Staffordshire County Council

Staffordshire Pension Fund
Local Government Pension Scheme

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Pensions Committee

Friday, 25 September 2020
10.00 am
Council Chamber, County Buildings, Stafford

John Tradewell
Director of Corporate Services
17 September 2020

A G E N D A

PART ONE

1. **Apologies**

2. **Declarations of Interest**

3. **Minutes of the meeting held on 7 February 2020** (Pages 1 - 6)

4. **Minutes of the Meeting of the Pensions Panel held on 3 March 2020** (Pages 7 - 12)

5. **Appointment of Pensions Panel**

   Oral report of the Director of Corporate Services

6. **Staffordshire Pension Fund investment benchmarking results for the period ending 31 March 2019** (Pages 13 - 32)

   Presentation by CEM Benchmarking UK Ltd

7. **Staffordshire Pension Fund Audit Plan 2019/20** (Pages 33 - 70)

   Report of the Director of Corporate Services and County Treasurer (S151)

8. **Staffordshire Pension Fund Business Plan 2020/21** (Pages 71 - 82)

   Report of the Director of Corporate Services

9. **Staffordshire Pension Fund Risk Register and Risk Management Policy** (Pages 83 - 104)

Report of the Director of Corporate Services

10. **McCloud and Exit Cap - MHCLG Consultation Update**

https://www.gov.uk/government/consultations/local-government-pension-scheme-amendments-to-the-statutory-underpin

https://www.gov.uk/government/consultations/reforming-local-government-exit-pay

Verbal Update from the Head of Treasury and Pensions

11. **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

12. **Exempt minutes of the meeting held on 7 February 2020** (Pages 105 - 112)
(Exemption paragraph 3)

13. **Exempt minutes of the Pensions Panel held on 3 March 2020** (Pages 113 - 120)
(Exemption paragraph 3)

14. **LGPS Regulations - Admission of New Employers to the Fund** (Pages 121 - 126)
(Exemption paragraph 3)

Report of the Director of Corporate Services

15. **Local Government Pension Scheme Regulation - Debt Write-off** (Pages 127 - 130)
(Exemption paragraph 3)

Report of the Director of Corporate Services

16. **LGPS Central and Pooling Update** (Pages 131 - 172)
(Exemption paragraph 3)

Verbal update from the Head of Treasury & Pensions on the Shareholders Forum and LGPS Central Limited Company Meeting on 8 September 2020

LGPS Central Ltd 2019/20 Annual Report and Financial Statements attached for information

Membership

Mike Allen	Alastair Little (Chairman)
Philip Atkins, OBE	Bob Spencer
Nigel Caine (Co-Optee)	Mike Sutherland
Mike Davies (Vice-Chairman)	Stephen Sweeney
Derek Davis, OBE	Martyn Tittley
Colin Greatorex	Michael Vaughan
Phil, Jones	

Note for Members of the Press and Public

Filming of Meetings

The Open (public) section of this meeting may be filmed for live or later broadcasting or other use, and, if you are at the meeting, you may be filmed, and are deemed to have agreed to being filmed and to the use of the recording for broadcast and/or other purposes.

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 Pensions Committee Meeting held on 7 February 2020

Attendance	
Mike Davies	Mike Sutherland
Colin Greatorex (Chairman)	Michael Vaughan (Co-Optee)
Phil Jones (Co-Optee)	

Also in attendance: Rob Birch and Ian Jenkinson (Pensions Board Members).

Apologies: Philip Atkins, OBE, Ann Edgeller, Stephen Sweeney and Martyn Tittley.

PART ONE

31. Declarations of Interest

The following Member declared an interest in accordance with Standing Order 16.5:-

Member	Minute No.	Interest	Reason
Colin Greatorex	39	Personal	Member of Warwickshire County Council's Pension Scheme

32. Minutes of the meeting held on 27 September 2019

The Director of Corporate Services referred to minute number 21 relating to Staffordshire Pension Fund Annual Report and Accounts 2018/19 and indicated that the final version of the Report and Accounts had been signed off by the Chairman prior to being published by the 1 December 2019 deadline.

RESOLVED – That the minutes of the meeting of the Pensions Committee held on 27 September 2019 be confirmed and signed by the Chairman.

33. Minutes of the Pensions Panel held on 20 September and 3 December 2019

Mr Jenkinson referred to minute number 26 relating to Responsible Investment (RI) Report Quarter 3 2019 and indicated that he welcomed the Pensions Panel’s decision to report on RI in the “public” part of its meetings, as such information was of interest to all members of the Pension Fund.

RESOLVED – That the minutes of the meetings of the Pensions Panel held on 20 September and 3 December 2019 be noted.

34. Strategic Asset Allocation (SAA) Review 2019

The Committee were informed that, at its meeting on 3 December 2019, the Pensions Panel received a report from Hymans Robertson LLP (Hymans) outlining the activity that had taken place in reviewing the Staffordshire Pension Fund’s SAA.

In order to assess the appropriateness of the high-level strategy, i.e. the balance between return seeking assets (e.g. equities) and defensive assets (e.g. bonds), Hymans had carried out Asset Liability Modelling (ALM). This was done in conjunction with the Hyman's Actuarial team, ahead of the 2019 Actuarial Valuation of the Fund. The aim was to ensure that varying investment strategies and the assumptions made about investment returns in each of those strategies could be factored into the Valuation assumptions; which in turn would be used in setting future levels of Employer contributions. The review was carried out with additional input from Advisors and Officers of the Fund.

The results of the ALM were presented to the Pensions Panel at its meeting in June 2019. They concluded that the current investment strategy provided a good chance of meeting the Fund's long-term funding objectives based on the current levels of contributions being paid. And whilst there may be some scope for modest reductions in the Fund's investment risk in the future, this was not being advocated at the current time.

Having established that the high-level strategy remained appropriate, the next stage of the review was to consider the detail of the asset allocation and the various mandates in operation. It was considered important to do this with regard to the objectives of asset pooling and the likely investments that would be offered by LGPS Central Limited. Hyman's recommendations are summarised in the following table as the likely 'direction of travel' for the Fund over the next 2-3 years, as it moves from its Current Benchmark towards its Long-Term Benchmark. Further discussions may need to take place in relation to the detail around several of the proposed changes.

Asset Class	Mandate	Current Manager	Current Benchmark (%)	Long Term Benchmark (%)
UK Equities	Active	Aberdeen Standard	6.25	5.0
UK Equities	Passive	Legal & General	6.25	5.0
Global Equities	Active	Longview, JP Morgan LGPS Central Ltd	23.0	25.0
Global Equities	Passive	Legal & General	24.0	20.5
Global Equities (Factor Based)	Passive	TBC	5.0	5.0
Private Equity	Active	Various	3.5	3.5
Total Equities			**68.0**	**64.0**
Property		Colliers	10.0	10.0
Private Debt		Various	5.0	5.0
Infrastructure		TBC	1.0	5.0
Hedge Funds		Goldman Sachs	2.0	-
Total Other Return-Seeking			**18.0**	**20.0**

Assets				
UK Corporate Bonds	Active	LGPS Central Ltd	6.5	5.0
UK Index Linked	Passive	Legal & General	6.5	5.0
UK Gilts			-	5.0
Cash			1.0	1.0
Total Defensive Assets			**14.0**	**16.0**
			100.0	**100.0**

In response to questions from Mr Jenkinson, the Director of Corporate Services indicated that:

- Infrastructure was considered to be a return-seeking asset rather than a defensive asset, although it was recognised that some Infrastructure investments could be considered defensive assets if the primary reason for investing in such was to seek stable cashflows
- The timetable for moving from the current benchmark to the long-term benchmark was three to five years.
- Pension Funds were still awaiting guidance from Central Government on their expectations in relation to the investment in Infrastructure but it was considered unlikely that they would mandate anything specific.
- Climate Change was not amongst the economic scenarios modelled by Hymans Robertson as part of their Strategic Asset Allocation work, as such matters were subjective and tended to be considered through the Responsible Investment work of individual investment managers. The Director explained that more consistent and reliable data was required on this matter and Hymans would be requested to give further consideration to how they might include assumptions about Climate Change in future valuations.

RESOLVED – (a) That the recommendation of the Pensions Panel, at its meeting of 3 December 2019, and Hymans Robertson LLP's proposed 'direction of travel' for the Staffordshire Pension Fund, in relation to its Strategic Asset Allocation (SAA) over the next 2-3 years, in moving from the Fund's Current Benchmark to its Long Term Benchmark, be approved; and

(b) That it be noted that further detailed discussions may need to take place in relation to a number of the proposed changes.

35. Training Needs Analysis and Training Policy 2020/21

The Committee were informed that Section 248A of the Pensions Act 2004, as amended by the Public Services Pensions Act 2013, required that trustees of occupational pension schemes should be trained and have knowledge and understanding of the law relating to pensions, the role of trustees, the principles of scheme funding and investment, and the management and administration of pension scheme benefits.

At their meeting on 8 December 2017, the Pensions Committee reaffirmed their commitment to the CIPFA Knowledge and Skills Framework (CIPFA KSF) and the adoption of a high-level Training Plan covering the 8 key knowledge areas of the CIPFA KSF. The Committee noted that CIPFA KSF was mandatory for Local Pensions Board Members, and whilst it was currently only a recommendation for Committee Members and Senior Officers, such as the S151, following the Good Governance Project commissioned by the Scheme Advisory Board (SAB) and undertaken by Hymans Robertson, it was anticipated that something similar to the CIPFA KSF would become mandatory for all.

The Director indicated that training for Pensions Committee Members in 2018/19 and 2019/20 consisted of a number of elements. Some of these were directly in response to the results of the previous training needs analysis (TNA), e.g. Performance Measurement and Cost Benchmarking, whilst some were dictated by the areas of focus for the Fund in the short to medium term, e.g. Strategic Asset Allocation Review and the 2019 Actuarial Valuation. In many instances, training was undertaken as part of routine Committee meetings and delivered by the Actuary. Pensions Committee Members also attended a workshop where they considered Responsible Investment and as a result agreed a new set of Investment Principles for the Fund. Some new Members of the Committee also attended Pensions Fundamentals training.

All Pensions Committee Members and Local Pensions Board Members were asked to complete a new TNA during December 2019. An analysis of the responses found that there were differences in individual Members' knowledge but based on the responses received, the Committee (c57% response rate) had improved on its 2018/19 scores overall and the Pensions Board (c83% response rate) was marginally down on its 2018/19 scores, however, with several new Members very recently appointed, this was not a surprise. The Director added that it was pleasing to see an improvement across all of the 8 areas of knowledge generally, but particularly so in relation to 'Investment Performance and Risk Management' (6) and 'Actuarial Methods, Standards and Practices' (8) given these had been the two main areas of focus throughout 2018 and 2019. Furthermore, the responses had shown that there was a suitable level of knowledge across the membership of both the Pensions Committee and Pensions Board and which enabled those bodies to be effective.

The Committee were also informed that, having considered the detailed results from the 2019 TNA, training proposed for 2020/21 was likely to include the following:

- June / July - Portfolio Evaluation Limited and CEM Benchmarking – refresher training at Committee on Performance Measurement and Cost Benchmarking;
- July / November – Investing in Infrastructure – as this is a new asset class in the Fund's Strategic Asset Allocation, Members will benefit from a greater understanding;
- July / November – Private Debt – the Fund has been an investor in this asset class for around 2 years now – have our expectations been met and what might we expect going forwards?;
- September / December / March – Pensions Legislation and Administration – what does it say, what does it involve and what are the current issues?; and
- October – December 2020 – The Local Government Association offer 3-day Pensions Fundamentals training, which is routinely offered to all new Committee and Board members.

The Director added that Committee and Board Members, who had not already done so or who would like a refresher, may also wish to have a look at the Pension Regulators toolkit. This was an online training programme covering many of the key areas of the CIPFA KSF (with the main exception being investments).

The Committee also noted that, as with all areas of Pensions, it was best practice and further demonstrated good governance to set out the Pension Fund's attitude towards the Training of all individuals charged with the oversight of the Fund, by having a policy on such. The Committee approval was sought to the Staffordshire Pension Fund's Training Policy.

RESOLVED – (a) That the results of the 2019 Training Needs Analysis (TNA) (as detailed in Appendix 2 to the report) in relation to the CIPFA Knowledge and Skills Framework (CIPFA KSF); and the 2020/21 Training Plan (as detailed in paragraph 11 to the report) be noted.

(b) That the Staffordshire Pension Fund's Training Policy (Appendix 3 to the report) be approved.

36. 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:

37. Exempt minutes of the meeting held on 27 September 2019
(Exemption paragraph 3)

38. Exempt minutes of the Pensions Panel held on 20 September and 3 December 2019
(Exemption paragraph 3)

39. LGPS Regulations - Admission of New Employers to the Fund
(Exemption paragraph 3)

40. Local Government Pension Scheme (LGPS) - LGPS Central Pool Governance and Financial Reporting - Final Audit Report 2019/20
(Exemption paragraph 3)

41. LGPS Central Ltd Budget and Strategic Business Plan 2020/21 and Cost Savings Model Review
(Exemption paragraph 3)

Chairman

Minutes of the Pensions Panel Meeting held on 3 March 2020

Present:

Attendance	
Philip Atkins, OBE (Chair)	Mike Sutherland
Derek Davis, OBE	Stephen Sweeney
Colin Greatorex	

Also in attendance: Carolan Dobson (Independent Adviser), Anna Hawkins (Hymans Robertson), Ian Jenkinson (Observer), Paul Potter (Hymans Robertson), Tracy McCready (Observer) and David Thomas (Independent Adviser).

PART ONE

34. Retirement of David Thomas

The Chairman reported that this was to be David Thomas' final meeting of the Pensions Panel as he had decided to retire from his position as an Adviser to the Staffordshire Pension Fund. The Panel paid tribute to Mr Thomas and extended their thanks to him for the valuable contribution he had made during the 40+ years he had served as an Adviser to the Fund.

35. Minutes of meeting held on 3 December 2019

RESOLVED – That the minutes of the Meeting of the Pensions Panel held on 3 December 2019 be confirmed and signed by the Chairman.

36. Staffordshire Pension Fund Performance and Portfolio of Investments as at 31 December 2019

The Director of Corporate Services submitted a summary of the performance of the Staffordshire Pension Fund, together with a portfolio of the Fund's investments, as at 31 December 2019.

The Panel were informed that the Fund had a market value of £5.5 billion as at 31 December 2019. Over the quarter the Fund returned 1.1%, which was higher than the Fund's Strategic Asset Allocation benchmark return of 0.9%. The best performing asset classes relative to their benchmark, were Private Equity and Hedge Funds; whilst Private Debt was the main detractor from performance, underperforming its benchmark by 1.3%.

The Fund had outperformed its strategic benchmark over the 1, 3, 5 and 10- year periods. Annualised returns over all these periods were more than 9% 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 2019 be noted.

37. Responsible Investment (RI) Report Quarter 4 2019

The Director of Corporate Services submitted a summary of activity during the quarter ended 31 December 2019 by the Fund’s investment managers in fulfilment of their corporate governance and socially responsible investment obligations, including details of their voting activity on corporate resolutions for companies held in their portfolios.

The Panel noted that the Financial Reporting Council recently launched an updated UK Stewardship Code. The Code took effect from 1 January 2020 and aimed to improve stewardship practices by setting a substantially higher standard than before. Existing signatories to the Code would be required to submit a Stewardship Report that met the FRC’s new reporting expectations by 31 March 2021, to continue to be listed as signatories to the UK Stewardship Code. Further information would be brought to the Panel in 2020 on the work the Fund does, to meet the criteria of the enhanced UK Stewardship Code.

