

Minutes of the Pensions Committee Meeting held on 18 December 2020

Attendance

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

Also in attendance: Gordon Alcott, Rob Birch and Ian Jenkinson (Pensions Board Members)

Note by Clerk: Members paid tribute to Mr Jenkinson, whose term of office on the Pensions Board was to expire at the end of December 2020, for the contribution he had made to the Fund during the time he had served as Chairman of the Pensions Board.

PART ONE

1. Declarations of Interest

There were no declarations of interest on this occasion.

2. Minutes of the meeting held on 23 October 2020

RESOLVED – That the minutes of the meeting of the Pensions Committee held on 23 October 2020 be confirmed and signed by the Chairman.

3. Club Vita Update

The Committee received a presentation from Douglas Green and Mark Sharkey of Hymans Robertson on Club Vita, an independent data utility, supporting pension funds, advisors, insurers & asset managers.

The presentation covered a range of issues including:

- Key points since the last presentation to the Committee.
- Baseline longevity - Objective measure of life expectancy based on known data.
- Impact of updating VitaCurves – Decreases ‘whole fund’ liabilities by 0.3% compared to current funding assumptions.
- Longevity trends - Longevity is still improving, just not as fast as before.
- What does this mean for pension funds?

In response to a question from Cllr Sutherland as to why the average cumulative weekly deaths in 2018 were higher than those for the average over 2015 – 2019, Mr Sharkey

indicated that this may have been attributable to a higher incidence in winter deaths such as the flu. (Subsequent to the meeting Mr Sharkey confirmed that this indeed was the reason).

In response to a question from Mr Jenkinson as to the growth in the number of pensioners/dependents in the Staffordshire Fund and the accuracy of the figures contained in the presentation, the Director of Corporate Services indicated that the Fund's Annual Report 2012/13 showed that there were 26,637 pensioners and dependents at 31 March 2013.

RESOLVED – That Douglas Green and Mark Sharkey be thanked for their presentation.

4. Staffordshire Pension Fund Annual Report and Accounts 2019/20

The Committee were informed that, under regulations, the Pension Fund had to publish an Annual Report and Accounts by 1 December each year. The external auditors are also obliged to issue an Independent Auditor's Statement on the accounts. The Covid-19 pandemic and other extenuating factors at EY, mean that in 2020, this deadline had not been met. The Staffordshire Pension Fund was one of many Local Government Pension Schemes that found itself in this situation, and the Ministry of Housing, Communities and Local Government (MHCLG) had been made aware.

The Committee also received a short presentation from Suresh Patel of Ernst Young outlining the challenges which had been faced during the 2019/20 Audit, predominantly due to the Covid-19 pandemic

The Committee noted that Pension Fund's accounts were included within the County Council's Statement of Accounts. As a result, EY reported the likely outcome, and several outstanding matters arising from their audit, to the County Council's Audit and Standards Committee on 8 December 2020. Since then, EY had continued to work on the outstanding matters and after a final review of Staffordshire Pension Fund's Annual Report and Accounts 2019/20 will be able to issue their final audit opinion. This was likely to be an 'unqualified' audit opinion, but there would be some caveats in relation to matters arising as a result of market uncertainties created by Covid-19. EY's statement on the Pension Fund accounts was to confirm that they were consistent with those included within Staffordshire County Council's Statement of Accounts for the year ended 31 March 2020. It also stated the accounts were properly prepared in accordance with accounting standards.

The Committee also noted that, with regard to the fee for the Audit, Ernst Young proposed to increase the scale fee for 2019/20 to £52,500 to cover the cost of additional work which was carried out. They were also informed of a "Critical judgement in applying accounting policies" in relation to uncertainty around valuations for the Fund's directly held property as a result of Covid-19.

The Director of Corporate Services submitted the draft Annual Report and Accounts 2019/20 for the Staffordshire Pension Fund and gave a short presentation which covered the following matters:

- Staffordshire Pension Fund Accounts for year ended 31 March 2020 –

- Contributions and Benefits
 - Management Expenses
 - Return on Investments
 - Net assets of the Fund
- Staffordshire Pension Fund 2019/20 Investment Report
 - Percentage breakdown by asset class at 31 March 2020
 - Fund Performance at 31 March 2020
 - Performance versus inflation and earnings
 - Asset class returns for year ended 31 March 2019
 - Fund performance at 30 September 2020 (market value £5.6bn)

The Committee were requested to note that, following conclusion of the audit by EY, there may still be minor amendments required to the document, including the Independent Auditors Statement. It was therefore recommended that a final version of the Annual Report and Accounts be signed off by the Chair, as soon as this was available and prior to publication on the Staffordshire Pension Fund's website. Cllr Little requested that Members of the Committee be notified once Staffordshire Pension Fund Annual Report and Accounts 2019/20 had been finalised.

In response to a question from Mr Jenkinson with regard to the Fund's cash flow position, the Director confirmed that the Fund was likely to show a negative cash flow over the next few years when comparing contributions with the benefits paid, but this did not take account of the income from the Fund's investments.

