Staffordshire County Council

Staffordshire Pension Fund
Local Government Pension Scheme

County Buildings, Stafford
DDI (01785) 276133
Please ask for Mike Bradbury
Email: michael.bradbury@staffordshire.gov.uk

Pensions Committee

Friday, 18 December 2020
10:00
Virtual meeting via Microsoft Teams

Note: Attendance by the public and press is via webcast only which can be viewed here - https://staffordshire.public-i.tv/core/portal/home

John Tradewell
Director of Corporate Services
10 December 2020

A G E N D A

PART ONE

8. **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

9. **LGPS Regulations - Admission of New Employers to the Fund** (Pages 101 - 104)
(Exemption paragraph 3)

Report of the Director of Corporate Services

10. **LGPS Central and Pooling Update**
(Exemption paragraph 3)

Verbal update from the Chair of the Pensions Panel and the Head of Treasury & Pensions on the LGPS Central Joint Committee Meeting held on 20 November 2020.

Meeting papers can be accessed via the link below:

https://www.cheshirepensionfund.org/members/wp-content/uploads/sites/2/2020/11/Joint-Committee-Papers.pdf

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 23 October 2020

Attendance

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

Also in attendance: Ian Jenkinson (Pensions Board Member)

PART ONE

16. Declarations of Interest

There were no declarations of interest on this occasion.

17. Minutes of the meeting held on 25 September 2020

RESOLVED – That the minutes of the meeting of the Pensions Committee held on 25 September 2020 be confirmed and signed by the Chairman.

18. Minutes of the Pensions Panel held on 14 September 2020

RESOLVED – That the minutes of the meeting of the Pensions Panel held on 14 September 2020 be noted.

19. Staffordshire Pension Fund 2019/20 Investment Performance

The Committee received a presentation from Nick Kent of Portfolio Evaluation Limited (PEL) giving an overview of the performance of the Staffordshire Pension Fund for the period ending 31 March 2020. The key points arising from the presentation were as follows:

- The Fund, for periods ended March 2020, underperformed its benchmark over most time periods. However, this position was significantly reversed for periods ended June 2020. The negatives impacting the Fund were primarily the active global equity mandates of JPM, Longview and LGPS Central and the transition of the Corporate Bond portfolio, previously managed by Insight Investments, to the Global Corporate Bond multi-manager sub-fund, managed by LGPS Central Ltd. The positive contributors were Private Equity, Private Debt and Bonds (excluding the transition)

- The Fund had outperformed the PEL LGPS Information Service average return over the one, three, five year and ten-year periods.

- COVID-19 had dramatically impacted market and Fund returns and risk levels. Despite significant fiscal and monetary support, the outlook still remains uncertain.

- Total risk remained low and active risk was at a level that was consistent with the structure of the Fund. Risk had increased over the year due to the impact of the pandemic.

In response to a question from Cllr Greatorex about the effect of the Covid-19 pandemic on the structure of the market and on portfolios, Mr Kent indicated that many investors were reacting to the anticipated long-term effects of the pandemic by restructuring their portfolios. For example, there was a general move away from allocations to the UK in favour of a more Global approach. The Director of Corporate Services added that officers were currently having conversations with the Fund's Advisors on this issue but that it would take a while to make any proposed changes to asset allocations.

In response to a question from Cllr Sutherland in relation to the performance of US equities, Mr Kent indicated that for a UK Investor, then their good performance was, in part, due to the impact of Sterling depreciation.

The Director of Corporate Services enquired whether Mr Kent thought that there was anything missing from the Fund's portfolio. In response, Mr Kent indicated that, in his opinion and looking backwards, he did not feel that there was. But going forwards, due consideration should be given to the Fund's pace of investing in Infrastructure and the move from the UK to Global allocations, as he had mentioned previously.

In response to a question from Mr Jenkinson concerning the benchmarking of environmental, social and governance (ESG) investments, Mr Kent indicated that most ESG investments were to be found in equity and bond portfolios across public markets but that there were currently no specific benchmarks for ESG investments.

