Failure to deliver a consistently high level of performance and customer service	20	Performance reports presented to Pensions Committee and in the Annual Report and compared with benchmarking comparisons, internal control systems, schemes of delegation, Appropriate staffing levels, internal data checks, Actuarial data checks, Finance system.	Pensions Committee, Pension Board, Internal and external Audit reports, Management review, Actuarial certification.	12
4.2 To ensure data quality is accurate, secure and protected and critical systems are available at all times	Failure to ensure data quality is accurate, secure and protected and critical systems are available at all times	20	Aquilla Heywood AXIS / Altair system, Structured ICT control procedures, ICT control processes and mirror backup, schemes of delegation.	ICT audit reviews, Internal testing, Audit.	15
4.3 To Communicate to our key stakeholders in a clear informative style	Failure to Communicate to our key stakeholders in a clear informative style	12	There is a Communication strategy in place, Regular communications with employees, Web site for employers Employees, publicly available	Pensions Board / Committee reports Communications Strategy and regular review, All major communications subject to accessibility checks, Internal management review.	9
4.4 Ensure administration compliance with regulatory codes of practice and legislation.	Failure to comply with regulatory codes of practice and legislation.	20	Internal technical specialists, guidance from professional advisers, local and national working group, Staff Training, leadership and management, Administration strategy, TPR requirements	Audit, Regular Altair software updates encompass most regulatory changes, Employer sanction process and TPR breach reporting, Management controls.	15



Objective	High Level Risk	Detailed Risk	Pre-control Risk Score	Controls	Source of Assurance	Post-control Risk Score
2.5 To ensure the Fund takes account of Responsible Investment (RI) factors in its investment decisions.	2.5 Failure to take account of RI factors in investment decisions	Failure to integrate Climate change and the transition to low carbon economy into the investment portfolio.	12	LAPFF, LGPS Central and fund managers liaise directly with companies on climate change issues	Member of LAPFF, Managers reports, officers member of PAF RI working group, LGPS Central Investment Director for RI (Hermes) Shareholders	6
2.8 Ensure the efficient transfer of assets to, set up and running of LGPS Central	2.8 Operating costs of the pool exceed budget, staff impacted and anticipated savings do not materialise, impacting Fund performance	Risk that the operating costs of the pool are too high and impact on the return of the Fund	9	Budgets for operating costs are in place, monitored and there is a cost sharing mechanism in place.	Shareholders approve annual budget. Practitioners advisory forum of the pool monitor spend against budgets quarterly.	9
2.8 Ensure the efficient transfer of assets to, set up and running of LGPS Central	2.8 Operating costs of the pool exceed budget, staff impacted and anticipated savings do not materialise, impacting Fund performance	Risk that the forecast savings from pooling do not materialise, impacting the performance of the fund.	16	Transition plans are in place, senior management team of LGPS central will monitor fees and have processes in place. SPF input via shareholders forum, LGPS central joint committee and practitioners advisory forum. Cost savings model is used for monitoring.	Shareholders forum, LGPS central joint committee and practitioners advisory forum. Savings are reported. CEM are in place for Benchmarking, use of transition advisor and transition manager.	16
4.1 Deliver a consistently high level of performance and customer service	4.1 Failure to deliver a consistently high level of performance and customer service	Ongoing employer structure changes which may impact on the sections service delivery capability	12	Identify priorities and schedule work as appropriate. Staff recruitment, consider bulk projects	Actuarial and legal advice, appropriate funding arrangements, staff are aware of changes	9
4.1 Deliver a consistently high level of performance and customer service	4.1 Failure to deliver a consistently high level of performance and customer service	Detrimental impact on workloads following cessation of JLT contract and work returning inhouse. Implementation of HEAT. Additional resources will need to be allocated to cover the processes going forward, due to current key person risk.	16	workflow monitoring throughput reports, MPC and 121 conversations, KPI's	KPIs	12
4.1 Deliver a consistently high level of performance and customer service	4.1 Failure to deliver a consistently high level of performance and customer service	Failure of scheme employers to correctly use the i-Connect monthly upload or system failure of i-Connect	12	Resource accordingly, continue to work with hymans to ensure appropriate data capture	Hymans ongoing data checks and comparison against valuation and employer data submissions	4
4.2 To ensure data quality is accurate, secure and protected and critical systems are available at all times	4.2 Failure to ensure data quality is accurate, secure and protected and critical systems are available at all times	Failure to adequately test System changes.	8	i-Connect self tests data before submission accepted. The Pensions Section will also carries out tolerance checks on data received. System failure is covered by the potential to reverse and retro load data if required.	Audit, inbuilt controls and tolerance checking.	4
4.2 To ensure data quality is accurate, secure and protected and critical systems are available at all times	4.2 Failure to ensure data quality is accurate, secure and protected and critical systems are available at all times	Failure to comply with TPR CoP 14 and actuarial data quality requirements resulting in data issues at the 2019 scheme valuation	12	Aquila Heywood release guides and Housekeeping schedules. Internal sign off. SCC ICT change process compliance	Audit (ICT)	8
4.2 To ensure data quality is accurate, secure and protected and critical systems are available at all times	4.2 Failure to ensure data quality is accurate, secure and protected and critical systems are available at all times	Failure to adequately test System changes.	16	The section uses Heywoods (software provider) and Hymans (Actuary) data quality monitoring systems. A project in place on the run up to the 2019 scheme valuation to ensure scheme data is compliant in all areas.	High TPR compliance score demonstrated by evaluation software, working group established, Data improvement plan in place.	6