The Director also submitted the quarterly report of the Local Authority Pension Fund Forum (LAPFF) and the Quarterly Stewardship Report issued by LGPS Central Limited.

The Panel noted that LAPFF had engaged with 35 Companies (on 50 engagement issues) during the quarter whereas LGPS Central, in association with their voting partners had engaged with 1561 Companies (on 2876 engagement issues).

Mr Jenkinson indicated that the quarterly RI reports issued by LAPFF and LGPS Central were very informative and that, in his view, the Fund should endeavour to publicise the information more widely. In response, the Director of Corporate Services undertook to look at how this may be achieved.

RESOLVED – That the content of the Responsible Investment (RI) report, including the Local Authority Pension Fund Forum (LAPFF) Quarterly Engagement Report (Appendix 2 to the report) and LGPS Central Limited (LGPSC) Quarterly Stewardship Report (Appendix 3 to the report), be noted.

38. Annual Investment Strategy for Pension Fund Cash 2020/21

The Panel received a report of the County Treasurer seeking approval to the Staffordshire Pension Fund’s (‘the Fund’), Annual Investment Strategy (AIS) for the investment of internally managed cash.

They were informed that 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, inferred that 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 County Treasurer (S151), who chairs the County Council's 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 a question from Mr Jenkinson concerning the risks associated with lending to local authorities, the Director of Corporate Services indicated that market intelligence and information from the County Council's Treasury Adviser were used before such loans were agreed. Also, with the financial risks of a few local authorities being well documented in the press over recent years, a maximum lending limit of £10m per individual local authority was being introduced into the AIS this year.

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

39. Investment Strategy Statement

The Panel were informed that the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which came into force in 2017, required that the first Investment Strategy Statement (ISS), which replaced the Statement of Investment Principles, to be published by 1 April 2017, kept under review and revised from time to time and at least every three years.

The Fund's ISS was published in April 2017 and had been reviewed annually since, to better reflect the arrangements in place for asset pooling and the transfer of assets into LGPS Central Limited. The latest version of the ISS had been updated to reflect the outcome of the 2019 Actuarial Valuation, changes to the Funding Strategy Statement (FSS) and the subsequent Strategic Asset Allocation review, undertaken by Hymans Robertson and presented to the Pensions Panel in December 2019.

The Panel also noted that under Regulation 7(5), the authority must consult such persons as it considered appropriate as to the proposed contents of its investment strategy. In the formulation of the updated ISS, the Fund had consulted with its investment advisors – Hymans Robertson.

It was also noted that the ISS may need further substantial revision following the outcome of the MHCLG's formal consultation on the Statutory Guidance on Asset Pooling in the LGPS; expected sometime in 2020. At this stage, wider consultation on the ISS might also be considered appropriate.

RESOLVED – (a) That the updated Staffordshire Pension Fund Investment Strategy Statement (ISS) be approved.

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

40. Investment Consultant Objectives

The Director of Corporate Services explained that, at its meeting on 3 December 2019, the Panel received a briefing paper from Hymans Robertson LLP (Hymans) advising of the findings of the December 2018 report of the Competition and Markets Authority (CMA), and their subsequent Order, in respect of the need for Pension Scheme Trustees to set objectives for their investment consultants. The Panel had subsequently resolved**:**

(a) That the briefing paper from Hymans Robertson be agreed.

(b) That the potential objectives set out in the briefing paper be supported.

(c) That delegated authority be given to the Director of Corporate Services to finalise the objectives to be set for Hymans Robertson, the Fund's investment

consultants, by 10 December 2019 in accordance with the Competition and Market Authority's requirements.

(d) That the finalised objectives set for Hymans Robertson, as the Fund's investment consultants, together with the detail of how those objectives will be measured be reported to the Panel at their next meeting.

The Panel received a schedule (Appendix 2 to the report) setting out the finalised objectives set for Hymans Robertson, as the Fund's investment consultants, together with the detail of how those objectives would be measured. They noted that the Panel would be required to assess / measure and report on the performance of the Investment Consultant against the objectives set and that it was proposed that this be carried out by way of a collective annual review, with a report submitted to the Panel each year, at their March meeting.

RESOLVED – That the Investment Consultant Objectives provided in Appendix 2 to the report be approved and the addition of the Desired Outcomes and the proposal for the ongoing Measurement of the achievement of those objectives, be noted.

41. Dates of Future Meetings

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

12 June 2020
14 September 2020
1 December 2020
2 March 2021

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

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 3 December 2019
(Exemption paragraph 3)

44. Staffordshire Pension Fund Performance and Manager Monitoring for the quarter ended 31 December 2019
(Exemption paragraph 3)

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

a) Economic and Market Update

b) Review of Position as at 31 January 2020

c) Infrastructure Framework and Investing in Infrastructure

46. Property
(Exemption paragraph 3)

a) Annual Property Review and Strategy Report for 2020/21

b) Confirmation of action taken by the Director of Corporate Services

47. Manager Presentation - Colliers (Property)
(Exemption paragraph 3)

48. Manager presentation - IFM (Infrastructure)
(Exemption paragraph 3)

Chairman

PENSIONS COMMITTEE – 25 SEPTEMBER 2020

Report of the Director of Corporate Services

Staffordshire Pension Fund Investment Benchmarking results for the period ending 31 March 2019

Recommendation of the Chair

1. That the Pensions Committee notes the report from CEM Benchmarking UK Ltd (CEM) provided at Appendix 2 and the presentation on such, to be given at the meeting.

Background

2. The Pension Fund takes part in an annual investment benchmarking exercise with an international company CEM Benchmarking Inc. CEM benchmark over 300 pension funds globally, with total assets of £7.2 trillion. Attached at Appendix 2 are the results of the 2018/19 CEM benchmarking survey, where Staffordshire is compared, on a number of cost and performance metrics, to a global peer group of 20 pension funds that have a median size of £5.3bn versus the Pension Fund's £5.1bn market value, at 31 March 2019.

3. It is important to understand that a straightforward comparison of investment returns and costs, as publicly reported by pension funds will never be meaningful. This is because there are several variables which also need to be considered, in order to obtain a like for like comparison. E.g Assets under management, strategic asset allocation, implementation style, benchmarks etc. The survey undertaken by CEM adjusts for these variables and provides the Pensions Committee with more clarity on investment return and cost comparisons, for the Pension Fund versus the selected peer group.

John Tradewell
Director of Corporate Services

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Telephone No.	(01785) 276330

Background Documents:	CEM Benchmarking UK Ltd IBS Report 2019

Appendix 1

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

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

Resources and Value for Money Implications: There are no Resources Implications and the Value for Money Implications are covered within this report.

Risk Implications: The Pension Fund by virtue of being a global investor in a number of asset classes is subject to a wide range of investment risks. Specialist advice is always taken to ensure that these risks and their potential impact are understood.

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.

Staffordshire Pension Fund
Investment Benchmarking Results

For the 5 year period ending March 31, 2019

CEM Benchmarking
What gets measured gets managed

1 Change Alley
London, EC3V 3ND
+44 203 887 9289
www.cembenchmarking.com

This report will help you to satisfy your oversight responsibilities.

The CEM Benchmarking report focuses on what is strategically important in investment decision making. We bring the threads of funding, risk, returns and cost together to create a high-level narrative on how your decisions have affected outcomes and how and why you compare as you do across a range of indicators.

The report provides an independent means to validate your strategy or to support arguments for change. It provides accountability and can help you make better decisions. It supports requests for resources and can help in the negotiation of fees with external parties.

- Comparisons on investment performance, highlighting returns that come from:
  - The local Pension Committee's strategic asset allocation decisions, and
  - The implementation of the Committee's strategy (increasingly the responsibility of the pool).
- Comparisons on the level of risk inherent in your portfolio and relative to your liabilities and your funding position.
- Comparing your investment costs and explaining why your costs compare as they do.
- Information on how and why your costs have changed over time.
- Value-for-money analysis – 'did paying more get you more'?
- Detailed data to support decision making.

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The report is based on standard data submitted to CEM by your fund, by other LGPS funds and a wider universe of funds from around the world. Care is taken to validate the data contained in the report. This includes automated validations on outlying or unusual data as it is submitted, and an additional manual data 'clean' where our analysts interact with fund personnel to ensure the data is fit for purpose. The information in this report is confidential and should not be disclosed to third parties without the express written consent of CEM. CEM will not disclose any of the information in the report without your express written consent.

We compare your returns to other LGPS funds and a wider global universe.

CEM's LGPS Universe

Pool / Group	# of Participant Funds	Total Assets (£bns)	% of CEM's LGPS Universe	Funds
Access	7	£24.7	12%	Cambridgeshire, East Sussex, Essex, Isle of Wight, Kent, Northamptonshire, Suffolk.
BCPP	12	£47.3	24%	Bedford, Cumbria, Durham, East Riding, Lincolnshire, NYPF, Northumberland, SYPF, Surrey, Teesside, Tyne and Wear, Warwickshire.
Central	4	£29.0	15%	Cheshire, Staffordshire, West Midlands, Worcestershire.
Northern	3	£45.7	23%	GMPF, Merseyside, West Yorkshire.
Scotland	4	£34.8	17%	Falkirk, Fife, Lothian, Strathclyde.
Wales	8	£17.6	9%	Swansea, Dyfed, Flintshire, Torfaen, Gwynedd, Powys, Rhondda Cynon TAF, Cardiff.
Total	38	£199.2	100%	

The main performance comparisons are with CEM's LGPS universe, which currently comprises 38 funds with total assets of £199 billion (average £5 billion, median £3 billion).

We also compare your returns (and LGPS returns generally) with a wider global universe comprising 332 funds with total assets of £7.2 trillion (average £22bn, median £5bn). The global universe includes half of the world's top 300 funds.

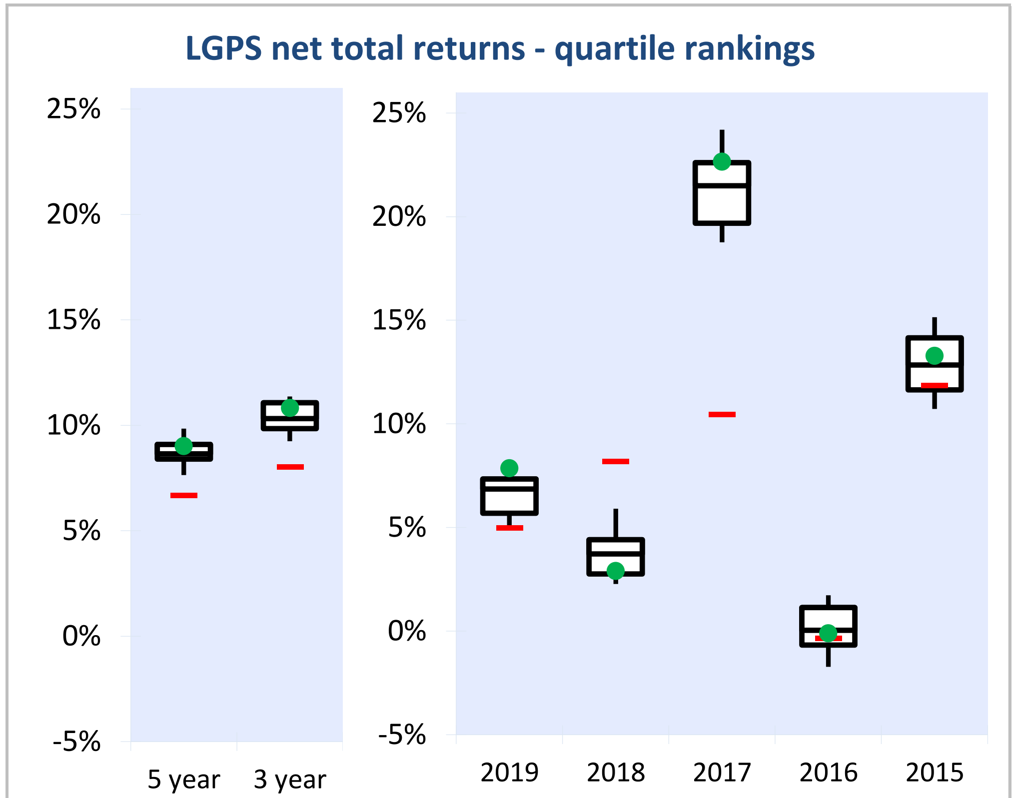
Your 5-year net total return of 9.0% was above both the LGPS median of 8.6% and the Global median of 6.7%.

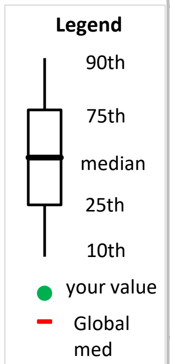
Total returns, by themselves, provide little insight into the reasons behind relative performance. In the pages that follow, we separate total return into its more meaningful

- Benchmark return: The return from strategic asset allocation decisions. These decisions are typically made by the local Pensions Committee.

- Value added: A function of active management decisions, including tactical asset allocation, manager selection, stock selection, etc. These 'implementation' decisions tend to be made by management (increasingly within pools in England and Wales).

Global return comparisons have been particularly influenced by the relative strength of the $US over the period covered by this report and by the depreciation of the £ in 2016/17, i.e. there is currency 'noise' in the global comparison.





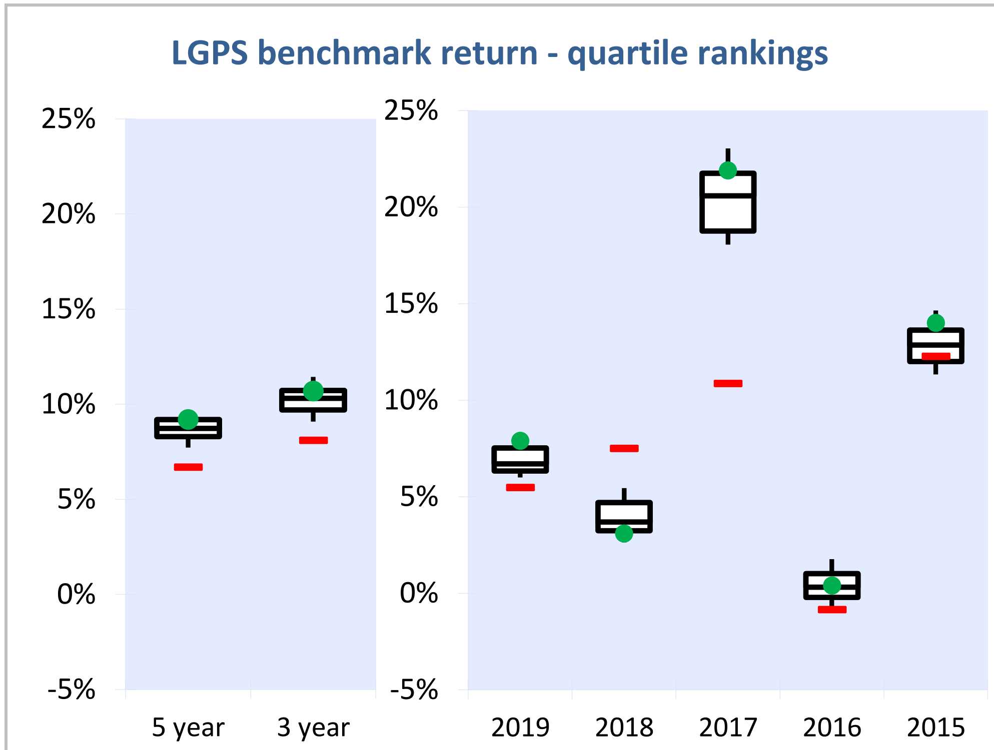
	5 year	3 year	2019	2018	2017	2016	2015
LGPS							
90th	9.9	11.4	8.0	5.9	24.2	1.7	15.1
Q3	9.1	11.1	7.3	4.4	22.6	1.1	14.2
Median	8.6	10.3	6.9	3.7	21.5	0.0	12.8
Q1	8.4	9.8	5.7	2.8	19.7	-0.7	11.6
10th	7.6	9.2	5.0	2.3	18.8	-1.7	10.7
Average	8.8	10.4	6.6	3.8	21.4	0.3	12.9
Global Median	6.7	8.0	5.0	8.2	10.5	-0.3	11.9
Your fund	9.0	10.8	7.9	2.9	22.7	-0.1	13.3
LGPS %ile	70%	69%	84%	30%	77%	46%	65%

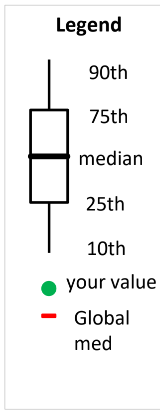
Your 5-year benchmark return of 9.2% was above both the LGPS median of 8.7% and the Global median of 6.7%.