RESOLVED – (a) That the draft Staffordshire Pension Fund Annual Report and Accounts 2019/20 be approved, noting the potential need for minor amendments, pending the conclusion of the external audit of the Pension Fund accounts by Ernst and Young (EY), including an updated Independent Auditor's Statement, and that the final version of the Staffordshire Pension Fund Annual Report and Accounts 2019/20 be signed off by the Chair, prior to publishing the document on the Staffordshire Pension Fund's website, following completion of the external audit.

(b) That the contents of the separate Audit Results Report (ISA260) of the Staffordshire Pension Fund's external auditors, Ernst and Young (EY) entitled; Staffordshire Pension Fund Audit Results Report for the Year ended 31 March 2020, be noted.

(c) That Members of the Committee be notified once Staffordshire Pension Fund Annual Report and Accounts 2019/20 had been finalised.

5. Pensions Business Plan Outturn 2019/20

The Committee were informed that, at the beginning of each financial year, the Pensions Committee were asked to approve an annual Business Plan for the Staffordshire Pension Fund. The final position against the Business Plan approved for 2019/20 showed that most planned activities had been achieved or were in progress. Of those in progress, some were classed as 'business as usual' activities and these

together with several other 'development' activities which required further work, or ongoing activity, had been carried forward into the 2020/21 Business Plan.

The Committee noted that Key achievements during 2019/20 included:

(i) Pensions Administration Team -

- Completing the 2019 Actuarial Valuation;
- Continuing to implement i-Connect with the Fund's larger Employers;
- Reviewing the Administration Policy, the Independent Dispute Resolution Procedure (IDRP) and the Funding Strategy Statement, following the Actuarial Valuation; and
- Promoting the use of Member Self Service (MPP) in readiness for issuing Annual Benefit Statements electronically from 2020.

(ii) Pensions Investment Team -

- Reviewing the Fund's Strategic Asset Allocation (SAA) in conjunction with 2019 Actuarial Valuation;
- Continuing to monitor those Global Equity assets transferred to LGPS Central Limited; and
- Preparing for and physically transitioning Corporate Bond assets into LGPS Central Limited.

Additionally, throughout the year, there had been several Internal Audit reviews across the two Teams. The Pension Fund Governance Audit received 'substantial' assurance for the third year in a row, from Staffordshire Internal Audit Services and the Pensions Administration Audit maintained its 'substantial' assurance rating for the second year in a row. The Investment Team had also assisted with the Governance and Investment Audits carried out on the LGPS Central pool as part of the wider Audit Assurance Framework developed by the Auditors of the 8 Partner Funds that made up LGPS Central.

It was also noted that the Pensions Administration Team's Service Standards for 2019/20 continued to show improvement in these standards over the previous two years with a 90% performance target being achieved in 11 of the 14 published standards. The three published standards where the performance target was not achieved in 2019/20 all related to the area of work around Transfer Values (TV) i.e. the payment that arose when a scheme member elected to move their pension benefits between Employer schemes or alternative insurance-based schemes. For TV's from other public sector pension schemes and from within the LGPS, the options now available to members were more complex to process, and communicate, than for transfers from external schemes. Potentially, if this type of TV remained within the scope of the Fund's reported service standards, the internal processing deadlines may need to be reviewed to reflect the new requirements. Despite the added complexity, TV processing had remained consistent and further changes to internal processes were likely to build on this. In all TV cases, the strict statutory deadlines, prescribed within the various Pensions Schemes Acts, were always met, often well within the prescribed statutory timescales.

The Director explained that whilst the Service Standards for 2019/20 were very gratifying and something of which the teams should very proud, it was important to remember that the Scheme continued to become more and more complex and the

number of Employers and their arrangements for continuing to participate in the Scheme were in themselves becoming more complex as a result. One such new challenge, which would undoubtedly impact the Service Standards, would be the ability to undertake and resource the 'McCloud' project. The recent Public Sector Regulations 2020, limiting an exit payment to £95,000 where an Employee is made redundant or their employment is terminated for reasons of business efficiency, was also already having repercussions for the Pensions team. In response to a questions from Cllr Sutherland and Cllr Little, the Director indicated that additional staffing resources were likely to be required to complete the McCloud project and that it was understood that the limiting of exit payments to £95,000 was the subject of a Judicial Review to be heard in February 2021.

The Director also informed the Committee that following the retirement of several experienced staff in recent years, it was extremely pleasing to be able to report that the latest two recruitment exercises, which led to a cohort of 5 new staff joining the teams, over the last 2 years, had been successful.