3.6 To ensure that the existing and prospective liabilities arising from circumstances unique to different scheme employers are taken into account by the Actuary	3.6 Failure to identify, monitor and reflect the unique characteristics of employer's liabilities for example maturity in setting contribution rates including those employing bodies getting close to having no active members	Failure to have a Covenant Monitoring process in place to take into account the long term financial stability of employers of the fund.	16	Covenant monitoring processes to be put in place for higher risk employers.	annual review of employer covenants, Actuary, triennial valuation, employer profiling report	16
4.4 Ensure administration compliance with regulatory codes of practice and legislation.	4.4 Failure to comply with regulatory codes of practice and legislation.	LGPS regulation changes in relation to Valuation cycle, exit cap, fair deal, McCloud. Processing and funding issues (see duplicated on funding tab)	20	Systems updated and adequate staff resource and training in place	KPIs maintained at previous levels	15
3.1 To ensure the Fund has sufficient money to meet its financial commitments in the short term	3.1 Failure to ensure the Fund has sufficient money to meet its payment commitments including benefits, transfers, and investment decisions in the short term	LGPS regulation changes in relation to Valuation cycle, exit cap, fair deal, McCloud. Processing and funding issues (see duplicated on Admin tab)	20	Factored in actuarial valuation	Actuarial valuation, HEAT	10
3.2 To ensure the solvency of the scheme i.e. to ensure the Fund has sufficient money to meet its benefit outflow (minimum 100% funded in long term)	3.2 Failure to ensure the solvency of the Fund i.e. to ensure it has sufficient money to meet its benefit outflow in the long term (minimum 100% funded in long term)	Failure to procure an Actuary to carry out an independent valuation of the Fund in accordance with regulations	15	Regulatory requirement to appoint an independent actuary and to carry out an actuarial valuation every 3 years.	Actuarial report produced by independent actuary, Pension Board	6
2.8 Ensure the efficient transfer of assets to, set up and running of LGPS Central	2.8 Operating costs of the pool exceed budget, staff impacted and anticipated savings do not materialise, impacting Fund performance	Failure to have appropriate transition arrangements in place to ensure the continued security of assets and efficient and cost effective transfer of assets into LGPS Central.	20	Transition manager is appointed by LGPS central on behalf of partner funds, and transition advisor in place.	Procurement through LGPS transition framework. Custody records and investment team reconciliations and LGPS Central Custodian	12
2.1 The <u>actual</u> return of the Funds 'neutral' and / or 'tactical' Strategic Asset Allocation is capable of exceeding the return assumption (i.e. the Discount Rate / AOA) of the Actuary used in the triennial valuation.	2.1 Failure of the Strategic Asset Allocation (SAA) to meet the level of return underpinning the setting of contribution rates as determined in the valuation OR to take more risk than the level of risk assumed by the Actuary in setting contribution rates	Failure of the investment consultant to take account of the Actuarial assumptions in advising on the Strategic Asset Allocation	15	Strategic Asset Allocation review is being carried out in tandem with the funding strategy review to ensure the consistency of assumptions used by the actuary in setting contribution rates. Ensuring the Actuary and Investment Consultant understand each others assumptions and ensure they are consistent. Using stochastic modelling to show a range of outcomes and reporting and consulting on the assumption through the Funding Strategy	Pensions Committee receive report from consultant to demonstrate consistency and outcome from modelling. Additional paper produced by Hymans justifying asset outperformance assumption. No issues from Regulation 13 report, GAD. SAA review with investment consultant.	8
3.4 It is desirable that contributions are as stable as possible	3.4 Failure to set contribution rates that are relatively stable in order to ensure that pensions do not unnecessarily disrupt Local Authority capacity to deliver local services (subject to achieving solvency and long term cost efficiency)	Failure to use stochastic modelling (or other smoothing methodology) to set contribution rates that are relatively stable to ensure the delivery of local services is not unnecessarily disrupted by significant changes in contribution rates	16	Use stochastic models to smooth out changes in contribution rates (stabilisation)	Consultation responses on Funding Strategy; meetings with employers;	12
	Brexit	Potential implications on fund and market valuation, assets available for investment, regulation, overseas pensioner payments.	???	SAA is long term, ongoing monitoring of latest information and advice, monitoring of market conditions, potential for tactical asset allocation.	Actuary, Pensions Panel, investment advisers.	???



**PENSIONS COMMITTEE – 28 JUNE 2019**

**Report of the Director of Corporate Services**

**REVIEW OF PENSIONS ADMINISTRATION STRATEGY  
AND CONFLICTS OF INTEREST POLICY**

**Recommendation of the Chair**

1. That the Pensions Committee approves the revised and updated Pensions Administration Strategy attached as Appendix 2.
2. That the Pensions Committee approves the revised and updated Conflicts of Interest Policy attached as Appendix 4.

**Background**

3. Regulation states, and best practice dictates, that a Pension Fund should have a range of written policies and procedures in place. Having such, not only proves regulatory compliance, but more importantly demonstrates good governance and provides a range of information to stakeholders.
4. Whilst the Staffordshire Pension Fund is compliant in having the full range of policies in place, following an initial audit by Officers, it was identified that some policies are out of date and in need of review. An ongoing work program has therefore been put in place, as part of the Business Plan, to ensure that over the next 12-18 months, the Fund's policies are reviewed and updated. These will be brought to Pensions Committee for approval and consulted on more widely if such is required under regulations or considered appropriate.

**Administration Strategy**

5. **Regulation 59** of the Local Government Pension Scheme Regulations 2013 (reproduced in Appendix 3 for reference) states that '...an administering authority may prepare a written statement of the authority's policies in relation to...' and then lists the areas to be covered in order to facilitate best practice and efficient customer service. These include:
  - procedures for liaison and improved communication with Scheme Employers;
  - expected levels of performance, performance targets and regulatory compliance with such;
  - the circumstances in which the administering authority may levy a charge on a Scheme Employer on account of that Employers unsatisfactory performance in carrying out Scheme functions: and
  - ensuring the Fund and its Employers comply with the statutory requirements in respect of those Scheme functions.

6. Regulation 59 goes on to state what an administering authority, which chooses to produce such a statement, must do in terms of publishing and consulting on such and also the requirement to send a copy to the Secretary of State when published.
7. The Fund's current Pensions Administration Strategy is a comprehensive document running to 45 pages, which was last updated in December 2016. The revised document (attached at Appendix 2), which is being presented to Committee for approval today, is a streamlined document of 16 pages, which clearly outlines the respective roles of Scheme Employers and the Staffordshire Pension Fund, to ensure the Fund meets its legal obligations in respect of the LGPS Regulations and the disclosure standards required by the Pensions Regulator. The document was produced collaboratively across the service to ensure it provided a compliant, yet practical, reference guide for all users.
8. Given that the Pensions Administration Strategy effectively acts as a Service Level Agreement between the Fund and its 450+ Employers, wider consultation is a regulatory requirement but also clearly very important. After an initial discussion with the Employer Focus Peer Group, the draft Pensions Administration Strategy was circulated to all Employers for consultation throughout April and all comments received as a result have been incorporated.

### **Conflicts of Interest Policy**

9. The Local Government Pensions Scheme Regulations 2013 do not prescribe that an administering authority should have a specific Conflicts of Interest Policy and surprisingly, refer to conflicts of interest only in relation to the Local Pensions Board and Scheme Advisory Board. The Public Service Pensions Act 2013 also refers to conflicts of interest and defines such as:

*'In subsection (4)(a) "conflict of interest", in relation to a person, means a financial or other interest which is likely to prejudice the person's exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme).'*

But again, makes no specific reference to the requirement for a Conflicts of Interest Policy.

10. The Staffordshire Pension Fund's Conflicts of Interest Policy was deemed to demonstrate best practice and was introduced as part of setting up the governance arrangements for the Staffordshire Local Pensions Board in 2015. The 2019 version of the Policy (attached at Appendix 4) has been reformatted slightly and updated to reflect several minor procedural changes. As there have been no significant changes

and the document is effectively used for internal control and compliance purposes, wider consultation is considered unnecessary.