RESOLVED – That Mr Kent be thanked for his presentation.

20. Actuarial Update

The Committee received a presentation from Douglas Green of Hymans Robertson in respect of recent developments affecting Local Government Pensions Schemes (LGPS) including:

- The impact of Covid-19 on mortality/longevity rates; financial market movements; and employer covenant and risks.
- New LGPS regulations introduced on 23 September 2020 which introduce greater flexibility for the Fund and Employers in the scheme:
  (i) to request a review of contribution rates if there is a "significant change" to an Employer's liabilities or covenant (or at the Employer's request if it meets the cost);
  (ii) to allow cessation payments to be spread over a few years; and

(iii) for managed exits, the Fund has the discretion to allow a “Deferred Debt Agreement” whereby an Employer continues paying contributions even with no active members.

- The Ministry of Housing, Communities & Local Government consultation on reforming exit payment terms for local government workers, including the introduction of a £95k cap on the total compensation package payable from the Employer.
- The impact of the McCloud judgement (which found that transitional protections given to older members in the judicial and firefighters’ pension schemes directly discriminated against younger members in those schemes); and the Goodwin case (which concluded that a female member in an opposite sex marriage is treated less favourably than a female in a same sex marriage or civil partnership, and that treatment amounts to direct discrimination).

Cllr Greatorex enquired as to whether the additional deaths due to Covid-19 had benefitted the funding level of the Staffordshire Pension Fund. In response, Mr Green explained that, in the short-term it probably had but, in the longer term, people’s behaviours may change and there may be other factors, such as survivorship bias and the impact of a reduction in smoking, reduced air pollution etc, which could lead to increased longevity.

In response to a question from Cllr Little concerning how Staffordshire’s Funding level of approximately 95% compared with that of other local government pension schemes, Mr Green indicated that, historically, Staffordshire’s level tended to be above the average for other local government pension schemes.

In response to a question from Cllr Greatorex in relation to exit payments, the Director of Corporate Services confirmed that discretionary compensation payments were determined by the individual employer.

RESOLVED – That Mr Green be thanked for his presentation.

21. 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

22. Exempt minutes of the meeting held on 25 September 2020
(Exemption paragraph 3)

RESOLVED – That the exempt minutes of the meeting of the Pensions Committee held on 25 September 2020 be confirmed and signed by the Chairman.

23. Exempt minutes of the Pensions Panel held on 14 September 2020
(Exemption paragraph 3)

RESOLVED – That the exempt minutes of the meeting of the Pensions Panel held on 14 September 2020 be noted.

Chairman

CLUB VITA

Club Vita longevity update

Staffordshire Pension Fund

Mark Sharkey
Head of Client Delivery
mark.sharkey@clubvita.net

18 December 2020

Agenda

1. What is Club Vita?
2. Key points since we last met
3. Baseline longevity
4. Longevity trends incl. COVID-19
5. Further information

CLUB VITA

What is Club Vita?

Club Vita

Proper noun, [kluhb vee-*tuh*], \ˈkləb vē-tə\

1. Centre of excellence for improving understanding of human longevity.
2. Community of organisations with a shared interest in longevity and belief that the ‘bigger’ the data, the lower the (statistical) noise.
3. Provider of longevity risk informatics to support pension funds’ risk management strategies and enable market innovation.

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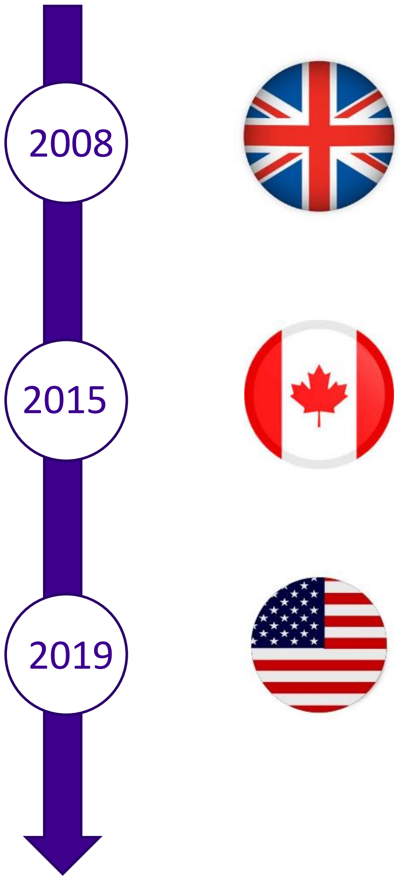