Your benchmark return is the return you could have earned passively by indexing your investments according to your strategic asset mix. The benchmark return is typically the most significant driver of total returns.

Having a higher or lower relative benchmark return is not necessarily good or bad. Your benchmark return reflects your asset mix which in turn reflects your funding position, long-term capital market expectations, liabilities, employer covenant and appetite for risk.

Each of these factors is different across funds. Therefore, it is not surprising that benchmark returns often vary widely between funds. In the following page we explore how your asset mix impacts your benchmark return relative to peers.





	5 year	3 year	2019	2018	2017	2016	2015
LGPS							
90th	9.6	11.4	8.3	5.4	23.0	1.8	14.6
Q3	9.2	10.7	7.5	4.7	21.7	1.0	13.6
Median	8.7	10.3	6.7	3.7	20.6	0.3	12.9
Q1	8.3	9.7	6.3	3.2	18.8	-0.2	12.0
10th	7.7	9.1	6.0	2.6	18.1	-0.9	11.3
Average	8.7	10.3	6.9	3.9	20.4	0.3	13.0
Global Median	6.7	8.1	5.5	7.5	10.9	-0.8	12.3
Your fund	9.2	10.7	7.9	3.1	21.9	0.4	14.0
LGPS %ile	76%	71%	84%	21%	79%	51%	81%

Differences in benchmark returns are caused by differences in asset mix and benchmarks at an asset class level.

Your relative 5-year benchmark return was influenced by:

- The positive impact of your higher weight in one of the better performing asset classes of the past 5 years: Equities Global (your 51% 5-year average weight versus a LGPS average of 27%).
- The positive impact of your lower weight in one of the worse performing asset classes of the past 5 years: Bonds UK (your 0% 5-year average weight versus a LGPS average of 7%).
- The positive impact of your higher weight in one of the better performing asset classes of the past 5 years: Domestic Property (your 10% 5-year average weight versus a LGPS average of 6%).

	5-Year average strategic asset mix[1]			5-year bmk. return	
	Your Fund	LGPS Avg.	More/ Less	Your Fund	LGPS Avg.
Equities Asia-Pacific		3%	-3%		10.7%
Equities UK	14%	18%	-3%	6.0%	6.2%
Equities U.S.		4%	-4%		15.8%
Equities Emerging	2%	3%	-1%	4.6%	9.0%
Equities Global	51%	27%	23%	11.8%	11.6%
Equities Other[2]		6%	-6%		n/a[3]
Total Equities	67%	61%	7%	10.4%	9.9%
Bonds UK		7.0%	-7%		6.3%
Bonds Inflation Indexed	7%	3.6%	3%	9.4%	9.8%
Bonds Global	7%	6.4%	1%	0.5%	4.1%
Cash	1%	0.8%	0%	0.4%	0.5%
Bonds Other[2]		2%	-2%		n/a[3]
Total Bonds	15%	19.5%	-5%	4.4%	5.8%
Hedge Funds	2%	1%	1%	0.5%	3.1%
Multi-asset Strategies		1%	-1%		5.8%
Global Property		2%	-2%		8.7%
Domestic Property	10%	6%	4%	10.0%	9.2%
Other Real Assets[2]		4%	-4%	n/a[3]	n/a[3]
Private Equity	4%	4%	-1%	0.0%	13.1%
Private Debt	2%	1%	1%	n/a[3]	3.6%
Total	100%	100%	0%		

1. 5-year weights are based only on plans with 5 years of continuous data.
2. Other equities includes Europe xUK and EAFE. Other real assets includes commodities, natural resources, infrastructure and REITS.
3. A value of 'n/a' is shown if asset class return are not available for the full 5-year period or if they are broad and incomparable.

Your strategic asset allocation is largely a function of your appetite for risk.

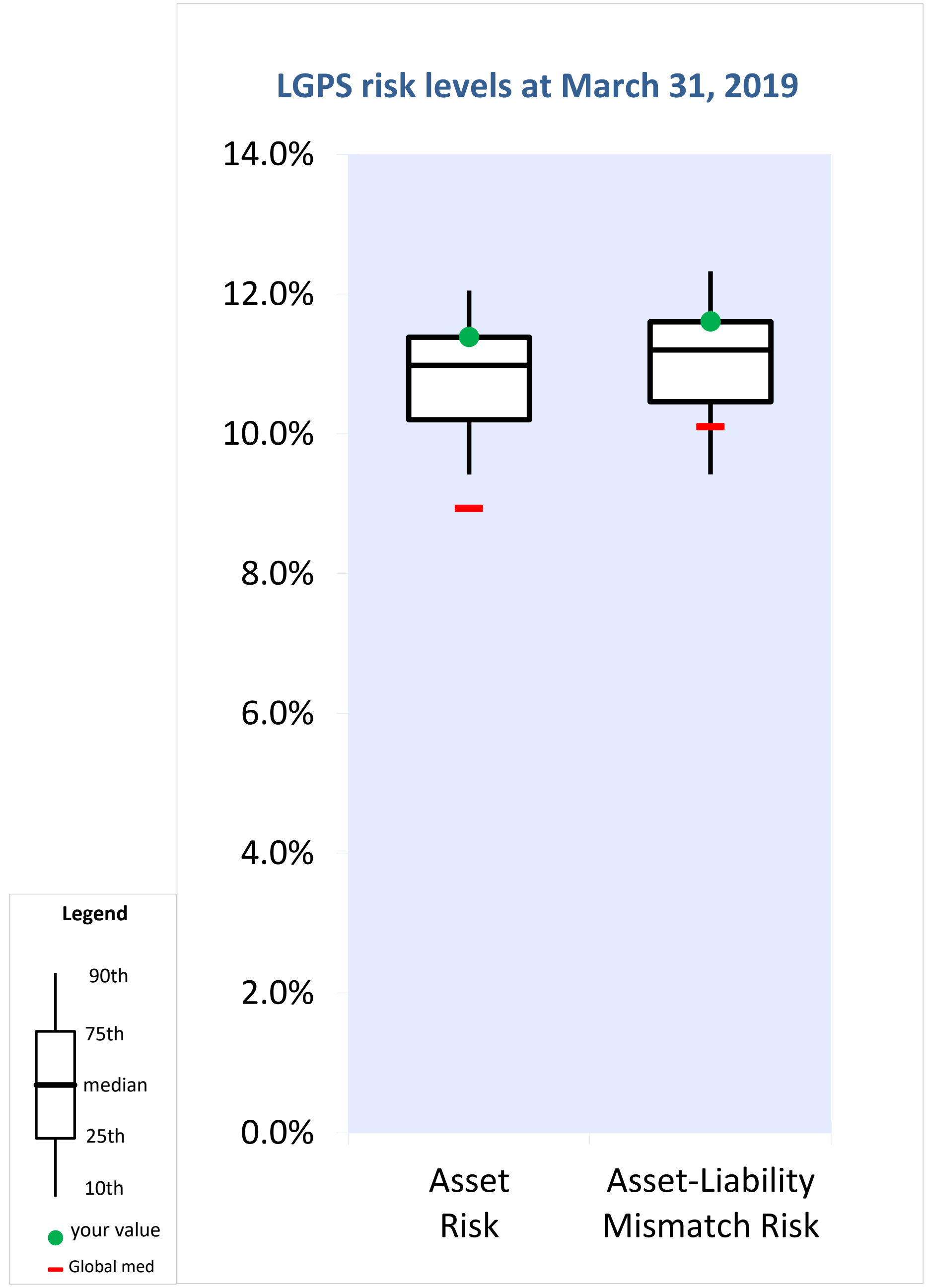
Two of the key risks for the Pension Committee to consider are:

- Asset Risk - A higher asset risk is indicative of a higher weighting to more volatile assets (and vice-versa). Your asset risk of 11.4% was above the LGPS median of 11.0%.

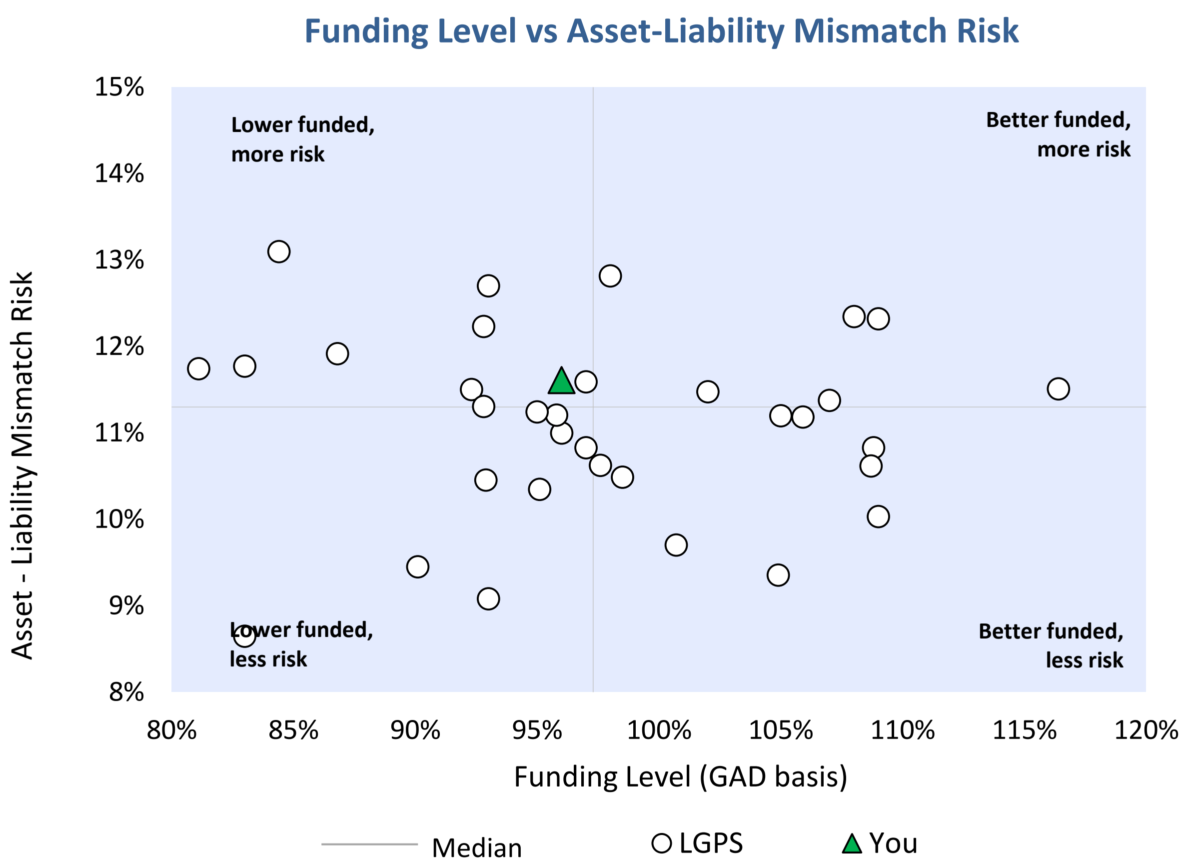
- Asset-liability mismatch risk - A higher asset-liability mismatch risk is indicative a willingness to take more risk to improve the funding level. Lower asset risk is indicative of either better funding, concerns about employer covenants or a desire for stability in contributions. A lower asset-liability mismatch risk means you are closer to a 'fully-matched' position. Your asset-liability risk of 11.6% was above the LGPS median of 11.2%.

Trend:

	Asset Risk	Asset-Liability Mismatch Risk
2014/15	11.4%	11.5%
Change	0.0%	0.1%
2018/19	11.4%	11.6%



Your funding level of 96% on the standard GAD basis in 2016 was below the LGPS median of 97%. You had more asset liability mismatch risk.



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The funding level is based on standardised actuarial assumptions developed by the Government Actuaries Department (GAD). Most of the key assumptions are consistent across funds but some assumptions, and in particular mortality assumptions, are fund specific. Your funding level as shown may not reflect the actuarial basis you use to determine your asset allocation or contribution policies, but it serves a useful purpose in providing context for comparisons of asset risk and asset-liability mismatch risk. At present the analysis is based on the position in 2016, when valuations were last completed consistently across funds. The analysis will be updated after the 2019 valuation.

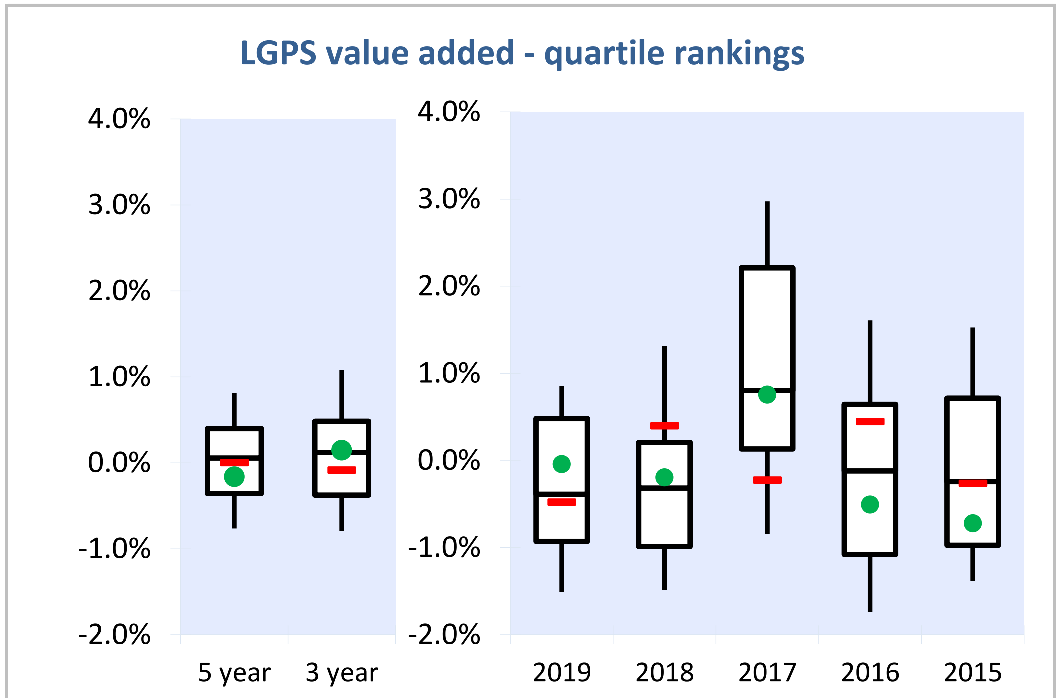
Net value added is the component of total return from active management. This is increasingly the responsibility of pools in England and Wales. Your 5-year net value added was -0.2%.