**John Tradewell**  
**Director of Corporate Services**

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Contact: Melanie Stokes, Head of Treasury & Pensions  
Telephone No:(01785) 276330

Background Documents:  
Local Government Pensions Scheme Regulations 2013  
Public Service Pensions Act 2013

**Equalities implications:** There are no direct equality implications arising from this report.

**Legal implications:** The legal implications are covered in the body of the report.

**Resource and Value for money implications:** There are no direct resource and value for money implications arising from this report.

**Risk implications:** The legal implications are covered in the body of the report.

**Climate Change implications:** There are no direct climate change implications arising from this report.

**Health Impact Assessment screening:** There are no health impact assessment implications arising from this report.

LOCAL GOVERNMENT PENSION SCHEME REGULATIONS 2013

Pensions Administration Strategy

59. -(1) An **administering authority** may prepare a written statement of the authority's policies in relation to such of the matters mentioned in paragraph (2) as it considers appropriate ("its pension administration strategy") and, where it does so, paragraphs (3) to (7) apply.

(2) The matters are-

- (a) procedures for liaison and communication with Scheme employers in relation to which it is the **administering authority** ("its Scheme employers");
- (b) the establishment of levels of performance which the **administering authority** and its Scheme employers are expected to achieve in carrying out their Scheme functions by-
  - (i) the setting of performance targets,
  - (ii) the making of agreements about levels of performance and associated matters, or
  - (iii) such other means as the **administering authority** considers appropriate;
- (c) 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;
- (d) procedures for improving the communication by the **administering authority** and its Scheme employers to each other of information relating to those functions;
- (e) the circumstances in which the **administering authority** may consider giving written notice to any of its Scheme employers under **regulation 70 (additional costs arising from Scheme employer's level of performance)** on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b);
- (f) the publication by the **administering authority** of annual reports dealing with-
  - (i) the extent to which that authority and its Scheme employers have achieved the levels of performance established under sub-paragraph (b), and
  - (i) such other matters arising from its pension administration strategy as it

considers appropriate; and

- (g) 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.

(3) An **administering authority** must-

- (a) keep its pension administration strategy under review; and
- (b) make such revisions as are appropriate following a material change in its policies in relation to any of the matters contained in the strategy.

(4) In preparing or reviewing and making revisions to its pension administration strategy, an **administering authority** must consult its Scheme employers and such other persons as it considers appropriate.

(5) An **administering authority** must publish-

- (a) its pension administration strategy; and
- (b) where revisions are made to it, the strategy as revised.

(6) Where an **administering authority** publishes its pension administration strategy, or that strategy as revised, it must send a copy of it to each of its Scheme employers and to the Secretary of State as soon as is reasonably practicable.

(7) An **administering authority** and its Scheme employers must have regard to the pension administration strategy when carrying out their functions under these Regulations.

(8) In this regulation references to the functions of an **administering authority** include, where applicable, its functions as a Scheme employer.



# Staffordshire Pension Fund Pensions Administration Strategy

Issue Date 28 June 2019

Version 2.1



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# Staffordshire Pension Fund

## Pensions Administration Strategy

### Introduction

This is the Pensions Administration Strategy (the 'Strategy') for the Staffordshire Pension Fund, which is administered by Staffordshire County Council.

### Background

This Strategy sets out the requirements of Employers which will enable them and Staffordshire Pension Fund to meet their legal obligations in respect of the Local Government Pension Scheme (LGPS) Regulations and regulatory standards required by the Pensions Regulator (tPR).

### Compliance

Developed in consultation with Employers within the Fund, this Strategy seeks to promote good working relationships, improve efficiency and ensure agreed standards of quality in delivery of the pensions administration service amongst the Employers and the Fund.

A copy of this Strategy can be found on the Fund's website at:

<https://www.staffspf.org.uk/Governance/Policies.aspx>

In no circumstances does this strategy override any provision or requirements of the LGPS Regulations.

### Review

The Fund will review this Strategy annually and make revisions as appropriate following a material change in policy in relation to any matters contained in the Strategy.

When preparing, reviewing or making revisions, the Fund will consult Employers and other persons it considers appropriate.

### Legislation

The Local Government Pension Scheme Regulations require an administering authority to prepare a written statement of the Authority's policies in relation to the following:

- Procedures for liaison and communication with participating Employers;
- The establishment of levels of performance which the administering authority and its participating Employers are expected to achieve in carrying out their scheme functions;
- Procedures which aim to ensure that the administering authority and its participating Employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;

- Procedures for improving communication of information relating to those functions by an administering authority and its participating Employers;
- The circumstances in which an administering authority may consider giving notice to any of its participating Employers because of that Employer's unsatisfactory performance in carrying out its scheme functions; and
- Such other matters that appear to an administering authority to be suitable for inclusion in the Strategy.

### **Aims and Objectives**

The aim of this Strategy is to detail requirements for liaison and communication between Employers and the Staffordshire Pension Fund thus ensuring regulatory compliance is achieved and best value service standards are delivered to scheme members and other parties to meet their statutory obligations.

This is achieved by:

- Clearly defining the respective roles of the Administering Authority and Scheme Employers as set out in the LGPS Regulations and other relevant legislation;
- Setting clear service standards and service levels to be delivered by respective parties, to enable efficient administration of functions;
- Clarifying procedures for effective communications and information exchange between Employers and the Administering Authority;
- Establishing a basis for monitoring service delivery and identifying opportunities for improvement and added value; and
- Providing a framework for monitoring compliance with regulatory requirements and where necessary, for formal reporting of breaches of the law, in accordance with the Pensions Regulator's Code of Practice No 14 (Governance and Administration of Public Sector Pension Schemes).

### **Monitoring Service Standards and Managing Compliance**

The Pensions Services Team at Staffordshire Pension Fund will monitor the performance of the Administering Authority and Employers against the targets and standards set out in this strategy and will share monitoring outcomes and any issues arising with:

- The Pensions Committee;
- The Local Pensions Board;
- The Employer Focus Peer Group;
- Individual Employers; and
- The Pensions Regulator (where appropriate).

Where performance issues arise, the aim in the first instance will be to resolve issues informally between parties, and to identify appropriate action to address any underlying issues, through training, coaching, process improvements or better communications. This is covered in more detail on page 14.

### **Breaches**

Please note, where there is a clear breach of LGPS Regulations or agreed performance, for instance, where an Employer fails to pay the monthly contribution income to the Fund in line with regulatory guidelines or where the Fund fails to issue the statutory communications (such as the Annual Benefit Statements) to Members within statutory deadlines, the Fund is duty bound to capture this on its Breaches Log. All such breaches will be investigated and if deemed material will be reported to the Pensions Regulator.

### **Employer Signatories**

Each Employer must ensure that all documents or instructions to the Fund are signed by authorised and trained representatives. This is because they are not just signing a document, they are confirming that the information being provided is accurate and correct.

### **Employer Designated Pensions Contacts**

To ensure that joint working is effective, each Employer must designate a named individual to act as the main point of contact about any aspect of administering the LGPS.