Club Vita is an independent data utility, supporting pension funds, advisors, insurers & asset managers

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Key points since we last met

Key points since we last met

Recent experience

"…"£2bn windfall to the life sector."

sky news

A lot of people in the City are getting very excited about death

THE WALL STREET JOURNAL.

ome World U.S. Politics Economy Business Tech Markets Opinion Life & Arts

MARKETS | HEARD ON THE STREET

Life Was Short for Longevity Gains

Life expectancy at 65 is falling and that means cash windfalls for insurers

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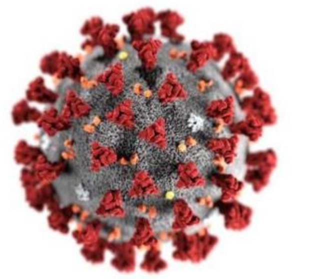
- There has been a further *slowdown* in improvements to life expectancy (but it is still increasing)
- However, 2019 bucked the trend and saw one of the lightest years on record for mortality
- Overall, this has contributed to a reduction in liabilities when taking account of the latest VitaCurves

COVID-19



- Official figures don't tell the whole story – true death levels (direct and indirect) could be 50%-60% higher
- Important to understand the socioeconomic landscape and age spectrum of the fund in order to determine how these different groups have been impacted by COVID-19 and what assumptions are appropriate in future
- There could be a wide range of volatile longevity outcomes in the short to medium term – monitoring is vital

Taking account of the latest VitaCurves would decrease your 'whole fund' liabilities by c0.3% compared to your current funding assumptions

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Image source: Forbes

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Baseline longevity

VitaCurves baseline model

- Rich data set gives us a best in class baseline model

Unhealthy lifestyle postcode	4 ¾ yrs	Healthy lifestyle postcode
Low affluence	2 ½ yrs	High affluence
Ill health retirement	3 ¼ yrs	Normal health retirement
Manual worker	<½ yr	Non-manual worker