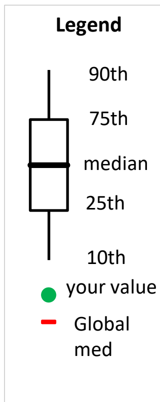
Net value added equals total net return minus strategic benchmark return.

It is a function of active management decisions made in the implementation of your strategy which includes tactical asset allocation, manager selection, stock selection, choice of benchmarks, hedging, overlays, etc.

Your 5-year net value added of -0.2% compares to a median of 0.1% for the LGPS universe. The 5-year Global median net value added was 0.0%.

Your value added was impacted by your choice of benchmarks for several asset classes, including hedge funds and private credit and also by the absence of a benchmark for private equity. CEM suggests using lagged, investable benchmarks for private equity. If your fund used the private equity benchmark suggested by CEM, your 5-year total fund value added would have been 0.5% lower.

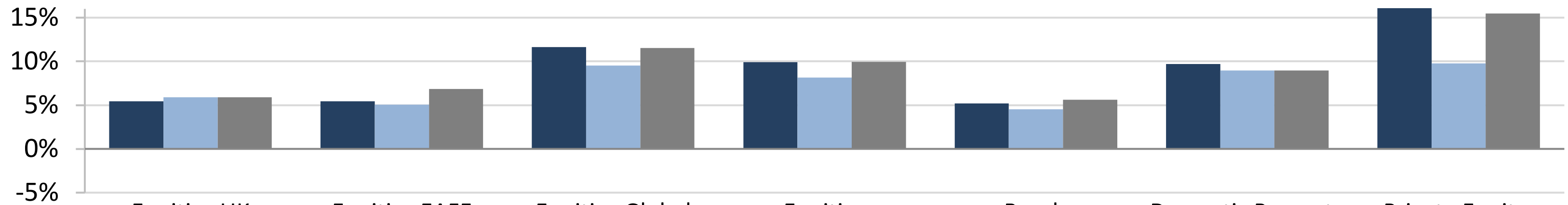




	5 year	3 year	2019	2018	2017	2016	2015
LGPS							
90th	0.8	1.1	0.9	1.3	3.0	1.6	1.5
Q3	0.4	0.5	0.5	0.2	2.2	0.6	0.7
Median	0.1	0.1	-0.4	-0.3	0.8	-0.1	-0.2
Q1	-0.4	-0.4	-0.9	-1.0	0.1	-1.1	-1.0
10th	-0.8	-0.8	-1.5	-1.5	-0.8	-1.7	-1.4
Average	0.1	0.1	-0.3	-0.1	1.0	-0.1	-0.2
Global Median	0.0	-0.1	-0.5	0.4	-0.2	0.4	-0.3
Your fund	-0.2	0.1	0.0	-0.2	0.8	-0.5	-0.7
LGPS %ile	33%	51%	59%	53%	46%	41%	33%

Here is how your net returns and net value added compare.

5-year average net return by major asset class



	Equities UK	Equities EAFE	Equities Global	Equities	Bonds	Domestic Property	Private Equity
Your fund	5.5%	5.5%	11.6%	9.9%	5.2%	9.7%	19.0%
Global average	5.9%	5.0%	9.5%	8.2%	4.5%	9.0%	9.8%
LGPS average	5.9%	6.8%	11.5%	10.0%	5.6%	9.0%	15.5%
Your actual asset mix[2]	14.3%	14.3%	50.5%	67.1%	16.6%	8.3%	3.2%
Your strategic asset mix[2]	14.4%	14.4%	50.6%	67.4%	14.7%	10.0%	3.5%

5-year average net value added by major asset class

	Equities UK	Equities EAFE	Equities Global	Equities	Bonds	Domestic Property	Private Equity[1]
Your fund	-0.6%	-0.6%	-0.2%	-0.4%	0.8%	-0.3%	19.0%
Global average	-0.3%	0.2%	0.2%	0.1%	-0.1%	-0.3%	-0.9%
LGPS average	-0.2%	-0.1%	-0.1%	0.0%	-0.2%	-0.3%	2.5%

1. To enable fairer comparisons, the private equity benchmarks of all participants, except your fund, were adjusted to reflect lagged, investable, public-market indices. If your fund used the private equity benchmark suggested by CEM, your fund's 5-year private equity net value added would have been 5.2%.
2. 5-year average.

We compare your costs to the following custom peer group:

- 20 Global sponsors from £3.3 billion to £8.8 billion
- Median size of £5.3 billion versus your £5.1 billion

- Peers are selected based on size (because size impacts costs) and to include both LGPS and non-LGPS funds (to help you understand how your costs compare with a broad cross-section of funds).
- We specifically exclude other LGPS funds from your pool because costs will increasingly be homogenous within the pool.

LGPS Funds

East Riding Pension Fund
Essex Pension Fund
Lothian Pension Fund
Merseyside Pension Fund
Rhondda Cynon TAF Pension Fund
South Yorkshire Pensions Fund
Staffordshire Pension Fund
Surrey Pension Fund
Teesside Pension Fund
Tyne and Wear Pension Fund

Non-LGPS Funds

Colleges of Applied Arts and Technology
District of Columbia Retirement Board
Houston Police Officers Pension System
Manitoba Civil Service Superannuation Fund
Missouri State Employees' Ret. Sys.
OSOOL Total Pension Fund
Saskatchewan Public Employees Pension Fund
Stichting BPF voor de Koopvaardij
BPF voor de Media PNO
SPF TNO

We are benchmarking investment costs of £32.1m or 64.9 basis points in 18/19.

Costs by asset class and style (£000s)	Internal	External Management				
	Active	Passive fees	Active base fees	Perform. fees	Total	
Equities UK		39	618		656	
Equities Emerging			1,042		1,042	
Equities Global		373	2,115	920	3,407	
Bonds Global Credit			494		494	
Bonds Inflation Indexed		40			40	
Hedge Fund - FoFs						
Top Layer Fees [3]			1,096	213	1,309	
Underlying Fees [4 5]			1,147	738	1,885	
Domestic Property [1 2]	2,702		122	18	2,842	
Diversified Private Equity - FoFs						
Top Layer Fees [6]			3,088	787	3,875	
Underlying Fees [7 8]			5,487	2,973	8,460	
Private Credit - LP [9 10]			4,371	1,262	5,633	
Total					29,643	59.9bp
Total oversight, custody & other costs*					2,454	5.0bp
Total benchmarked costs					32,097	64.9bp

Benchmarked investment costs exclude transaction costs, pension administration costs and non-investment related governance and oversight costs. Your 2018/19 financial statements report investment costs of £15.68 million plus transaction costs of £0.832 million. The costs benchmarked in this report of £32.097 million are different than your reported £15.68 million because 1) CIPFA's standard definition of investment costs differs from CEM's standard definition and 2) CEM's use of defaults often adds "difficult to obtain" costs.

*£838.5K of the Total oversight, custody & other costs relate to the fees paid for the management of the pool.

Defaults:

The numbers in italics represent the base fees calculated from the Limited Partnership details provided by you. Shaded numbers are defaults applied by CEM, either because data was missing, incomparable, difficult to obtain or outside acceptable ranges with no explanation. Defaults are either peer or universe medians, intended to show indicative costs.

1. £122k = (34 bps)
2. £18k = (5 bps)
3. £213k = (24 bps)
4. £1,147k = (129 bps)
5. £738k = (83 bps)
6. £787k = (49 bps)
7. £5,487k = (156 bps)
8. £2,973k = (185 bps)
9. £4,371k = (141 bps)
10. £1,262k = (74 bps)

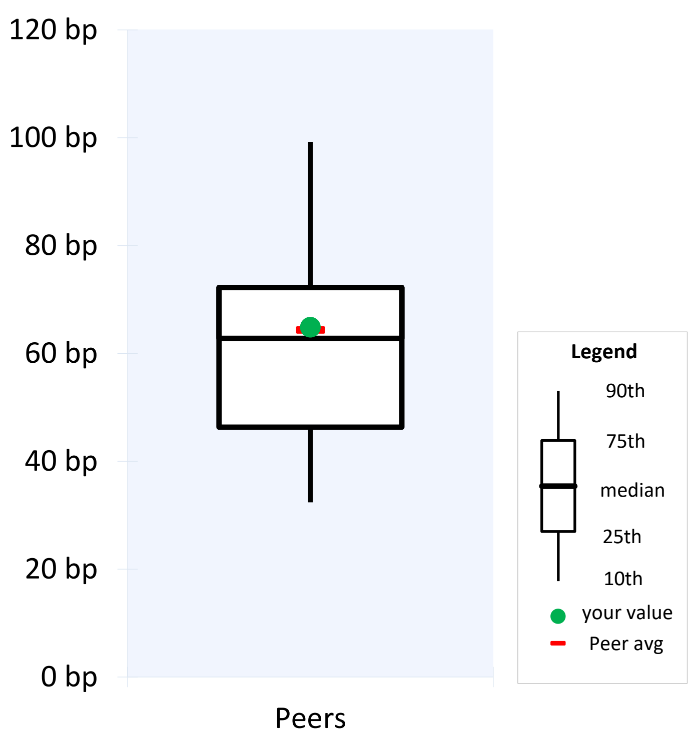
Your cost of 64.9 bps was above your benchmark cost of 58.0 bps.

Comparison of costs before adjusting for asset mix:

Before adjusting for differences in asset mix, your costs of 64.9 bps were 2.1 bps above the peer median of 62.8 bps.

Your cost versus peers

(before adjusting for asset mix differences)



Comparison of costs after adjusting for asset mix:

To calculate a benchmark cost we apply peer median costs at an asset class level to your asset mix (i.e., we adjust for differences in asset mix).

Your cost versus benchmark

(after adjusting for asset mix differences)

	£000s	basis points
Your total investment cost	32,097	64.9 bp
Your benchmark cost	28,708	58.0 bp
Your excess cost	3,389	6.9 bp

Your fund was high cost because you had a higher cost implementation style and you paid more than peers for some services.

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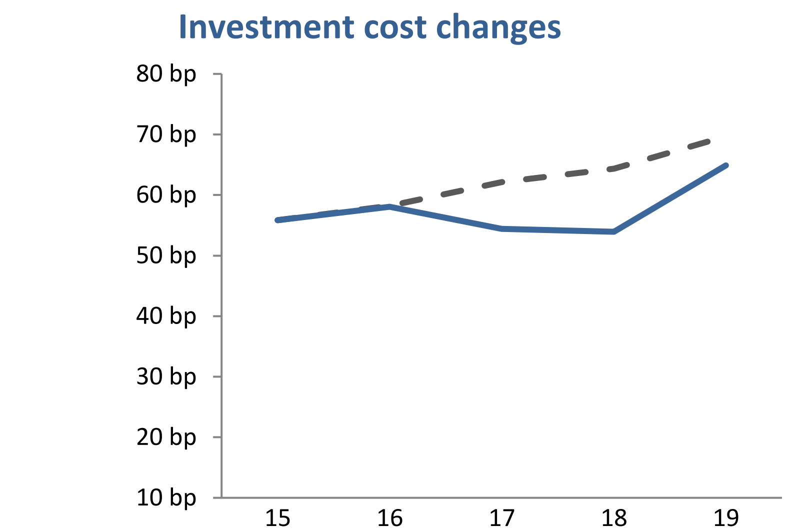
Explanation of your cost status

	You	Peer Median	Excess Cost/ (Savings) £000s	Excess Cost/ (Savings) bps
1. Higher cost implementation style				
• More passive management (vs. higher cost active)			(2,805)	(5.7)
• More external management (vs. lower cost internal)			1,249	2.5
• More partnerships for private assets (vs. funds)			712	1.4
• More fund of funds			3,162	6.4
• Less overlays			(367)	(0.7)
			1,951	3.9
2. Paying more than peers for some services				
• External investment management costs	You	Peer Median		
Equities Global - External Active	38.3 bp	42.4 bp	(325)	(0.7)
Equities Global - External Passive	2.4 bp	4.4 bp	(293)	(0.6)
Hedge Funds - Fof - Base Fees	123.3 bp	90.8 bp	289	0.6
Bonds Global Credit - Active	12.8 bp	19.5 bp	(262)	(0.5)
All other differences			(94)	(0.2)
• Internal investment management costs			1,876	3.8
• Oversight, custody and other costs			247	0.5
			1,438	2.9
Total excess cost			3,389	6.9

Your cost increased from 55.8 bps in 14/15 to 64.9 bps in 18/19.

	Bps	£000s
Investment cost reported in 2014/15	55.8 bp	£19,652
Impact of changes in assets and asset mix		
• Increase in assets[1]	n/a	£7,970
• Higher cost asset mix[2]	16.5 bp	£8,185
• Reduced use of overlays	(2.7) bp	£-1,341
	69.7 bp	£34,466
Impact of changes within the same asset classes		
• More passive (less active)[3]	(3.5) bp	
• More external management (vs. internal)	3.7 bp	
• Higher/-lower fees for:		
• Equities and bonds[4]	(3.2) bp	
• Private markets and hedge funds:		
Lower base fees	(1.2) bp	
Lower performance fees	(1.6) bp	
• Higher oversight and other changes	1.0 bp	
Total changes in underlying costs	(4.8) bp	£-2,369
Investment cost in 2018/19	64.9 bp	£32,097



	15	16	17	18	19
Asset mix impact	55.8	58.2	62.1	64.4	69.7
Actual cost	55.8	58.0	54.4	53.9	64.9
• Change in underlying (bp)		-0.2	-7.7	-10.4	-4.8
• Change in underlying in £mils		-0.1	-3.2	-4.9	-2.4
• Cumulative (£mils)					-10.5

1. Assumes all costs increase in line with the value of assets.
2. Between 2015 and 2019, your holdings in higher cost assets increased (Emerg. Stock: £88 mil to £117.8 mil; PE FoF (fee basis): £144 mil to £360.7 mil; Priv. Credit: £73 mil (2017) to £380 mil).
3. Between 2015 and 2019, your holdings in both External Passive Global Stock and External Passive Inflation Indexed bonds increased by £483 mil and £179 mil respectively.
4. Between 2015 and 2019, your base fees basis point in both equities and bonds decreased (equities: 19.3 bps to 13.6 bps; bonds: 7.8 bps to 6 bps).

Cost Effectiveness

Your 2018/19 performance placed in the negative value added, high cost quadrant of the cost effectiveness chart.

Your 5-year performance placed in the negative value added, low cost quadrant of the cost effectiveness chart.