Their key responsibilities will be:

- To ensure that the standards and level of service set out in the Pensions Administration Strategy are delivered and regulatory responsibility is complied with;
- To act as a conduit for communications to appropriate staff within the Employer, for example Human Resources, Payroll Departments, Director of Finance;
- To inform the Fund of any outsourcing, TUPE transfers or alternative service delivery arrangements that may be under consideration; and
- To liaise with and assist the Administering Authority in the identification explanation, reporting and resolution of statutory breaches, as required by the Pensions Regulator's Code of Practice No 14.

## Employer Responsibilities

This section outlines the role and responsibilities of all Employers in the Fund and the performance standards Employers are expected to meet, to enable the Fund to deliver an efficient, quality and value for money service. The Employer role is divided into two key areas:

- Scheme Governance and Administration
- Scheme Membership and Employer Administration

### Scheme Governance and Administration

<b>Employer Responsibility</b>	<b>Action Required by Employer</b>	<b>Timescale for Employer to Act Service Level Agreement</b>
Nominated Contact	Confirm a nominated person to receive information from the Fund and to take responsibility for disseminating it within the organisation.	Within 30 days of Employer joining the Fund or change of nominated contact.
Pensions Discretions	Formulate and publish policies in relation to all areas where the Employer may exercise a discretion within the LGPS (including providing a copy of the policy document to the Fund).	To be kept under review and a revised statement published within one month of any changes and no later than 6 months after being informed by the Fund of any relevant changes.
Enquires	Respond to enquiries from the Fund.	Within 10 days from receipt of enquiry.
Employee and Employer Pension Contributions	Remit Employer and Scheme Member contributions to the Fund and provide schedule of payments in the format stipulated by the Fund.	Cleared Funds to be received by 19th calendar day of the month after deduction.
Employer Contribution Rate	Implement changes to Employer contribution rate as instructed by the Fund.	At date specified on the actuarial advice received by the Fund.
Year-end Information	Provide accurate year-end information required by the Fund in the format stipulated in the instructions issued by the Fund.	By 30th April following the year-end or earlier date specified by the Fund e.g. earlier submission in a valuation year.
Website	Refer new /prospective scheme	Within 10 days of

	members to the Fund's website.	commencement of employment or change in contractual conditions.
Contracting Services	Notify the Fund if contracting out services which will involve a TUPE transfer of staff to another organisation.	At the time of deciding to tender so that pension costs can be included in the tender decision-making process.
Admission Agreement	Work with the Fund to arrange for an Admission Agreement to be put in place when contracting out a service and assist in ensuring it is complied with.	Admission Agreement to be put in place no later than two months after the date the contract commenced.
Admission Agreement (potential cessation)	Notify the Fund if the Employer ceases to admit new scheme members or is considering terminating membership of the Fund.	As soon as the decision is made, so that the Fund can assess the impact and instruct the Actuary to carry out calculations, if applicable.
Retirement Costs (strain)	Make additional Fund payments in relation to early payment of benefits from flexible retirement, redundancy or business efficiency retirement or where a member retires early with Employers' consent.	Within 30 days of receipt of invoice from the Fund.
Additional Costs / Sanctions	Pay any fines / costs incurred because of non-performance / non-compliance with this Pensions Administration Strategy or those charged by the Pensions Regulator, as a result of a direct breach of the LGPS Regulations.	Within 30 days of receipt of invoice from the Fund.
Payment of Invoices	Prompt payment of invoices issued by the Fund for specific services provided.	Within 30 days of receipt of invoice from the Fund.
Breaches	Respond to enquiries from the Fund relating to Breaches of the Law.	Within 5 days of the request.

**Scheme Membership and Employer Administration**

<b>Employer Responsibility</b>	<b>Action Required by Employer</b>	<b>Timescale for Employer to Act Service Level Agreement</b>
New Starter	Notify the Fund of new starters to the LGPS.	Within 4 weeks of scheme member joining or such shorter periods as required by auto-enrolment obligations.
Scheme Member Contributions	Arrange for the correct deduction of Scheme Member contributions from a Member's pensionable pay.	Immediately on joining the scheme, opting in or a change in circumstances.
Scheme Member Contribution Rate	Ensure the correct Scheme Member contribution rate is applied.	Immediately on commencing scheme membership and in line with the Employers' policy on banding changes and, as a minimum, in each April payroll thereafter.
Change of Personal Circumstances	Notify the Fund of any material changes in Scheme Members' circumstances (e.g. marital or civil partnership status) using the method stipulated by the Fund.	Within 4 weeks of notification by the Scheme Member of a change in circumstances.
Scheme Members Leave of Absence	Notify the Fund of leaves of absence (industrial dispute, child related leave, authorised absence and unauthorised absence) Notify Scheme Member of options regarding any unpaid authorised absence (Additional Pensions Contributions (APC) to cover breaks) Inform the Fund of APP for relevant periods of absence.	Monthly submissions / notifications.
Additional Pension Contributions (APC's)	Commence / Cease deduction of APC; or amend such deductions, as appropriate.	Month following election to pay additional pension contributions.
Additional Voluntary Contributions	Arrange for deduction of AVC's and payment over of contributions to AVC provider(s).	Commence deduction of AVC's in the month following the month of election.

(AVC's)		Pay over contributions to the AVC provider (s) by the 19th of the month following the deduction.
Scheme Member Leaves Employment	Notify the Fund when the Scheme Member leaves employment including an accurate assessment of final pay using the method stipulated by the Fund.	By the end of the next month after the date of leaving.
Scheme Member due to Retire	Notify the Fund when a Scheme Member is due to retire including an accurate assessment of pay and confirmation of reason for leaving using the method stipulated by the Fund.	As soon as practicable, but no later than 4 weeks following the members retirement date.
Ill-Health	The Employer to notify the Fund of Ill-Health award and the Tier awarded.	Within 10 working days of decision being made
Tier 3 Review	Employer to review Tier 3 Ill-Health pension at 18 months and, if required at the 3rd year after payment commenced.	In line with regulations and advice of Independent Registered Medical Practitioner (IRMP) Notify the Fund with 10 days of decision taken to uplift to Tier 2 or cease payment of Tier 3.
Ill-Health Deferred Pensioner	The Employer to notify the Fund of Ill-Health award.	Within 10 working days of decision being made.
Death of a Scheme Member	Notify the Fund of the death of a Scheme Member using the method stipulated by the Fund.	As soon as practicable, but within 10 working days of being notified of the death.
Internal Dispute Resolution Procedure (IDRP)	Appoint person for Stage 1 of the IDRP and provide full details to the Fund.	Within 30 days of becoming a Scheme Employer or following the resignation of the current adjudicator.

### Administering Authority Responsibilities

This section outlines the key responsibilities of Staffordshire Pension Fund and the performance standards Employers and Scheme Members should expect. It is

focused on the key activities which involve interaction with Employers and /or Scheme Members and should not be viewed as an exhaustive list.