The Committee also considered and discussed the 2019/20 management costs of the Pension Fund and noted that the majority of the £2.1m budget 'overspend' in 2019/20 was attributable to vacant property costs. This was an area that was difficult to forecast on any consistent basis and the original budget assumed around £0.933m, based on an average of previous void costs across the property portfolio. In 2019/20, four properties accounted for most of the increased expenditure, with the vacated Toys R Us property at Hayes, being the largest proportion, at a cost of c£500,000. This particular property was now in the process of being let, subject to local planning approval being granted. Other more recent void costs across properties in Birmingham, London and Eynsham were all in excess of £200,000 each. The Director also added that the Fund's Administration Costs had also increased from 2018/2019 levels by £0.630m. Almost half of this (£0.294m) was accounted for by increased support service charges, following a review of the internal recharging process. However, the Fund's Administrative costs were still significantly below the CIPFA average when compared with those of the 28 other Funds (out of a possible 90) captured by the CIPFA benchmarking service. The Committee also noted that Oversight and Governance costs had decreased in 2019/2020 as a result of the review of the re-allocation of support charges; and Investment Managers fees had reduced overall in 2019/20.

The Committee also noted that to seek further reassurance about cost, Staffordshire Pension Fund continued to take part in an extended benchmarking exercise with international company CEM Benchmarking. The 2019/2020 survey grouped Staffordshire Pension Fund with 18 LGPS and international funds ranging in size from £2.3bn to £8.6bn (a median size of £4.6bn versus our £4.4bn). Based on a comparative cost base and taking into account embedded costs, the Staffordshire Fund's costs of 67.0 basis points (bps) was 7.3bps above the peer median of 59.7bps. This was predominantly because our Fund invests in Alternative asset classes, such as Private Equity, using a 'Fund of Fund' approach, where there are multiple layers of fees payable. However, Private Equity had been a strong performing asset for the Fund over the period and had delivered returns well in excess of its benchmark. This illustrated the point that whilst cost was an important consideration, it must be viewed versus any out-performance it delivered.

RESOLVED – That the outturn position of the Staffordshire Pension Fund Business Plan for 2019/20 be approved.

6. Staffordshire Pension Fund Draft Exit Credit Policy

The Committee were informed that the Local Government Pension Scheme Regulations 2013 were amended in 2018 to allow exit credits to be paid for the first time. The changes came into effect on 14 May 2018.

These changes meant that when an employer ceased to be a participating employer in the Local Government Pension Scheme (LGPS), an exit credit became due if their pension liabilities had been overfunded at their date of exit. Previously any 'surplus' had been retained by the Pension Fund and reallocated to the letting employer's notional assets. Unfortunately, the amendment to the Regulations resulted in some significant exit credit payments being made by several Local Authority Pension Funds. These were unexpected, as they had not been factored in at the outset, where contracts were often let 100% funded. And in some cases, due to external factors, such as high investment returns over the period of the contract, exit credit payments were quite significant. Exit credit payments might also have exceeded the level of contributions actually paid in.

Following an MHCLG consultation in May 2019, updated regulations with respect to exit credit payments came into force on 20 March 2020. These had effect from 14 May 2018. The new regulations required the administering authorities of LGPS pension funds to determine, at their discretion, the amount of any exit credit payment due, having regard to any relevant considerations. The new responsibility placed on the administering authority for determining the level of any exit credit, and the discretion available, made it essential that the Pension Fund adopts a fair and reasonable exit credits policy which:

- ensures that a consistent approach is taken between employers and over time;
- aims to protect the interests of the members and employers as a whole;
- ensures that representations from all interested parties are taken into account;
- is consistent with the approach set out in the Fund's Funding Strategy Statement and other associated policies; and
- takes into account relevant actuarial and legal advice.

The Committee considered the Staffordshire Pension Fund draft Exits Credits Policy (attached as Appendix 2 to the report).

The Committee noted that the Fund's Actuary, Hymans Robertson had reviewed the draft Exit Credits Policy and their views had been incorporated. However, given the potential impact the Exit Credits Policy might have on participating Scheme Employers, it was considered appropriate to consult with them on the Fund's approach. Following Pensions Committee approval of the draft Exit Credits Policy, it would be published on the Latest News page on the Fund's website, for consultation throughout January 2021. An email would also be sent to Scheme Employers alerting them of such and finally, the consultation would be referenced in the Employer Focus Newsletter.

Should there be any queries or comments arising from the consultation that result in a significant change being proposed to the Exit Credits Policy, then further approval may

need to be sought from the Committee. Where only minor changes were proposed, the Committee were asked to delegate the approval of these to the Director of Corporate Services, in consultation with the Chair.

The Director added that, once a final version was approved, the Fund's Funding Strategy Statement (FSS) would need to be updated to reflect the terms of the Exit Credits Policy and an updated FSS, which also reflected other recent changes, such as inter valuation contribution level reviews, would be presented to Committee for approval in due course.

RESOLVED – (a) That the draft Exit Credits Policy for the Staffordshire Pension Fund, (as set out in Appendix 2 to the report) be approved.

(b) That the need for wider consultation with Scheme Employers be noted and that it be agreed that, following a suitable period of consultation, any minor changes to the Exit Credits Policy be approved by the Director of Corporate Services, in consultation with the Chair.

7. 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:

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

9. LGPS Central and Pooling Update
(Exemption paragraph 3)

Chairman