2018/19 net value added versus excess cost

(Your 2018/19: net value added -4 bps, excess cost 7 bps [1])

5-Year net value added versus excess cost

(Your 5-year: net value added -16 bps, cost savings 1 bps [1])

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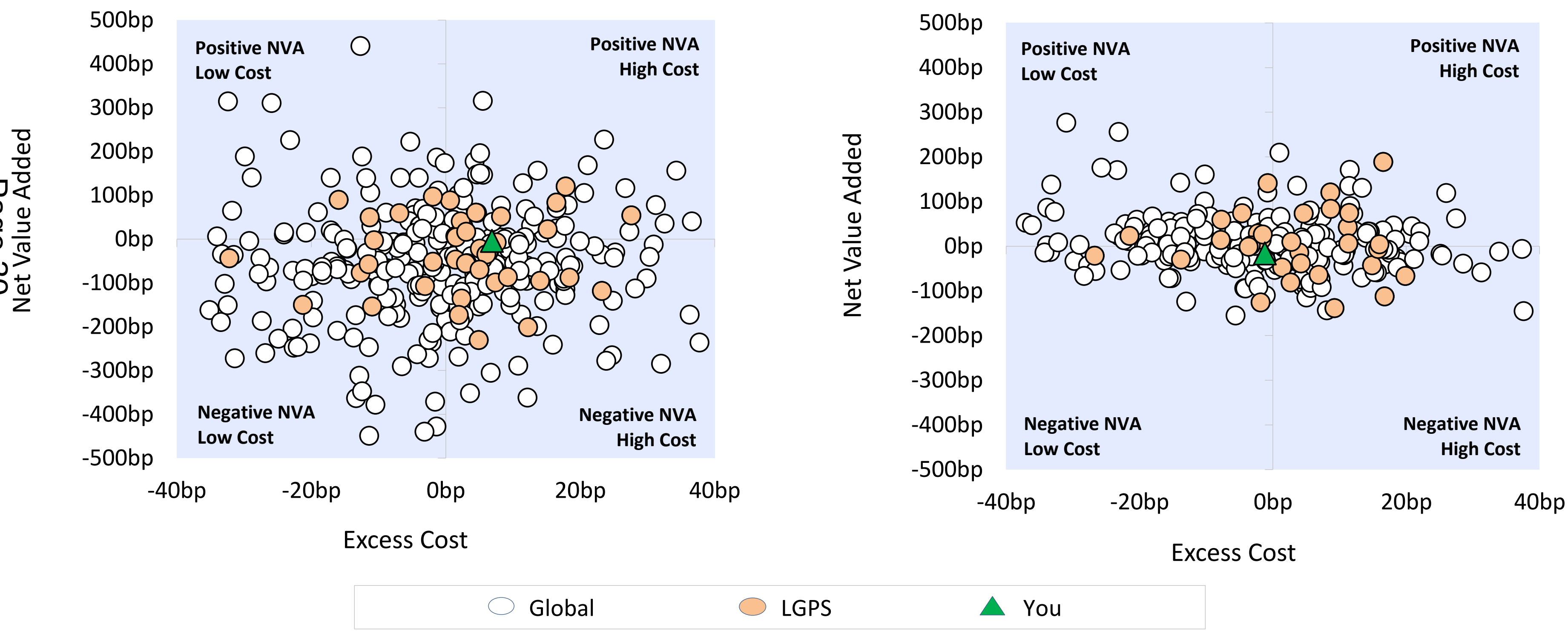

1. Your 5-year cost savings relative to peers of 1 basis points is the average for the past 5 years. Cost savings before 2016/17 are calculated using regression analysis.

Key takeaways

Returns

- Your 5-year net total return was 9.0%. This was above the LGPS median of 8.6% and above the global median of 6.7%.
- Your 5-year-year benchmark return was 9.2%. This was above the LGPS median of 8.7% and above the global median of 6.7%.

Risk

- Your asset risk of 11.4% was above the LGPS median of 11.0%. Your asset-liability risk of 11.6% was above the LGPS median of 11.2%.
- Your funding level of 96% on the standard GAD basis in 2016 was below the LGPS median of 97%.

Value added

- Your 5-year net value added was -0.2%. This was slightly below the LGPS median of 0.1% and close to the global median of 0.0%.

Cost

- Your investment cost of 64.9 bps was above your benchmark cost of 58.0 bps. This suggests that your fund was high cost compared to your peers.
- Your fund was high cost because you had a higher cost implementation style and you paid more than peers for some services.
- Your cost increased from 55.8 bps in 14/15 to 64.9 bps in 18/19.

PENSIONS COMMITTEE – 25 SEPTEMBER 2020

Report of the Director of Corporate Services and County Treasurer (S151)

Staffordshire Pension Fund Audit Plan 2019/20

Recommendation of the Chairman

1. To note the external auditor's plan for the audit of the Staffordshire Pension Fund (the Fund) for the 2019/20 financial year.

   (Please note this was the plan provided in June 2020 prior to the commencement of the audit, which was subsequently delayed due to Covid-19).

Background

2. The audit will be undertaken by Ernst and Young (EY) who are also the County Council's auditors.

3. The Fund accounts will be audited as part of the County Council's accounts.

4. The document at Appendix 2, the Audit Plan, details how EY intend to carry out their responsibilities as auditors and is an assessment of the key issues which they believe will affect the audit.

5. Appendix 2 has also been reported to the County Council's Audit and Standards Committee, as part of the normal audit arrangements.

6. Although the Fund is audited as part of the County Council's accounts, EY will issue a separate opinion on the Fund and produce a Fund specific Audit Findings Report (ISA260). This will be reported to both the Pensions Committee and the Audit and Standards Committee in due course.

John Tradewell	**Rob Salmon**
Director of Corporate Services	**County Treasurer (S151)**

Contact: Melanie Stokes, Head of Treasury & Pensions
Telephone Number: (01785) 276330

Background Documents: None

Appendix 1

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

Legal implications: The legal implications are dealt with in the body of the report.

Resource and value for money implications: The costs of the audit are included in the Audit Plan.

Risk implications: The Audit Plan identifies a number of risk areas to be considered as part of the Audit and also seeks to identify any changes in risk.

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

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

Staffordshire Pension Fund

Audit planning report

Year ended 31 March 2020

26 June 2020

EY

Building a better working world

Staffordshire County Council
No 1 & 2 Staffordshire Place,
Tipping Street,
Stafford, ST16 2DH

26 June 2020

Dear Audit and Standards Committee/Pension Committee Members

Staffordshire Pension Fund - Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor of the Staffordshire Pension Fund (the 'Fund'). Its purpose is to provide the Audit and Standards Committee and Pension Committee with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving an effective audit for the Pension Fund, and outlines our planned audit strategy in response to them. We will update the Committees if we identify any further risks during the year. This report is intended solely for the information and use of the Audit and Standards Committee and Pension Committee and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with the Audit and Standards Committee on 20 April 2020 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Contents

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Audit and Standards Committee, Pension Committee and management of Staffordshire County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Standards Committee, Pension Committee and management of Staffordshire County Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Standards Committee, Pension Committee and management of Staffordshire County Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2019/20 audit strategy

Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Standards Committee and Pension Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk	Risk identified	Change from PY	Details
Management Override: Misstatements due to fraud or error	Fraud risk	**No change** in risk	As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.
Investment Income and Assets – Investment Journals	Fraud risk	**No change** in risk,	Linking to the management override risk above we have identified the most likely area is to affect investment income and assets in the year, specifically through journal postings.
Valuation of unquoted investments	Significant risk	**No change** in risk	The Fund's investments include unquoted pooled investment vehicles and private equity funds (10% of the total Funds assets at September 2019). Judgements are taken by the Investment Managers to value those investments whose prices are not publically available. The material nature of Investments means that any error in judgement and estimates could result in a material valuation error.
Valuation of directly held properties	Other financial statement risk	**No change in risk**	The Fund has a significant portfolio of directly held property investments (8% of the total Fund assets at September 2019). The valuation of land and buildings is subject to a number of assumptions and judgements. A small movement in these assumptions could have a material impact on the financial statements.
Local Government Pension Scheme (LGPS) Asset Pooling Arrangements	Other financial statement risk	**No change in risk**	The Fund is one of the eight Partner Funds of LGPS Central Ltd, which has been established to manage the pooled investment assets of nine Local Government Pension Scheme Fund across the centre of England. The Fund allocated 10% of its Strategic Asset Allocation (SAA) (approximately £500 million) to the LGPS Central Active External Global Equity Multi Manager Sub-Fund (GE Sub-Fund) in 2019 and expects to allocate further funds to the pool by 31 March 2020. The Fund needs to ensure an effective transfer of assets and ensure the accounting treatment and disclosure in the accounts is appropriate.

Overview of our 2019/20 audit strategy

We will also take into consideration the steps taken by the Fund to consider the impact of EU Exit on its preparation of the accounts, including any significant changes in the valuation of assets post EU Exit. Although the precise impact cannot yet be modelled, we anticipate that Authorities will be carrying out scenario planning to assess the funding strategy to deliver and to manage the Fund in longer term.

Materiality

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Planning materiality

£47.4m

We have set materiality at £47.4 million, which represents 1% of the prior year's net assets of the scheme available to fund benefits. The Staffordshire Pension Fund meets the criteria for being classified as a major local audit. The basis on which materiality has been set for 2019/20 is consistent with that used in 2018/19.

Performance materiality

£23.7m

We have set performance materiality at £23.7 million, which represents 50% of materiality.

Audit differences

£2.4m

We will report all uncorrected misstatements relating to the primary statements (Net Assets Statement and Pension Fund Accounts) greater than £2.6 million. We will communicate other misstatements we identify to the extent that they merit the attention of the Audit and Standards Committee and Pension Committee.

Overview of our 2019/20 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Staffordshire Pension Fund give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Pension Fund.

Triennial valuation as at 31 March 2019

In addition to the above, we also perform procedures in relation to the IAS 19 report for the Staffordshire Pension Fund. Our work specifically focuses on gaining assurance that the data submitted to the actuary agrees to the Pension Fund's systems. For 2019/20 we will carry out specific procedures relating the data submitted to inform the triennial valuation of the fund.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks of providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with Public Sector Audit Appointments (PSAA) allow them to vary the fee dependent on 'the auditors assessment of risk and the work needed to meet their professional responsibilities'. PSAA are aware that the setting of scale fees has not kept up to date with the changing requirements of external audit with increased focused on, for example, pension obligations and management judgements as well as the introduction of new accounting standards such as IFRS 16. Therefore to the extent any of these are relevant in the context of Staffordshire Pension Fund's audit we will discuss with management as to the impact on the scale fee.

Audit team changes

Suresh Patel will continue as your Engagement Lead operating remotely but working closely with Stephen Clark who is the Engagement Lead for the County Council audit. Andy Reid is replacing Vicky Chong as audit manager. Andy is a Senior Manager with over 20 years experience of auditing local authorities and local government pension funds. He is a fellow of the Institute of Chartered Accountants in England and Wales and has already established a good working relationship with the Pension Fund manager.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Management Override: Misstatements due to fraud or error*	What is the risk?	What will we do?
	The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement. Linking to our risk of management override we have considered the Investment Journals (see below).	In order to address this risk we will carry out a range of procedures including: ▸ Identifying fraud risks during the planning stages. ▸ Inquiry of management about risks of fraud and the controls put in place to address those risks. ▸ Understanding the oversight given by those charged with governance of management's processes over fraud. ▸ Consideration of the effectiveness of management's controls designed to address the risk of fraud. ▸ Determining an appropriate strategy to address those identified risks of fraud. ▸ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements. ▸ Assess the nature of any significantly unusual transactions identified. ▸ Consider if management bias is present in the key accounting estimates and judgements in the financial statements.

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Our response to significant risks (continued)

Investment Income and Assets - Investment Journals*	What is the risk?	What will we do?
	As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively (see above). We have therefore considered the key areas where management has the opportunity and incentive to override controls that could affect the Fund Account and the Net Asset Statement. We have identified the main area being investment income and asset valuations where figures taken from custodian/fund managers reports are incorrectly posted to the general ledger in the year, specifically through journal postings.	Our approach will focus on: • Test journals at year-end to ensure there are no unexpected or unusual postings; • Undertake a review of reconciliation to the fund manager and custodian reports and investigate any reconciling differences; • Re-perform the detailed investment note using the reports we have acquired directly from the custodian or fund managers; • Check that reconciliation of holdings included in the Net Assets Statement back to source reports; • For quoted investment income we will agree the reconciliation between fund managers and custodian back to source reports.

Our response to significant risks (continued)

Valuation of unquoted investments*

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Financial statement impact

Misstatements that occur in relation to the valuation of unquoted investments could affect the Net Assets of the Fund.
The values of unquoted investments at September 2019 were:

Private Equity: £193.3 million

Private Debt: £229.6 million

Hedge Funds: £89.7 million

What is the risk?

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively (see above).

The Fund's investments include unquoted pooled investment vehicles and limited partnerships. Judgements are taken by the Investment Managers to value those investments whose prices are not publically available. The material nature of investments means that any error in judgement and estimate could result in a material valuation error.

Current market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the Fund year end. Such variations could have a material impact on the financial statements.

The proportion of the fund comprising of these investment types at September 2019 is at circa 10%, and as these investments are more complex to value, even a small movement in these assumptions could have an impact on the financial statements.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- Document and walkthrough the process and design of the controls over the valuation process.
- Review the relevant investment manager controls' reports for qualifications or exceptions that may affect the audit risk.
- Review the basis of valuation for unquoted investments and ensure it is in line with the accounting policy.
- Perform tests of valuation by obtaining the latest available audited accounts and agreeing the net asset value per the confirmation received to the audited accounts provided.
- Where the audited accounts do not have the same year end as the Fund we will perform other procedures to obtain assurance that the movement to 31 March 2020 is reasonable.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

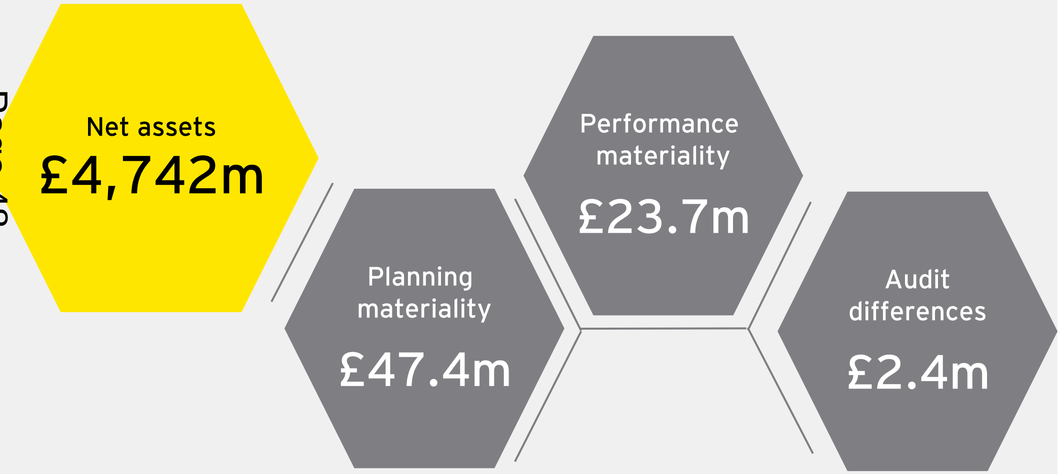
What is the risk/area of focus?	What will we do?
Valuation of directly held properties The Fund has a significant portfolio of directly held property investments. The valuation of land and buildings is subject to a number of assumptions and judgements. A small movement in these assumptions could have a material impact on the financial statements.	We will: ▸ Assess the competence of management experts; ▸ Review the basis of valuation for properties and assessing the appropriateness of the valuation methods used; and ▸ Perform analytical procedures and checking the valuation output for reasonableness against our own expectations ▸ Consider what impact, if any, the introduction of IFRS16 Lease Accounting for 2020/21 may have on the Funds' accounting and disclosures for directly held properties.
LGPS Asset Pooling Arrangements Staffordshire Pension Fund is one of the eight Partner Funds of LGPS Central Ltd, which has been established to manage the pooled investment assets of nine Local Government Pension Scheme Fund across the centre of England. The Fund allocated 10% of its Strategic Asset Allocation (SAA) approximately £500 million to the LGPS Central Active External Global Equity Multi Manager Sub-Fund (GE Sub-Fund) in 2019 and is expected to transfer further investments to the pool in 2019/20. The Fund needs to ensure an effective transfer of the assets and that the costs and savings are managed in accordance with the agreed business case. In addition, the Fund needs to ensure it obtains the relevant assurances over the fund manager and custodian arrangements.	We will: ▸ Review how the transfers have been accounted for, including the external confirmation and the valuation received from fund managers at year-end; ▸ Review and test accounting entries and disclosures made within the Fund's financial statements in relation to the asset pooling; ▸ Review the governance arrangements in place to manage the costs and savings; ▸ Obtain the relevant service auditor (ISAE 3402) reports relating to the fund managers and custodian.