**Scheme Governance**

<b>Administering Authority Responsibility</b>	<b>Action Required by the Administering Authority</b>	<b>Timescale for Administering Authority to Act Service Level Agreement</b>
Pensions Administration Strategy	To publish and keep under review the Strategy.	To consult with Employers and the Employer Focus Peer Group and publish on the Fund's website.
Forms	Publish and keep up to date all forms required for completion by Scheme Members, prospective Scheme Members or Employers.	Within 30 days of any revision
Scheme Rules	Notify Employers and Scheme Members of changes to the scheme rules.	Within three months of the changes coming into effect.
Employer / Fund Meetings	Host an Annual General Meeting (AGM) which all Employers are invited to attend. Plus, ad -hoc Employers meetings as required.	Once per year (or as required).
New Employer Pack	Provide New Employer Pack.	All new Employers provided with information pack on joining the Fund.
On-going training	Provide rolling programme of refresher or 'hot topic' training for Employers.	Once per year, or as required, on request.
Bespoke Meetings / Training	Provide bespoke meetings / training for Scheme Members/Employers.	As required – individual Employers will be charged for this service on a cost recovery basis.
Employer Focus Newsletter	Provision of a newsletter / briefing note to Employers.	Monthly or less frequent if no pensions news to report.
Standards	Notify an Employer of issues relating to the Employer's non-compliance with performance standards.	Within 30 days of a performance issue becoming apparent.
Costs	Notify an Employer of decisions to recover additional costs associated with the Employer's poor performance (including any	Within 30 days of Employer's failure to improve performance, as agreed.



	interest that may be due).	
Annual Benefit Statements (ABS)	Issue annual benefit statements to Scheme Members and Deferred Members as at 31 March each year.	By 31 August following the year-end.
Valuation Results	Issue formal valuation results (including individual Employer details).	No later than the 1 March following the valuation date.
Cessation Valuations	Carry out valuation assessment on cessation of admission agreements or Employer ceasing participation in the Fund.	Within one month of agreed timescales.
New Employer Admissions	Process admissions into the Fund including signed admission agreement (where required). notification of contribution rate, allocation of assets and notification to the Secretary of State.	Within two months of date joining the Fund provided prospective Employer provides full data requirements within prescribed timescales.
Governance Compliance Statement	Publish and keep under review, the Fund's Governance Compliance Statement.	By 30 September following the year-end as part of the Fund's Annual Report and Accounts or within 30 days of the policy being agreed / amended by the Pensions Committee.
Funding Strategy Statement (FSS)	Publish and keep under review, the Fund's Funding Strategy Statement.	To be reviewed at each triennial valuation (or whenever there is a material change to the FSS policy or the Statement of Investment Principles) following consultation with Employers and the Fund's Actuary. Revised statement to be published by 31 March following the valuation date.
Annual Report and Accounts	Publish the Fund's Annual Report and Accounts.	By 30 September following the financial year-end.
Communications Strategy	Publish and keep under review, the Fund's Communication Strategy.	By 30 September following the financial year-end as part of the Fund's Annual

		Report and Accounts or within 30 days of the policy being agreed by the Pensions Committee.
Admission Policy Statement	Publish and keep under review, the Fund's Admission Policy Statement.	Within 30 days of any changes being made to the policy.
Administering Authority Pension Discretions	Formulate and publish policies in relation to areas where the administering authority may exercise a discretion within the scheme the LGPS regulations and keep under review.	Any changes to be published within one month.

The following table details the Administering Authority functions which specifically relate to the administration and processing of Scheme Member benefits from the LGPS.

The Fund's objective against which it will benchmark itself is to deliver 90% (or better) of its services within the published service standards. Any reference to a day is a working day.

#### **Scheme Administration**

<b>Administering Authority Responsibility</b>	<b>Action Required by the Administering Authority</b>	<b>Timescale for Administering Authority to Act Service Level Agreement</b>
New Starter	Set up a new starter and provide statutory notification to the Scheme Member.	Within 40 working days from receipt of correctly completed starter form or monthly interface from Employer.
Transfer In	Process a transfer in request.	Within 20 working days from receipt of request from Scheme Member.
Transfer Out Quotations	Transfer out quotations processed.	Within 20 working days of receipt of all necessary information.
Transfer Out Payments	Transfer out payments processed and notify Scheme Member.	Within 10 working days of receipt of all necessary information.
Divorce Quotes	Estimates for divorce quotes.	Within 10 working days of receipt of all necessary information.

Pensions Estimates	Provide requested estimates of benefits to Scheme Members/ Employers including any additional retirement cost in relation to early payment of benefits from ill health, flexible retirement, redundancy or business efficiency retirement.	Within 20 working days from date of request.  Note: bulk requests of more than 10 estimates per month will be subject to prior agreement between the Fund and the Employer.
Retirement Letters	Provision of new retirement letters detailing Scheme Member options.	Within 10 working days from receipt of all necessary information.
Retirement Benefit Payments	Process of retirement benefits for payment following receipt of election.	Within 5 working days of receipt of all necessary documentation. First pension payment on next available run.
Deferred Benefit Calculations	Deferred benefits calculated.	Within 40 working days from receipt of all necessary information.
Refund Payments	Process Refund payments.	Within 5 working days from receipt of all necessary Information
Death Notifications	Notification of death acknowledged.	Within 5 working days of receipt of all information
Death Grant Payments	Process of death grant for payment.	Within 5 working days of receipt of all information
Dependants' Pensions	Process of dependents' pension for payment.	Within 5 working days of receipt of all information
Pensioner Payslip	Provide pensioner payslip to Scheme Members in receipt of a pension.	Once a year in paper format and if monthly pension changes by £1 net. (N.B. Over the next 18 months we will be moving to payslips been available to view on line via a secure portal on the Fund's website).
IDRP	Process all Stage 2 pension internal dispute resolution 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.
Scheme Enquiry	Provide an answer or acknowledgement to Scheme	Within 10 working days of enquiry.

	Members / Employer / personal representative/ dependants and other authorised persons.	
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### **Recovering Costs / Sanctions / Fines**

Where persistent and on-going failure occurs, and no improvement is demonstrated by an Employer (and or unwillingness is shown to resolve the issues identified) the Fund may under Regulation 70 (1) of the LGPS Regulations 2014 recover costs from an Employer, where costs have been incurred because of that Employer's level of performance in carrying out its functions under these Regulations.

Any costs, sanctions or fines imposed by the Fund will be recovered from the Employer and not the third-party company appointed by the Employer to provide pensions services e.g. a third-party payroll provider.

### **Circumstances where additional costs may be recovered**

The circumstances where additional costs may be recovered from the Employer are:

- persistent failure to provide relevant information to the administering authority, Scheme Member, or any other interested party in accordance with specified performance targets (either relating to the timeliness of delivery or the quality of information);
- instances where performance by the Employer results in a loss to the Pension Fund, e.g. any overpayment resulting from inaccurate information supplied by the Employer, costs associated with the assessment of benefits, interest on late payment of benefits, scheme tax charges, etc;
- failure to deduct and pay over correct Employee and Employer contributions within the standard timescales;
- failure to pay any other amounts due to the Pension Fund, e.g., actuarial strain payments;
- instances where the performance of the Employer results in fines being levied against the administering authority by the courts, the Pensions Regulator, the Pensions Ombudsman or any other regulatory body.

### **Approach to seeking additional administration costs as a result of failure to meet performance targets or financial failure.**

The approach taken by Staffordshire County Council as the administering authority of the Staffordshire Pension Fund in the case of circumstances outlined previously will be to consider seeking additional administration costs where persistent failure occurs and no improvement is demonstrated by an Employer once all the opportunities to resolve any issues identified have been exhausted. In these circumstances the administering authority would:

- write to the Employer, setting out the area(s) of poor performance;
- meet with the Employer to discuss area(s) of poor performance and how these can be addressed;
- issue formal written notice, where no improvement is demonstrated by the Employer, setting out the areas of poor performance that have been identified, the steps taken to resolve the area(s) of poor performance, and that the additional costs will now be reclaimed;
- clearly set out the calculations of any loss resulting to the Pension Fund or administering authority, or additional costs, considering the time spent and resources used in resolving the specific area of poor performance.

### Penalties for Failure by Employers to Meet their Statutory Obligation

Administration fees shown below will be charged at the discretion of the Head of Treasury and Pensions of the Staffordshire Pension Fund and will only be invoked if an Employer has consistently failed to meet its obligations and an **Improvement Notice** has been issued and not complied with.

Regulatory Task	Administration Fee / Charge
Late payment of Employer and / or Scheme Member contributions. Plus, any statutory charges.	£150 per occurrence plus interest as defined in the LGPS Regulations.
Late provision of year end contributions returns in prescribed format*	£1,000 per occurrence plus £100 for each week plus part week of continued non-provision.
Late provision of starter information, per case.	£50 initial charge plus £50 per month or part month of continued non-provision.
Late provision of leaver information, per case.	£50 initial charge plus £50 per month or part month of continued non-provision.
Charges for persistent incorrect and incomplete information provided by the Employer to the Fund (where the case has to be returned for incorrect information on more than 2 occasions).	£50 per case
**Fine from the Pensions Regulator.	Amount requested by the Pensions Regulator.
**Fine from the Pensions Ombudsman.	Amount requested by the Pensions Ombudsman.
**Delay causing unauthorised payments.	Cost of tax from the HMRC and or reimbursement of charges imposed by HMRC on the Staffordshire Pension Fund.
Fines from any other Statutory Body incurred as a result of the Employers actions.	As levied.

\*Due to the serious impact of this requirement, a penalty charge will apply for late submission and will only be waived in exceptional circumstances, as agreed by the Head of Treasury and Pensions of the Staffordshire Pension Fund.

\*\*Fines or charges imposed by the Pensions Ombudsman, Pension Regulator and the HMRC for non-compliance will be recharged in full to the Employer.

Apart from the requirement above, these fees and charges will only be made in exceptional circumstances and Staffordshire Pension Fund will do everything possible to support Employers to avoid them.

### **To Contact Us or For Further Information**

In writing or in person at:

Staffordshire Pension Fund

Staffordshire County Council

2 Staffordshire Place

Tipping Street

Stafford

ST16 2DH

Email us: [pensions.enquires@staffordshire.gov.uk](mailto:pensions.enquires@staffordshire.gov.uk)

Telephone us: on 01785 278222. You can also visit our website at: [www.staffspf.org.uk](http://www.staffspf.org.uk)



# Staffordshire Pension Fund

# Conflicts of Interest

# Policy

28 June 2019



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### Introduction

Conflicts of interest have always existed for those with LGPS administering authority responsibilities as well as for advisers to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as an Elected Member of an Employer participating in the LGPS or as an adviser to more than one LGPS administering authority. Furthermore, any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role in managing or advising LGPS funds.

The Public Services Pensions Act 2013 defines a conflict of interest as “a financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme).”

It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the scheme beneficiaries and participating Employers. This, however, does not preclude those involved in the management of the Fund from having other roles or responsibilities which may result in an actual or potential conflict of interest. Accordingly, it is good practice to document how any such conflicts or potential conflicts are to be managed.

### Purpose and Objectives

This is the Conflicts of Interest Policy of the Staffordshire Pension Fund, which is managed by Staffordshire County Council. The Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the Staffordshire Pension Fund, whether directly, or in an advisory capacity.

This Conflicts of Interest Policy is established to guide the Pensions Committee members, Pensions Panel members, Local Pension Board members, officers and advisers. Along with other constitutional documents, including various Codes of Conduct, it aims to ensure that those individuals do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund otherwise.

Staffordshire Pension Fund’s objectives, as they relate to the governance of the Fund are:

- to meet the highest standards of Governance and demonstrate key principles of transparency and accountability in the management of the Fund through clear responsibilities and reporting;
- to have an appropriate Investment Strategy, which balances risk and reward and is consistent with the Funding Strategy Statement;
- to ensure that sufficient funds are available to meet the pension liabilities, as they fall due for payment;
- to ensure robust governance arrangements are in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies;
- to ensure the Fund is managed and its services delivered by those who have appropriate knowledge and expertise;
- to act with integrity and be accountable to stakeholders for all decisions, ensuring they are robust, soundly based and do not unreasonably favour one group of stakeholders over another;

- to comply with the appropriate legislation and statutory guidance, and act in the spirit of other relevant guidelines and best practice guidance;
- to clearly articulate the Fund's objectives and how those objectives will be achieved through business planning, and continually measure and monitor success against those objectives; and
- to deliver an efficient and effective pensions and financial administration service, which provides excellent value for money.

The identification and management of potential and actual conflicts of interest is integral to Staffordshire Pension Fund achieving its governance objectives which are set out above.

### To whom this Policy Applies

This Policy and the issue of conflicts of interest in general must be considered in light of each individual's role, whether this is a management, advisory or assisting role.

This Conflicts of Interest Policy applies to:

- all members of the Pensions Committee and the Local Pensions Board, including scheme member and employer representatives, whether voting members or not.
- all employees of Staffordshire County Council involved in the management, administration and governance of the Fund.
- all advisers and suppliers to the Fund, whether advising the Pension Board, Pensions Committee or Fund officers, in relation to their role in advising or supplying the Fund.

(N.B. For the avoidance of doubt, all references to the Pensions Committee are to be interpreted as also being references to the Pensions Panel).

The Monitoring Officer will monitor potential conflicts for less senior officers involved in the daily management of the Pension Fund and highlight this Policy to them as he or she considers appropriate.

In this Policy, reference to advisers includes all advisers, suppliers and other parties providing advice and services to Staffordshire Pension Fund in relation to Pension Fund matters. This includes but is not limited to actuaries, investment consultants, independent advisers, benefits consultants, third party administrators, fund managers, lawyers, custodians and AVC providers.