03 Audit materiality

Materiality

Materiality

For planning purposes, we have set planning materiality for 2019/20 at £47.4m. This represents 1% of the Pension Fund's prior year net assets. We will reassess this throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



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We request that the Audit and Standards Committee and Pension Committee confirm their understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at 50% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the fund account and net asset statement. This was calculated as 5% of planning materiality, which is consistent year on year.

Other uncorrected misstatements, such as reclassifications and misstatements in the disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Committees, or are important from a qualitative perspective.

04 Scope of our audit

Scope of our audit

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Pension Fund's financial statements to the extent required by the relevant legislation and the requirements of the Code. We issue an audit report that covers:

Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland). We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error; Significant disclosures included in the financial statements; Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements.

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2019/20 we plan to follow a substantive approach to the audit, as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit and Standards Committee and Pension Committee.

Internal audit:

We will meet regularly with the Head of Internal Audit, and review internal audit plans and the results of the team's work. We will reflect any findings in our audit plan, where they raise issues that could have an impact on the financial statements.

05 Audit team

Audit team

The engagement team is led by Suresh Patel, who has significant experience on local government audits. Suresh is supported by Andy Reid, Senior Manager, who has replaced Vicky Chong as the audit manager. He is responsible for the day-to-day direction of audit work and is the key point of contact for the Chief Accountant.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of directly held properties	Savills (Staffordshire Pension Fund valuer) EY Real Estates Team if we deem it necessary
Pensions disclosure	Hymans Robertson (Staffordshire Pension Fund actuary) PwC (Consulting Actuary to the NAO) EY Pensions Advisory Team if we deem it necessary
Investment Valuation	The Pension Fund's custodian (Northern Trust) and fund managers EY Derivatives and Valuation Centre if we deem it necessary

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In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

06 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019/20.

We have discussed this timetable with the Pension Fund to assess the potential impact of the covid-19 emergency on the Fund's ability to deliver draft financial statements by 31 May 2020 and to support an audit process throughout June and July 2020. At the current time we have agreed to adhere to the timetable as set out which had previously been agreed with the Council, but will continue to assess the appropriateness of this timetable through regular discussions with Council staff

From time to time matters may arise that require immediate communication with the Audit and Standards Committee and we will discuss them with the Audit and Standards Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

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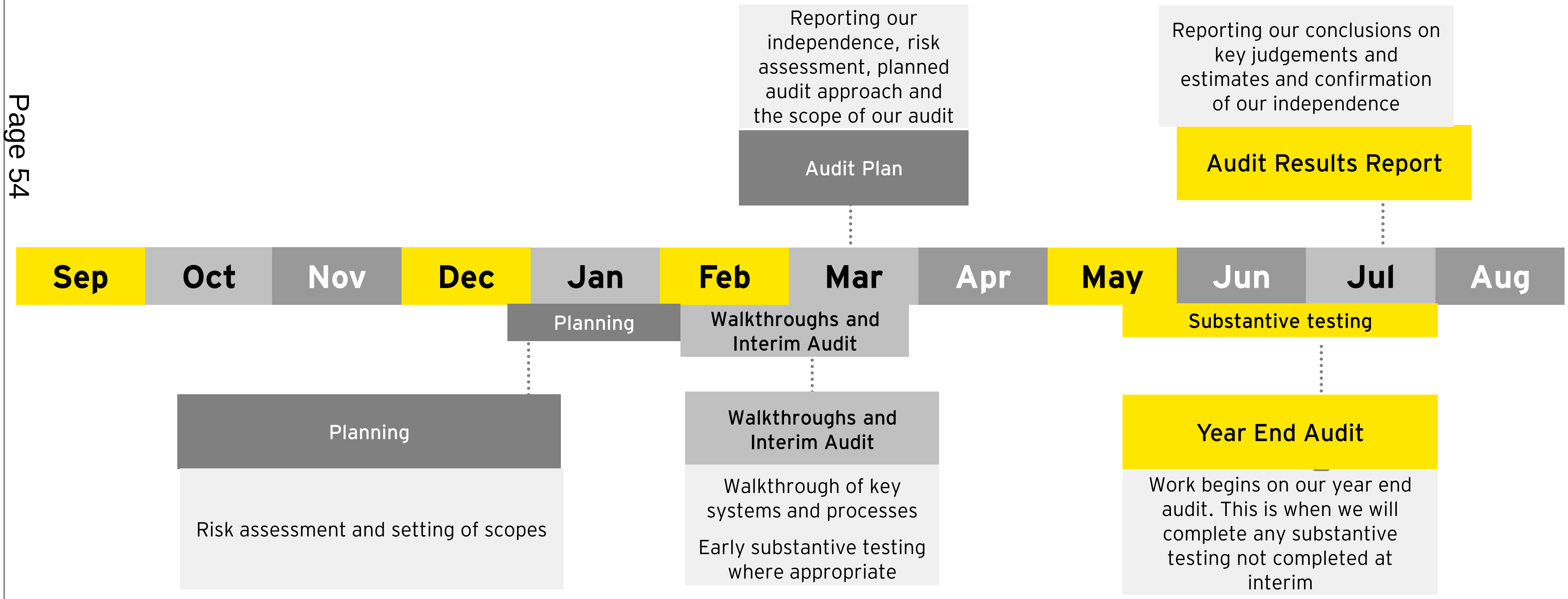

07 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ Any principal threats to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence.	▸ In order for you to assess the integrity, objectivity and independence of the firm and your audit team, we must provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to consider relationships with the Council, its directors and senior management, its affiliates, and its connected parties and any threats to integrity or objectivity, including those that could compromise independence. We are also required to disclose any safeguards that we have, and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged for them; ▸ Written confirmation that all team members are independent; ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▸ An opportunity to discuss auditor independence issues.

During the audit, we must communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of any necessary safeguards, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged for the provision of services during the reporting period are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Suresh Patel, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Fund. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved. None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%. At the time of writing, there are no non-audit services provided by us to Pension Fund.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4. There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements. There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Fund. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work. There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise. There are no other threats at the date of this report.

Other communications

EY Transparency Report 2019
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2019 and can be found here: https://www.ey.com/en_uk/who-we-are/transparency-report-2019

08 Appendices

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code, the financial reporting requirements set out in the Code of Practice on Local Fund Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2019/20	Final Fee 2018/19
	£	£
Scale Fee - Code work **(1)**	**22,050**	22,050
Rebasing of pension fund audit fee (3)	TBC	-
IAS19 and assurances	6,000	5,500
Additional fee for work on the 2019 triennial valuation of the Fund that has yet to be determined and agreed by PSAA **(2)**	12,000	-
Total indicative Pension Fund fee	TBC	27,550

The agreed fee presented is based on the following assumptions:

- ► Officers meeting the agreed timetable of deliverables;
- ► Our accounts opinion being unqualified;
- ► Appropriate quality of documentation is provided by the Pension Fund; and
- ► The Pension Fund has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Pension Fund in advance.

All fees exclude VAT

1. For 2019/20 the scale fee may be impacted by a range of factors (see page 7), which we will update the Committee on, as the audit progresses
2. For 2019/20 we will need to undertake some further work to gain assurance over the 2019 triennial valuation of the Fund. The triennial valuation informs both the assessment of the IAS19 liabilities in the Council's financial statements and the actuarial present value of promised retirement benefits in the Pension Fund financial statements. We will update the Committee with further details of the additional fee in due course.
3. We have rebased our 2019/20 audit fee to take full account of the impact of a range of sector wide factors as set out on pages 27.

Appendix A

Fees

We do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity. For an organisation such as Staffordshire Pension Fund the extent of audit procedures now required mean it will take around 700 hours to complete a quality audit. Based on our own modelling of the inputs required to complete an external audit of the Pension Fund concludes that a more appropriate scale fee for the delivery of an external audit to the Pension Fund would be in the region of £52,500. This does not include any potential impact of covid-19 on the audit process for 2019/20.

Summary of key factors impacting on base fee assessment

1. **Status of sector.** Financial reporting and decision making in local government pension funds has become increasingly complex. This has also brought increasing risk about the financial sustainability / going concern of bodies given the current status of the sector.

   - To address this risk our procedures now entail higher samples sizes of transactions, the need to increase our use of analytics data to test more transactions at a greater level of depth. This requires a continual investment in our data analytics tools and audit technology to enhance audit quality. This also has an impact on local government with the need to also keep pace with technological advancement in data management and processing for audit.

2. **Audit of estimates.** There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities. Local government pension funds hold significant levels of hard to value investments for which the valuation is based on estimates and judgements.

   - To address these findings, our required procedures now entail higher samples sizes, increased requirements for corroborative evidence to support the assumptions and use of our internal specialists.

3. **Regulatory environment.** Other pressures come from the changing regulatory landscape and audit market dynamics:

   - Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice are all shaping the future of Local Audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors, with the potential for increased financial penalties should audit firms fail to meet the increased regulatory requirements

   - This means continual investment in our audit quality infrastructure in response to these regulatory reviews and to changes in auditing and accounting standards. As a firm our compliance costs have now doubled as a proportion of revenue in the last five years. The regulatory lens on Local Audit specifically, is greater. We are three times more likely to be reviewed by a quality regulator than other audits, again increasing our compliance costs of being within this market.

Fees

Summary of key factors impacting on base fee assessment (cont'd)

4. As a result of the above factors, Public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables. We need to invest over a five to ten-year cycle to recruit, train and develop a sustainable specialist team of public sector audit staff to enable us to provide the highest performing audit teams, maintain the high standard of client service which you would expect and protect audit quality.

Required communications with the Audit & Standards Committee

We have detailed the communications that we must provide to the Audit & Standards Committee.

Required communications	What is reported?	Our Reporting to you When and where
Terms of engagement	Confirmation by the Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report - March 2020
Significant findings from the audit	▸ Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Any significant difficulties encountered during the audit ▸ Any significant matters arising from the audit which were discussed with management ▸ Written representations we have requested ▸ Expected modifications to the audit report ▸ Any other matters significant to the oversight of the financial reporting process	Audit results report - July 2020

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Required communications with the Audit & Standards Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Audit results report - July 2020
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Corrected misstatements that are significant ▸ Material misstatements corrected by management	Audit results report - July 2020
Fraud	▸ Enquiries of the Audit & Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ A discussion of any other matters related to fraud	Audit results report - July 2020
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures, Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Audit results report - July 2020

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Required communications with the Audit & Standards Committee (continued)

Required communications	What is reported?	Our Reporting to you: When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016: ▸ Relationships between EY, the Council and senior management, its affiliates and its connected parties ▸ Services provided by EY that may reasonably bear on the auditors' objectivity and independence and related safeguards ▸ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▸ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▸ Details of any inconsistencies between the Ethical Standard and the Council's policy for the provision of non-audit services, and any apparent breach ▸ Details of any contingent fee arrangements for non-audit services ▸ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▸ The Audit & Standards Committee should also be provided an opportunity to discuss matters affecting auditor independence	Audit planning report - March 2020 Audit results report - July 2020

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Appendix B

Required communications with the Audit & Standards Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Public Interest Entities	For the audits of financial statements of public interest entities our written communications to the Audit & Standards Committee include: ▸ A declaration of independence ▸ The identity of each key audit partner ▸ The use of non-member firms or external specialists and confirmation of their independence ▸ The nature and frequency of communications ▸ A description of the scope and timing of the audit ▸ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits ▸ Materiality ▸ Any going concern issues identified ▸ Any significant deficiencies in internal control identified and whether they have been resolved by management ▸ Actual or suspected non-compliance with laws and regulations identified relevant to the Audit & Standards Committee ▸ The valuation methods used and any changes to these including first year audits ▸ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework ▸ The completeness of documentation and explanations received ▸ Any significant difficulties encountered in the course of the audit ▸ Any significant matters discussed with management ▸ Any other matters considered significant	Audit planning report - March 2020 Audit results report - July 2020

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Required communications with the Audit & Standards Committee (continued)

Required communications	What is reported?	Our Reporting to you When and where
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report - July 2020.
Consideration of laws and regulations	▸ Audit findings regarding non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▸ Asking the Audit & Standards Committee about possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that they may know about	Audit results report - July 2020.
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit results report - July 2020.
Representations	Written representations from management and/or those charged with governance	Audit results report - July 2020.
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - July 2020.
Auditors report	▸ Key audit matters which we will include in our auditor's report ▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results report - July 2020. ..
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit results report - July 2020.

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	▸ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. ▸ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund's internal control. ▸ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. ▸ Concluding on the appropriateness of management's use of the going concern basis of accounting. ▸ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. ▸ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Pension Fund to express an opinion on the financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the S&GP Committee reporting appropriately addresses matters communicated by us to the Audit & Standards Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and ▸ Maintaining auditor independence.

Appendix C

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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PENSIONS COMMITTEE – 25 SEPTEMBER 2020

Report of the Director of Corporate Services

Staffordshire Pension Fund Business Plan 2020/21

Recommendation of the Chairman

1. That the Pensions Committee approves the Staffordshire Pension Fund Business Plan 2020/21, attached at **Appendix A** and notes the key challenges surrounding its delivery.

Background

2. For reasons of best practice and good governance, it is important for the Pensions Committee to consider and approve an annual Business Plan for the Pension Fund. Historically, if presented in March, this report would have asked the Committee to review progress against the 2019/20 financial year's Business Plan and based on that, approve a proposed Business Plan for the 2020/21 financial year. However, given the postponement of the March and June Pensions Committee meetings, as a result of the Covid-19 pandemic, this report seeks retrospective approval of the 2020/21 Business Plan only.

3. The 2019/20 Business Plan update will be presented to Pensions Committee in October 2020, as part of the Outturn Report and the Pension Fund's Annual Report and Accounts.

Business Plan 2020/21

4. The Business Plan for 2020/21 is, once again, split into 2 distinct sections. The first section deals with Key Development Activities which aim to make the way we work more efficient and effective. The second section deals with the activities that we need to undertake as part of the day job, but which impact us significantly at certain points in the year or which happen as a by-product of another activity e.g. finalising the year end data. Several of last years development activities have now been re-categorised into Business as Usual activity, including the continuing review and updating of our website and our various policies.

5. Some of the areas that the Pensions Services Teams have identified as Key Development Activities in 2020/21 include:

- Review / Undertake a Mortality / Living as Stated / Tracing Exercise, to improve the quality of the data we hold about our Deferred Members, with a focus on improving the Fund's Data Score, reported to the Pensions Regulator;

- 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;

- Assessing the output from the Scheme Advisory Board's Good Governance Review and considering how best to implement any actions identified;

- Continued promotion of My Pensions Portal (MPP), the self-service area of the Pension Fund website (www.staffspf.org.uk); including the introduction of new functionality that will be available to scheme members, as the software is developed; and

- Maintaining effective pool Governance and monitoring asset transitions into LGPS Central as more sub-funds are launched.

Pensions Administration – Key Development Activities

Tracing Services

6. The Staffordshire Pension Fund has an unusually high level of Deferred Members who have a Pensions record but no longer pay contributions into the Scheme; usually due to them changing their job to one which means they are no longer eligible to be a member of the LGPS. Whilst a previous driver for undertaking a tracing exercise would have been to ensure that we had the correct address to which we could send an Annual Benefit Statement (ABS), the fact that we now publish these on My Pensions Portal (MPP) instead, negates the need for a correct address, to some degree. However, given our Deferred Members are already less likely to engage with the Fund, regards change of address or personal circumstances etc, it is actually more important that we keep our records up to date and encourage them to help us do so, through MPP. Similarly, the Fund may not have received notification of death for a Deferred Member and therefore, it would also be useful to undertake a Mortality exercise. It is considered good practice to undertake a Tracing Exercise to pick these changes up, at least every 2-3 years. And whilst this was one of our Key Development Activities in 2019/20, the 2019 Actuarial Valuation had to take priority. This year we intend to take the opportunity to review the market and various providers of these services ahead of formally commencing a tender process.

i-Connect

7. Work continued throughout 2019/20 and into 2020/21, with several of the larger payroll providers to enable them to submit their pensions data monthly, via the i-Connect module in Altair, the Pensions administration system. Following some initial set-backs and given a recent increase in effort, from both sides, much of the groundwork is now coming to fruition. We recognise the need to keep the momentum going and are beginning to engage with the remainder of Employers to encourage their payroll providers to sign up. This will not only assist in the accuracy and timeliness of data, but it will also help

to ensure that the Fund is fully compliant with the Public Service Scheme Code of Practice and Public Service Regulatory Strategy in relation to the Disclosure of Data.

Good Governance Review

8. In 2019, the Scheme Advisory Board (SAB) commissioned a report to examine the effectiveness of Governance in the LGPS. After initially considering various alternative delivery models, the review refocussed itself on improving Governance across the LGPS and Hymans Robertson were appointed to assist. The output from Hymans review was published in November 2019 and contains a number or recommendations.

https://www.hymans.co.uk/media/uploads/Hymans_Robertson_Good_governance_in_the_LGPS_July_2019_final.pdf

9. Whilst an initial gap analysis has been carried out, which indicates there are no major areas of concern relating to the Governence of the Staffordshire Pension Fund, there is always room for improvement. There will also be new statements to publish e.g. Governance Compliance Statement and in due course Peer and/or External Reviews to undertake.

10. Unfortunately, Phase III of this project, which planned to introduce further Guidance, was temporarily paused by SAB as a result of Covid-19. Whilst we understand that Phase III is to once again pick up pace, we are unsure of the exact timeframe for implementation.

Member Communications and My Pensions Portal (MPP)

11. The Fund's new look website (www.staffspf.org.uk) was launched in late 2018 and we continue to receive many positive comments as we keep refreshing and updating pages, in line with the new look and feel. Whilst we have seen changes in the way Scheme Members use the website and indeed, the way staff use it in their interactions with our Members, we can still do so much more. Ultimately, our aim is to encourage all our Members to use the self-service portal, called My Pensions Portal (MPP) to undertake basic admin tasks, like changing their address but also to use MPP to estimate their retirement benefits payable in the future. Not only should this result in a fall in the number of phone calls, it should lead to a reduction in the number of ad-hoc and 'nice-to-know' benefit calculations being undertaken by the Benefits Team; freeing up their time to concentrate on providing a superior level of service at the point in time a Member does retire. Future MPP developments may allow members to complete their own status changes, e.g. a deferred member could potentially retire themselves online.

12. MPP is also the means by which Members now receive their Annual Benefits Statements (ABS). Through lockdown and whilst continuing to work from home, Pensions Services successfully completed the exercise of issuing 'Activation Key' letters to c40,000 Deferred Scheme Members and c45,000 Active Scheme Members, to allow them to sign up to MPP ahead of the

publication of their ABS on 31 August 2020. Whilst we had originally planned an extensive publicity campaign, across the Pension Fund website, emails, workplace signboards and posters, plus promotion through each individual Employers' workplace, this had to be scaled back considerably. However, there was still a better than expected response in the number of Scheme Members signing up. This was clearly not a one-off exercise and the process will need to be repeated annually going forward, to continually encourage new MPP users. Consideration will also need to be given to bringing our Pensioners on-line in 2021/22.

Pensions Investment – Key Development Activities

LGPS Asset Pooling

13. Over the last 4 years, the Committee have been regularly updated and remained engaged with the numerous complexities surrounding LGPS asset pooling and the creation of LGPS Central Limited, which was successfully launched on 1 April 2018. Work has continued at pace for Officers of the 8 Partner Funds, in order to implement and maintain that strong Governance, through regular engagement meetings with the Company and reporting to Committee.

14. Rigorous oversight of asset transitions will also continue with the Company, as the investment offering is refined and developed, to determine the next range of sub funds in which Partner Funds wish to invest. This level of Officer commitment and engagement will need to continue throughout 2020/21, as more of the Fund's assets transfer into LGPS Central Limited and transition activity increases.

Annual Report and Accounts

15. Whilst acceptable last year on a 'best endeavours' basis, performance reporting and refined accounting arrangements, will need to be considered and implemented in order that the Fund can be fully compliant with the new guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA).

Cost and Resources

16. The Pension Fund currently has five main areas of 'resource/cost';

- Pension's administration and accounting (internal);
- Advice from actuary and consultants/advisors (external);
- Legal support either internal or external;
- Investment management (external);
- Custody (external).

17. Several costs are very difficult to anticipate for example, costs for investment advice and legal support vary depending on the level of activity. Investment Management fees vary dependent of the GBP(£) amount of assets under

management (AUM) and the level of manager performance, impacting on the payment of performance related fees. Therefore, it is likely that there could be considerable variation in the final outturn position.

18. CIPFA reporting guidance states it is good practice to produce a three-year budget and Table 1 illustrates our best estimate of the likely budget costs for the three years commencing 2020/21. Clearly, given the difficulty outlined in the previous paragraph these are indicative costs only and as such will be subject to further variation with changes over time.

19. The indicative costs have been produced using the information we had available in March 2020, with reasonable assumptions being made about growth in AUM and levels of activity. However, even small changes in activity levels combined with other factors, such as increases in the governance and running costs of LGPS Central Limited or contra to that, reduced investment manager fees, as a direct or indirect result of asset pooling, could create significant variations from these figures.

Table 1 - Indicative Pension Fund Costs 2020-2023

Cost Heading	**2020/21**	**2021/22**	**2022/23**
	£000	**£000**	**£000**
Pensions Administration	2,540	2,590	2,640
Governance*	1,430	1,470	1,510
Audit	30	40	40
Actuarial Fees	130	140	290
Legal Fees	140	140	150
Investment Advice	330	340	350
Investment Management Fees**	13,710	13,490	13,280
Property Expenses (ex-legal)	2,120	2,180	2,250
Monitoring and Custody	70	60	60
Other expenses	460	480	490
Total	20,960	20,930	21,060

**Includes the running costs of LGPS Central*
*** the above does not include the cost of transition which will be taken from the capital value of assets.*

20. The LGPS Central Limited Strategic Business Plan and Budget for 2020/21, was approved by Shareholders earlier in the financial year. Whilst the full implications of this for Partner Funds is still being analysed through the 2019 cost / savings model, the Fund's estimated share of the budget is included in the Governance costs in the table above. Whilst, this includes an element of fixed cost, that the Fund must pay by virtue of being a Shareholder of the company, many other elements of cost will be dependent on a number of variables, including the services being provided to the Fund by the company

e.g. manager monitoring as well as the AUM invested in the sub-funds being offered by the company.

21. Excluded from Table 1 are transition costs; these are not a revenue cost per-se and are more typically deducted from the capital value of the assets being transitioned. However, as these are by far one of the biggest costs that pooling will generate, there is a need to ensure that they are kept to a minimum through an effective and efficient transition management process. Working with LGPS Central Limited, Partner Funds will appoint both a Transition Advisor and a Transition Manager (TM); the Advisor being appointed to provide effective and experienced challenge to the TM throughout the process. Post trade reporting of the costs of individual transitions, versus their pre-trade estimates will be reviewed by the LGPS Central Joint Committee and individual Partner Funds through their usual Governance arrangements. For Staffordshire, this will be a report to the Pensions Panel.

22. Because of the uncertainty around a number of costs highlighted in the previous paragraphs, it is not proposed to use these estimated costs for 'budget monitoring' purposes per-se but to use them as an indication. Whilst they will be compared to the budget forecast post 31 March as part of the outturn report, the Committee is asked to consider them alongside cost comparisons, benchmarking and trends to ensure that value for money is being delivered. A more detailed report on comparative outturn costs for 2019/20 will be brought to the Committee in October 2020.

Risk

23. The primary risks to the continued delivery of a pension's administration, accounting and investment monitoring service to the high standards achieved are;

- 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 will be presented elsewhere on today's Agenda.

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

25. **Legal implications:** There are no direct legal implications arising from this report albeit LGPS Regulations do have an impact on the business.

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

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

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

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

John Tradewell
Director of Corporate Services

Contact:	Melanie Stokes, Head of Treasury & Pensions
Telephone No:	(01785) 276330
Background Docs:	None

Treasury & Pensions Business Plan 2020-2021

Appendix A

Area of Service	Key Development Activity	Timetable
LGPS Pensions Administration	Review / Undertake a Mortality / Living as Stated / Tracing Exercise to improve the accuracy of membership data	31 March 2021
	Undertake an external review of Additional Voluntary Contribution providers	31 March 2021
	Continue to develop new working practices with Third Party Payroll Providers following the introduction of i-Connect	31 March 2021
	Demonstrate a general improvement in KPI's	31 March 2021
	Implementation of any remedy arising from the McCloud judgement	To be determined
Pensions Administration System	Continue to implement i-Connect with a range of smaller / larger Employers to achieve an overall target as close to 100% of Active Fund Membership data being submitted monthly	31 March 2021
	Continue review of task design in Altair	31 March 2021
	Review use of interactive dashboard in Altair	31 March 2021
Contracting Out Reconciliation	Finalise under/overpaid pensioner members following responses to enquiries with HMRC	31 March 2021 (subject to response from HMRC)
Governance	Assess the output from the Scheme Advisory Board's Good Governance Review and consider implementation of any actions identified.	31 March 2021
	Continue to review need for and develop Covenant Monitoring Process	31 March 2021
	Tender for external Legal Services provider	31 March 2021
Communications – Scheme Members	Continue to promote the use of Member Self Service / My Pension Portal (with the aim of issuing the majority of Annual Benefit Statements electronically by 31 August 2020)	31 March 2021 and beyond
Communications	Further develop and run Employer Practitioner Workshop(s) e.g	31 March 2021

Appendix A

Area of Service	Key Development Activity	Timetable
- Employers	Breaches, Ill-health retirement, IDRP. Consider more frequent and targeted workshops for different Employer Groups	
	Further develop Employer Administration policies / guides / practices and promote such to relevant Employers e.g. Ill-Health Retirement	31 March 2021
Pension Fund Investment	Continue to monitor processes, reconcile data and report performance impact following asset transitions into LGPS Central e.g. Corporate Bonds, Factor Based Investments and UK Equities planned for 2020/21	31 March 2021 (as required)
	Appoint Independent Investment Advisor to Pensions Panel	31 March 2021
	Produce Pension Fund Annual Report and Accounts in line with CIPFA's updated guidance	30 September 2020
Area of Service	**Resource Intensive – Business as Usual Activity**	**Period**
LGPS Pensions Administration	Review Pensions Services staffing levels and structure	1 April – 31 March
	Finalise Year end data	1 April - 30 July
	Publish Deferred Annual Benefit Statements	1 May – 31 August
	Publish Active Annual Benefit Statements	1 July – 31 August
	Record Keeping Data Integrity Checks and continual improvement in quality of data across the Scheme generally	1 April – 31 March
	Assess the impact of any Regulatory Changes and communicate such to all interested parties and stakeholders *	1 April – 31 March
	Review compliance with Administration Strategy	1 April – 31 March
Governance	Continue to review published policies e.g. Administration Policy	1 April – 31 March
Communications with Members and Employers	Continue to review and refine website content	1 April – 31 March
	Further develop the role of the Employer Focus Peer Group and	1 April – 31 March

Area of Service	Key Development Activity	Timetable
	the Employer Focus Newsletters	
The Pensions Regulator	Continually review compliance with The Public Service Scheme Code of Practice and Public Service Regulatory Strategy in relation to Disclosure of Data	1 April – 31 March
	Improve common and conditional data scores	1 April – 31 March
	Maintain and review Breaches Log and improve reporting to tPR	1 April - 31 March

Including but not limited to: McCloud, Exit Credits, Deemed Employers, Exit Payment Cap and LGPS Asset Pooling

Local Members Interest	
Nil	

PENSIONS COMMITTEE – 25 SEPTEMBER 2020

Report of the Director of Corporate Services

STAFFORDSHIRE PENSION FUND RISK REGISTER & RISK MANAGEMENT POLICY

Recommendations of the Chairman

1. That the Pensions Committee notes the high-level summary risks 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.

3. That the Pensions Committee approves the Risk Management Policy of the Staffordshire Pension Fund, attached at Appendix 5

Background

4. 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 Management Policy attached for approval by the Pensions Committee at Appendix 5.

5. At their meeting in June 2019, 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

6. 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.

7. 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.

8. The detailed risk register matches high-level risks, under each of the 4 areas of activity, to the Fund's 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.

9. 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.

10. 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

11. 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

12. 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.

Risk Management Policy

13. The Pension Regulator's Code of Practice recommends that a Pension Fund has a Risk Management Policy in place and that this is reviewed periodically. The risk management policy covers key areas such as:
    - The Fund's attitudes to, and appetite for risk;
    - Aims;
    - Risk measurement and management; and

- Responsibility

The updated Risk Management Policy for the Staffordshire Pension Fund is attached for approval at Appendix 5.

John Tradewell
Director of Corporate Services

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

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.

Appendix 2

Staffordshire Pension Fund Risk Register

Report by the Local Pensions Board to the Pensions Committee

25 September 2020

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 Board considers that there is value in continuing to attend meetings of the Officer Working Group.

Background

The Pensions Committee at its meeting on 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 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.*

The Pension Committee at its meetings of June 2018 and again at June 2019 accepted the content and recommendations of the Board's review of the Pension Fund Risk Register carried out during 2018/19 and requested the Board to continue to play an active role in the ongoing review process.

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.