Where an advisory appointment is with a firm rather than an individual, reference to "advisers" is to the lead adviser(s) responsible for the delivery of advice and services to Staffordshire Pension Fund rather than the firm as a whole.

In accepting any role covered by this Policy, those individuals agree that they must:

- acknowledge any potential conflict of interest they may have;
- be open with Staffordshire Pension Fund on any conflicts of interest they may have;
- adopt practical solutions to managing those conflicts; and
- plan ahead and agree with Staffordshire Pension Fund how they will manage any conflicts of interest which arise in future.

The procedures outlined later in this Policy provide a framework for each individual to meet these requirements.

### Recognised Behavioural Principles

The Seven Principles of Public Life, otherwise known as the ‘Nolan Principles’ apply to anyone who works as a public office-holder delivering public services.

Many of the principles are integral to the successful implementation of this Policy. These principles are:

- selflessness
- integrity
- objectivity
- accountability
- openness
- honesty
- leadership

### Staffordshire Pension Fund’s Specific Requirements

#### Pensions Committee Members

In addition to the requirements of this Policy, Pensions Committee members and co-opted members are required to adhere to the Staffordshire County Council Members’ Code of Conduct which includes requirements in relation to disclosable pecuniary interests.

#### Local Pensions Board Members

In addition to the requirements of this Policy, Local Pensions Board members are required to adhere to Part 8 of the Terms of Reference of the Local Pensions Board which includes declaring any interests that may lead to a conflict situation.

#### Employees

In addition to the requirements of this Policy, officers of Staffordshire County Council are required to adhere to the Staffordshire County Council Officers’ Code of Conduct which includes requirements in relation to disclosable pecuniary interests.

#### Advisers’ Professional Standards

Many advisers will be required to meet professional standards relating to the management of conflicts of interest, for example, the Fund Actuary will be bound by the requirements of the Institute and Faculty of Actuaries. Any protocol or other document entered into between an adviser and the Administering Authority in relation to conflicts of interest, whether as a requirement of a professional body or otherwise, should be read in conjunction with this policy.

#### Advisers and Suppliers

Staffordshire Pension Fund appoints its own advisers and suppliers. How conflicts of interest will be identified and managed should be addressed within its contractual agreements with those advisers and suppliers. In addition, the following requirements will apply:

- where Staffordshire Pension Fund’s advisers are asked to give advice to the Council or other scheme Employer, or to scheme members or member representatives such as the Trades Unions, in relation to pension matters; or
- where, an adviser is also appointed to another Local Government Pension Fund, which is involved in a transaction involving Staffordshire Pension Fund and on which advice is required, that adviser can only continue to advise Staffordshire Pension Fund and another party where there is no conflict of interest in doing so; or

- where the Local Pensions Board decides to appoint an adviser, this can be the same person as is appointed to advise the Pensions Committee or Fund officers as long as there is no conflict of interest between the two roles.

### Conduct at Meetings

There may be circumstances where a representative of an Employer or a Scheme Member wishes to provide a specific point of view on behalf of an Employer (or group of Employers) or Member (or group of Members). Staffordshire Pension Fund requires that any individual wishing to speak from an Employer's or Member's viewpoint must state this clearly, e.g. at a Local Pensions Board or Pensions Committee meeting, and that this will be recorded in the minutes.

The above requirement does not apply to co-opted Members who have been specifically appointed to represent the views of Employers in the Fund and / or Pension Recipients.

### What is a Conflict or Potential Conflict and how will they be managed?

The Public Service Pensions Act 2013 defines a conflict of interest as a financial or other interest which is likely to prejudice a person's exercise of functions.

Therefore, a conflict of interest may arise when an individual has a responsibility or duty in relation to the management of or advice for Staffordshire Pension Fund, and at the same time has:

- a separate personal interest (financial or otherwise) or
- another responsibility in relation to that matter,

giving rise to a possible conflict with their first responsibility. An interest could also arise due to a family member or close colleague having a specific responsibility or interest in a matter.

Some examples of potential conflicts are included in [Appendix 2](#).

Staffordshire Pension Fund will encourage a culture of openness and transparency and will encourage individuals to be vigilant; have a clear understanding of their role and the circumstances in which they may find themselves in a position of conflict of interest, and of how potential conflicts should be managed. Staffordshire Pension Fund will evaluate the nature of any dual interests or responsibilities that are highlighted and assess the impact on Pension Fund operations and good governance, should an actual conflict of interest materialise.

Ways in which conflicts of interest are managed are detailed in Staffordshire County Council's Code of Conduct for Members.

Provided that Staffordshire Pension Fund (having taken any professional advice deemed to be required) is satisfied that the method of management is satisfactory, it shall endeavour to avoid the need for an individual to have to resign due to a conflict of interest. However, where the conflict is considered to be so fundamental that it cannot be effectively managed, or where a Local Pensions Board member has an actual conflict of interest as defined in the Public Service Pensions Act, the individual will be required to resign from the Committee, Board or appointment.

### Minor Gifts

For the purposes of this Policy, gifts such as t-shirts, pens, trade show bags and other promotional items obtained at events such as conferences, training events, seminars, and

trade shows, that are offered equally to all members of the public attending the event do not need to be declared. Officers and Members must declare personal gifts of more than £25 in accordance with Staffordshire County Council’s Code of Conduct.

**Responsibility**

Staffordshire Pension Fund must be satisfied that conflicts of interest are appropriately managed. For this purpose, the Monitoring Officer is the designated individual for ensuring the procedure outlined below is adhered to.

However, it is the responsibility of each individual covered by this Policy to identify any potential instances where their personal, financial, business or other interests might come into conflict with their Pension Fund duties.

**Operational procedure for Officers, Pensions Committee members and Local Pensions Board members**

What is required	How this will be done
<p>Step 1 - Initial identification of interests which do or could give rise to a conflict.</p>	<p>On appointment to their role or on the commencement of this Policy if later, all individuals will be provided with a copy of this Policy and be required to complete a Declaration of Interest</p> <p>This information will be provided by each individual to the Monitoring Officer who will assess the extent to which any declarations are relevant to the individual's role in relation to the Staffordshire Pension Fund and collate them into the County Council's register of interest. Each individual is responsible for maintaining their register of interest on a continuous basis (see Step 3 below).</p>
<p>Step 2 - Ongoing notification and management of potential or actual conflicts of interest</p>	<p>At the commencement of any Pensions Committee, Local Pensions Board or other formal meeting where Pension Fund matters are to be discussed, the Chairman will ask all those present who are covered by this Policy to declare any interests and potential conflicts. All interests declared will be detailed in the record of the meeting.</p> <p>Any individual who considers that they have a potential or actual conflict of interest which relates to an item of business at a meeting, must advise the Chairperson and the Head of Treasury and Pensions prior to the meeting, where possible, or state this clearly at the meeting at the earliest possible opportunity. The Chairman, in consultation with the Monitoring Officer, will advise the conflicted individual whether they need to leave the meeting during the discussion on the relevant matter or to withdraw from voting on the matter.</p> <p>If such a conflict is identified outside of a meeting the individual must update their Register of interest. Where it relates to the business of any meeting, the conflict must be recorded in the</p>

	minutes of that meeting. In addition, the Chairman of that meeting in consultation with the Monitoring Officer will consider any necessary action to manage the potential or actual conflict.
Step 3 - Periodic review of potential and actual conflicts	At least once every 12 months, the Monitoring Officer will provide to all those to whom the above procedures apply a copy of the Register of conflicts of interests. All individuals will confirm in writing to the Monitoring Officer that the information held in relation to them is correct. If that is not the case, they will complete a new Declaration of Interest as per step 1 and the Register will be updated.