Appendix 3

STAFFORDSHIRE PENSION FUND - RISK REGISTER - HIGH LEVEL SUMMARY

Objective	High Level Risk	Pre-control Risk Score	Controls	Source of Assurance	Post-control Risk Score
Governance					
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	**Failure to meet the highest standards of Governance and demonstrate key principles of accountability and transparency through clear responsibilities and reporting**	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
1.1 To ensure the Fund has an appropriate governance structure	**Failure to have an appropriate Governance structure in place including appropriate polices e.g. Conflicts of Interest**	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, DCLG.	9
1.2 To ensure that all Elected Members and officers have appropriate Knowledge and skills	**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**	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.	9
1.3 To ensure the Fund has appropriate financial, investment and actuarial advice	**Failure to have proper arrangements to receive appropriate advice; including appropriate procurement and monitoring of performance of advisors**	16	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
1.4 To ensure assets are safeguarded and properly accounted for and reported upon.	**Failure to have appropriate custody arrangements in place for liquid markets and illiquid investments (Inc. property)**	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).	10
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	**Failure to publish all documents required by legislation including statutory accounts and annual report and key documents comprising Governance Strategy, ISS, FSS. Communications Policy**	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	9
1.6 To comply with all legislation relating to Local Government Pensions.	**Failure to adhere to relevant statutory regulations including updates to LGPS**	20	Regular review and reporting of changes, training of staff and implementation of changes.	Pensions Board, Pensions Committee, Audit and Audit report and LGA	20
1.7 To ensure the Fund has a risk register that is comprehensive, linked to objectives and regularly reported and reviewed	**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**	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. Pension Committee report. Pension Board	9
1.8 Participation in LGPS Central Pool of Funds	**Failure of Pool to have proper Governance arrangements in place.**	12	Joint Committee, Shareholders Forum and Practitioners advisory forum exist, have clear terms of reference and defined membership. CIPFA guidelines. FCA regulation. Company law. LGPS Central company and pool risk register exist - LGPS Central Joint Committee review company risk register	Staffordshire members regularly attend meetings of Joint Committee, Shareholders Forum and Practitioners Advisory Forum, and that decisions are reported back to Pensions Committee. Audit Assurance Framework	4

Appendix 3

STAFFORDSHIRE PENSION FUND - RISK REGISTER - HIGH LEVEL SUMMARY

Objective	High Level Risk	Pre-control Risk Score	Controls	Source of Assurance	Post-control Risk Score
Investment					
2.1 The actual 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 / Market 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 though robust competitive process. Their performance is regularly reviewed and reported to the Pension 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 access to LGPS Central RI & E team.	Policy in ISS, Pension Board. Manager reports. Member of LAPFF. LGPS Central RI & E reports.	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, annual change in the Funds liability benchmark are reported to the Pensions Panel.	9

Appendix 3

STAFFORDSHIRE PENSION FUND - RISK REGISTER - HIGH LEVEL SUMMARY

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 the set up and running of LGPS Central	**Operating 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. SPF 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 Practitioners Advisory Forum.	Practitioners Advisory Forum and Investment Working Group. Shareholders Forum, Joint Committee. Reports to Pensions Committee. SPF Management Team Staffing, strategy and planning meetings,	16

Appendix 3

STAFFORDSHIRE PENSION FUND - RISK REGISTER - HIGH LEVEL SUMMARY

Objective	High Level Risk	Pre-control Risk Score	Controls	Source of Assurance	Post-control Risk Score
Funding					
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	15
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 Pensions 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**	20	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

Appendix 3

STAFFORDSHIRE PENSION FUND - RISK REGISTER - HIGH LEVEL SUMMARY

Objective	High Level Risk	Pre-control Risk Score	Controls	Source of Assurance	Post-control Risk Score
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.	16
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.	16
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

Appendix 4

STAFFORDSHIRE PENSION FUND - RISK REGISTER - EMERGING RISKS

Objective	High Level Risk	Detailed Risk	Pre-control Risk Score	Controls	Source of Assurance	Post-control Risk Score	Review Date	Actions Description	Outcome of Review /Changes made	Owner
1.1 To ensure the Fund has an appropriate governance structure	**1.1 Failure to have an appropriate Governance structure in place including appropriate polices e.g. Conflicts of Interest**	Failure to review Governance standards against suitable benchmark (Government guidance e.g. Code of practice 14)	16	Officers monitor and are aware of various governance standards and changes within them.	MHCLG, tPR, SAB, LGA,	9	Sep-21	Review following tPR revision of code of practice (from 15 codes to 1) and consider internal/external review.	0	**All**
1.3 To ensure the Fund has appropriate financial, investment and actuarial advice	**1.3 Failure to have proper arrangements to receive appropriate advice; including appropriate procurement and monitoring of performance of advisors**	Failure to have appropriate advisors including avoidance of reliance on a sole advisor	16	Several advisors are procured, they are appropriately qualified (Actuarial, FCA)	Several advisors are in place and regularly attend Committee/Panel/meetings with officers and Pensions Board meetings as required. Hymans always provide a second back up advisor for actuarial and investment advice.	9	Contractual review date (March 21)	CMA review requires objective setting and possible FCA regulation for independent advisers, tenders for investment consultant and independents need to be done in 2020/21.	0	
1.6 To comply with all legislation relating to Local Government Pensions.	**1.6 Failure to adhere to relevant statutory regulations including updates to LGPS**	Failure to know about legislative change	20	Regular review of prospective changes through consultations; updates from LGA and intelligence from conferences and advisors	Pension Board, Altair system updates, LGA, Hymans, POGS, Eversheds	20	Ongoing	Review impact of McCloud, £95k exit cap, compensation regulation changes, defered employer status, changes to employer exit arrangements, cost cap, tax relief and fair deal.	0	**MS SJ JW**
1.6 To comply with all legislation relating to Local Government Pensions.	**1.6 Failure to adhere to relevant statutory regulations including updates to LGPS**	Failure to implement changes to systems, processes and to document such as required by legislative change	16	Ensure any changes are implemented through changes to documents and procedures as required	Pension Board, Altair updates, communications working groups	16	Ongoing	Urgent software updates required to assit implimentation of regulation changes, manual calculations- impact on resources		**MS SJ JW**
1.6 To comply with all legislation relating to Local Government Pensions.	**1.6 Failure to adhere to relevant statutory regulations including updates to LGPS**	Failure to train staff as required by the legislative change	16	Ensure staff are trained in changes as required, MPCs	Pension Board, Internal Audit, team meetings, targeted training, webinars, LGA training	12	Ongoing	Need to train staff on impact and practical implementation of significant regulatory change		**MS SJ JW**
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). Carbon Risk Metrics (MSCI) and Climate Scenario Analysis (Mercers) offered by LGPS Central	6	Ongoing	Review climate risk reporting output from LGPS central		**TB/ Pensions Panel**
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	16	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.	16	Dec-20			**Shareholders Forum & PAF**

Appendix 4

STAFFORDSHIRE PENSION FUND - RISK REGISTER - EMERGING RISKS

Objective	High Level Risk	Detailed Risk	Pre-control Risk Score	Controls	Source of Assurance	Post-control Risk Score	Review Date	Actions Description	Outcome of Review /Changes made	Owner
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	Ongoing	2020 Budget increase will impact on forecast savings - need to maintain watching brief.		**Shareholders Forum**
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. Assistance of Transition Advisor. Custody records and investment team reconciliations and LGPS Central Custodian. PDLG	12	Ongoing	**0**	**0**	**Joint committee, PAF, TB team**
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**	Regulatory Changes in relation to asset pooling impacting LGPS Central or SPF	10	Regulatory change is monitored and consulatations are responded to.	MHCLG, Pensions Committee, Hymans, cross pool working groups.	10	ongoing	Review as a result of MHCLG formal consultation and statutory guidance		**Pensions Committee**
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 process to be put in place for higher risk employers.	annual review of employer covenants, Actuary, triennial valuation, employer profiling report	16	Mar-21	Employer profiling reports and actuarial valuation results to be used to determine most risky employers. External provider e.g. Delloites to be contacted re review of financial covenants. Trial of Actuarial funding risk tool online. Need to consider risk of COVID 19 on all employers.		**MS/JW**
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 to monitor workloads, or backlogs or benchmark staff numbers	20	Staffing numbers are appropriate - monitor workloads; monitor backlogs; benchmark staffing numbers	Review of KPIs by Pensions Committee / Board, Review of published benchmark returns	16	Ongoing, Jan 21	Significant amount of regulatory change and the need to implement such, may impact wider service delivery, increased further by delays in software updates and systems, leading to increased manual calculations.		**SJ/JW**

Appendix 4

STAFFORDSHIRE PENSION FUND - RISK REGISTER - EMERGING RISKS

Objective	High Level Risk	Detailed Risk	Pre-control Risk Score	Controls	Source of Assurance	Post-control Risk Score	Review Date	Actions Description	Outcome of Review /Changes made	Owner
4.2 To maintain sufficient levels of data integrity, security, and to ensure business continuity	**4.2 To ensure data quality is accurate, secure and protected and critical systems are available at all times**	Failure to provide a robust and reliable administration system to facilitate the delivery of performance standards	16	Using Aquilla Heywood AXIS / Altair system and bespoke SCC calculation software, developed over many years on a collaborative basis with other LGPS schemes; regular updates; input to national developments; tendered from time to time	ICT audit reviews, period contract re let and market testing	16	Jun-21	Anticipate new and updated software will not be in place to keep up to date with significant regulatory changes in early 2021.		**SJ/JW**
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 of scheme employers to correctly use the i-Connect monthly upload or system failure of i-Connect	16	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.	12	Jun-21	Consider how employer data is checked as more employers use, consider employer training options. Increase internal resource to ensure employer compliance.		**JW**
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 of scheme employers to provide contractual hours and service break data, from 1 April 2014 in respect of Mcloud impact changes.	16	Internal project team, software providers update systems to collect data and identify any gaps. Regulatory requirement.	Software reporting.	16	Jan-21	Project team to be set up, software to be developed.		**JW/SJ/MS**
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 resouce and training in place	KPIs maintained at previous levels	15	Dec-20	Review and monitor legislative changes		**SJ/JW**
	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.		ongoing	Once details of brexit are fully known and understood, detailed implications can be reviewed.		**Pensions Committee**
	Covid-19	Potential implications on fund and market valuation, assets available for investment, regulation, employer security, staffing resources etc.		Virtual meetings and remote working. 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.		ongoing	Initial changes made to allow BAU to continue. Longer terms plans to be considered.		**Pensions Committee**

Appendix 5

Staffordshire Pension Fund

Risk Management Policy

Issue Date 1 October 2020

Risk Management Policy

Introduction

This is the Risk Management Policy for the Staffordshire Pension Fund ("the Fund"), part of the Local Government Pension Scheme ("LGPS") managed and administered by Staffordshire County Council ("the Administering Authority").

Risk management is central to the management of the Pension Fund, as reflected by the coverage of risk in key documents such as the Funding Strategy Statement and the Investment Strategy Statement. It is an essential element of good governance in the LGPS. The Fund will aim to comply with the CIPFA Managing Risk publication and the Pensions Act and Pensions Regulator's Code of Practice for Public Service Pension Schemes as they relate to managing risk.

The Risk Management Policy details the risk management strategy for the Fund, including the following key areas:

- The Fund's attitudes to, and appetite for, risk;
- Aims;
- Risk measurement and management; and
- Responsibility.

The Fund's attitudes to, and appetite for, risk

The Administering Authority recognises that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, the Administering Authority can:

- demonstrate best practice in governance;
- improve financial management of the Fund;
- better manage change programmes and projects;
- minimise the risk and effect of adverse conditions on the Fund;
- identify and maximise opportunities that might arise;
- minimise threats; and
- support innovation and continual improvement in a changing environment.

The Administering Authority adopts best practice risk management, which supports a structured and focused approach to managing risks and ensures risk management is an integral part in the governance of the Fund, at a strategic and operational level.

The Administering Authority recognises that it is not possible or even desirable to eliminate all risks. Some risks can be mitigated by putting in place a simple control process whereas other risks will remain at a high level, despite any mitigating controls being put in place. Accepting and actively managing risk is therefore a key part of the risk management strategy for the Fund. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund's objectives, considering the Administering Authority's risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, the Administering Authority will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained;
- adopt a system that will enable the Fund to anticipate and respond positively to emerging risks; and
- minimise loss and damage to the Fund and to other stakeholders who are dependent on the benefits and services provided.

The main strategic risk to the Fund is failing to meet its primary objective of having sufficient funds to meet its liabilities when they become due for payment. This particular risk is managed through the Funding Strategy, which models the likelihood of a range of possible outcomes occurring and the way in which the contribution rate strategy and the investment strategy combine to deliver those outcomes (the particular method used by the Fund's Actuary is sometimes referred to as stochastic modelling, but there are others). The primary reason for the high variability (risk) in outcomes derives from the high proportion of the Fund invested in growth assets, in particular equities. However, in the long term this is expected to deliver returns that are commensurate with the risk and this helps to keep employer contributions lower than they would otherwise be. It also relies upon the strong covenant of the major employing bodies in the Fund which allows for a long-term perspective to be taken.

The Administering Authority also recognises that risk management is not an end in itself; nor will it remove risk from the Fund or the Administering Authority. However, it is a sound management technique that is an essential part of the Administering Authority's stewardship of the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

Aims

In relation to understanding and monitoring risk, the Administering Authority aims to:

- raise awareness of the need for risk management by all those connected with the management and administration of the Fund (including Officers, Pensions Committee Members and the Local Pensions Board);
- integrate risk management into the culture and day-to-day activities of the Fund;
- anticipate and respond positively to change and emerging risks;
- minimise the probability of negative outcomes for the Fund and its stakeholders;
- identify control and review sources of assurance already in place to mitigate against risk and highlight areas requiring improvement; and
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk.

Risk measurement and management

Identifying Risks

Risks to the Fund are identified in a number of ways:

- Monitoring performance against the Fund's Annual Business Plan;
- Recommendation and findings of auditors and other professional advisors;
- Feedback from Local Pensions Board, employers and other stakeholders;
- Meetings of senior officers and staff involved in the management of the Fund; and
- Meetings with other organisations, regional and national associations and professional groups.

Risks are regularly reported to the Pensions Panel/Committee as part of routine quarterly reporting. There is a separate Risk Register, which has been developed to categorise risk across 4 main areas of focus:

- Funding
- Administration
- Governance
- Investment

The Pension Fund has a set of high-level objectives which cover all key aspects of the Fund under each of these areas. The greatest risks to the Fund are therefore those associated with not meeting the high-level objectives. The risk register details the risks associated with not achieving the Fund's objectives as a series of sub risks against those high-level objectives. This ensures a comprehensive coverage of all areas of the Fund.

The detailed Risk Register matches high level risks, under each of the 4 areas of activity, to the Fund's 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**.

Controls that are currently in place to mitigate risks, together with additional sources of assurance are listed and these are then taken into account to give 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.

Management and reporting of the Risk Management

Officers review emerging risks and one of each of the four distinct areas quarterly, together with risks where the review date is imminent. These reviews allow current controls to be assessed and analysed to ensure they are still in place and relevant. It also gives the opportunity to identify areas for improvement and additional controls required. New emerging risks are also discussed at these reviews and added into the Risk register.

The Risk Register is a standing item on the Local Pensions Board (LPB) agenda with one of the 4 key areas of activity being reviewed by the LPB, in detail at each of their meetings. This coincides with the Officers reviews. The LPB work with Officers, as required, to drill down into the detailed risks and gain an understanding of the controls in place and the various sources of assurance. Any areas of concern are brought to the attention of the Committee at their next meeting. An annual review of high-level risks is undertaken by the Pensions Committee, irrespective of the work of the LPB.

It is important to recognise that some of the greatest risks faced by the Pension Fund arise from change. The consideration of emerging risks will also form part of the Pensions Committee's annual review.

In addition to looking at the risks on the Risk Register, the Local Pensions Board reviews the Fund's risk management process. It reports as part of its annual statement if it is satisfied that the Fund is adequately monitoring and managing risk. The Local Pensions Board reports suggested improvements and areas of concern in the risk management of the Fund.

Risks associated with specific areas of the Fund are discussed as part of relevant Officers regular team meetings. Emerging risks in particular are highlighted as part of this process.

The Administering Authority's Internal Audit Service review the Fund's processes, including Governance, Administration and Investments, considering the associated risks and analysing the controls in place. They give an opinion to Officers of the Fund as to the effectiveness of current controls and advise on any improvements required.

Responsibility

This Risk Management Policy applies to all members of the Pensions Committee, Pensions Panel and the Local Pensions Board, including both scheme member and employer representatives. It also applies to the designated Director, S151 Officer and all other Officers involved in the management of the Fund.

Advisers and suppliers to the Fund are expected to be aware of this Policy, and assist the Officers, Committee and Local Board members as required, in meeting the objectives of this Policy. Responsibilities of the Pension Fund are detailed in the County Council's Constitution and Scheme of Delegation. This details in full the powers and responsibilities delegated to the Pensions Committee, Pensions Panel, Local Pensions Board, Director of Corporate Services and to other Officers of the Fund.

Further Information

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

Melanie Stokes – Head of Treasury and Pensions

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Telephone: (01785) 276330

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