**Operational procedures for Advisers**

Although this Policy applies to all advisers, the operational procedures outlined in steps 1 and 3 above relating to completing ongoing declarations are not expected to apply to advisers. Instead all advisers must:

- be provided with a copy of this Policy on appointment and whenever it is updated
- adhere to the principles of this Policy;
- provide, on request, information to the Head of Treasury and Pensions in relation to how they will manage actual or potential conflicts of interest relating to the provision of advice or services to Staffordshire County Council and Staffordshire Pension Fund; and
- notify the Head of Treasury and Pensions immediately should a potential or actual conflict of interest arise.

All potential or actual conflicts notified by advisers will be recorded in the Fund’s Register of conflicts of interest.

**Monitoring and Reporting**

The County Council’s Register of conflicts of interest may be viewed by any interested party at any point in time. It will be made available on request by the Monitoring Officer.

In order to identify whether the objectives of this Policy are being met, Staffordshire Pension Fund will review the County Council’s Register of conflicts of interest on an annual basis and consider whether there have been any potential or actual conflicts of interest that were not declared at the earliest opportunity.

**Key Risks**

The key risks to the delivery of this Policy are outlined below, all of which could result in an actual conflict of interest arising and not being properly managed. The Pensions Committee, Local Pensions Board, the Monitoring Officer, and the Scheme Manager will monitor these and other key risks and consider how to respond to them.

- insufficient training or poor understanding in relation to individuals’ roles on Pension Fund matters;
- failure to communicate the requirements of this Policy;
- absence of the individual allocated to manage the operational aspects of this Policy and no one deputising, or failure of that individual to carry out the operational aspects in accordance with this Policy;

- failure by a Chairperson to take appropriate action when a conflict is highlighted at a meeting; and
- failure by a Local Pensions Board member to make a declaration of interest resulting in an actual conflict of interest.

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### Costs


All costs related to the operation and implementation of this Policy will be met directly by Staffordshire Pension Fund. However, no payments will be made to any individuals in relation to any time spent or expenses incurred in the disclosure or management of any potential or actual conflicts of interest they may have under this Policy.


### Approval, Review and Consultation


This Conflicts of Interest Policy was approved by the Staffordshire Pensions Committee on the date on the front cover of the policy. It will be formally reviewed and updated at least every three years, or sooner if the conflict management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be considered.

### Further Information

If you require further information about anything in or related to this Conflicts of Interest Policy, please contact:

 Melanie Stokes, Head of Treasury and Pensions, Staffordshire County Council, 1 Staffordshire Place, Tipping Street, Stafford, ST16 2DH

 [melanie.stokes@staffordshire.gov.uk](mailto:melanie.stokes@staffordshire.gov.uk)

 01785 276330

**If a copy of this information is needed in large print, Braille, another language or on cassette or disc, please contact Pension Services**



#### Legislative and related context

The overriding requirements in relation to the management of potential or actual conflicts of interest for those involved in LGPS funds are contained in various elements of legislation and guidance. These are considered further below.

#### The Public Service Pensions Act 2013

Section 5 of this Act requires that the scheme manager (in the case of the LGPS, this is the administering authority) must be satisfied that a Local Pensions Board member does not have a conflict of interest at the point of appointment and from time to time thereafter. It also requires Local Pensions Board members (or nominated members) to provide reasonable information to the scheme manager for this purpose.

#### The Local Government Pension Scheme Regulations 2013

Regulation 108 of these Regulations applies the requirements of the Public Service Pensions Act 2013 (as outlined above) to the LGPS, placing a duty on each administering authority to satisfy itself that pension board members do not have conflicts of interest on appointment or whilst they are members of the board. It also requires those pension board members to provide reasonable information to the administering authority in this regard.

Regulation 109 states that each administering authority must have regard to guidance issued by the Secretary of State in relation to Local Pensions Boards. Further, regulation 110 provides that the national Scheme Advisory Board has a function of providing advice to administering authorities and Local Pensions Boards. This Conflicts of Interest Policy has been developed having regard to that advice and guidance.

#### The Pensions Act 2004

The Public Service Pensions Act 2013 also added a number of provisions to the Pensions Act 2004 related to the governance of public service pension schemes and, in particular, conflicts of interest.

Section 90A requires the Pensions Regulator to issue a code of practice relating to conflicts of interest for Local Pensions Board members. The Pensions Regulator has issued such a code and this Conflicts of Interest Policy has been developed having regard to that code.

Further, under section 13, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to conflicts of interest for Local Pensions Board members are not being adhered to.

#### The Localism Act 2011

Chapter 7 of this Act requires Councillors to comply with the code of conduct of their local authority and that code of conduct must be consistent with the Seven Principles of Public Life (considered further below). In addition, the Act requires that the code of conduct must include provisions requiring the disclosure and registration of pecuniary interests and interests other than pecuniary interests.

**Examples of Potential Conflicts of Interest**

- a) A member of the Pensions Committee is on the board of a Fund Manager that the Pensions Committee is considering appointing.
- b) An officer or member of a Pensions Committee accepting hospitality and/or gifts from a potential adviser or supplier could be perceived as a potential or actual conflict of interest; particularly where a procurement exercise relating to those services is imminent.
- c) An Employer representative on the Local Pensions Board is employed by a company to which Staffordshire County Council has outsourced its pension administration services and the Local Pensions Board is reviewing the standards of service provided by that company.
- d) The person appointed to consider internal disputes is asked to review a case relating to a close friend or relative.
- e) A member representative, who is also a trade union representative, appointed to the Local Pensions Board to represent the entire scheme membership could be conflicted if he or she only acts in the interests of their union and union membership, rather than in the interests of all scheme members.
- f) An officer of the Fund or member of the Pensions Committee accepts a dinner invitation from a Fund Manager, who has submitted a bid as part of a tender process.
- g) An Employer representative has access to information by virtue of his or her employment, which could influence or inform the considerations or decisions of the Pensions Committee or Local Pensions Board. He or she has to consider whether to share this information in light of their duty of confidentiality to their Employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the Pensions Committee or Local Pensions Board.

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