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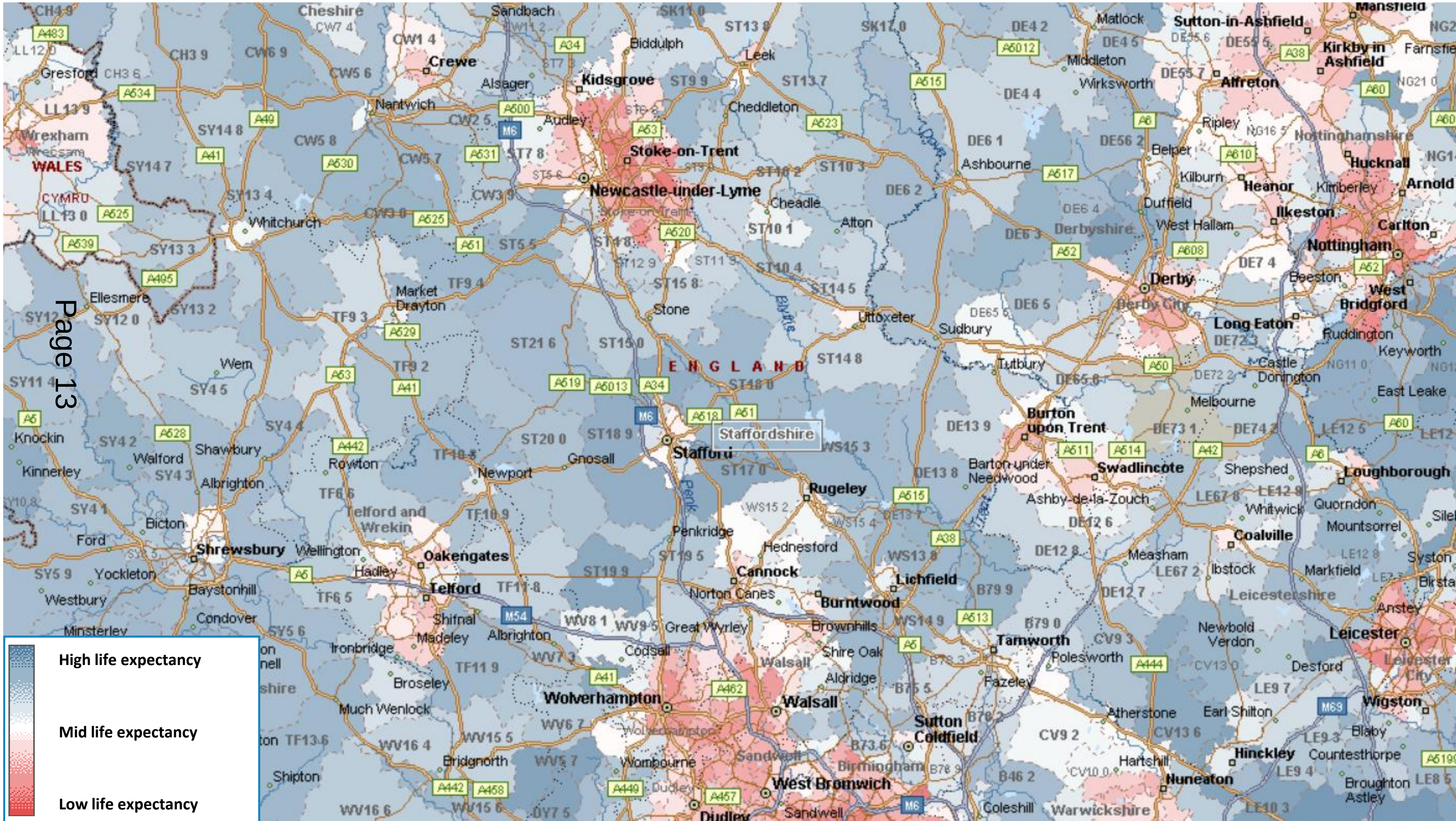
Life expectancy from 65: **12 years**

Life expectancy from 65: **22 years**

Objective measure of life expectancy based on known data

Vita's lifestyle effect (postcode based)



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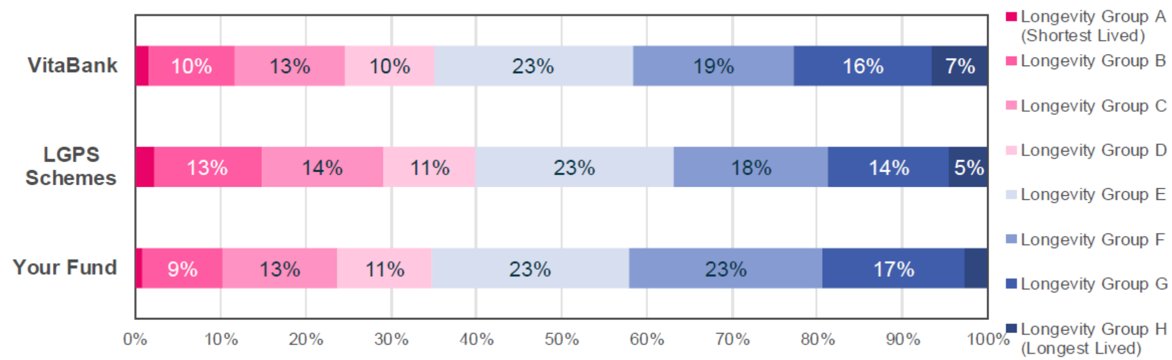
Benchmarking – lifestyle

Male pensioners



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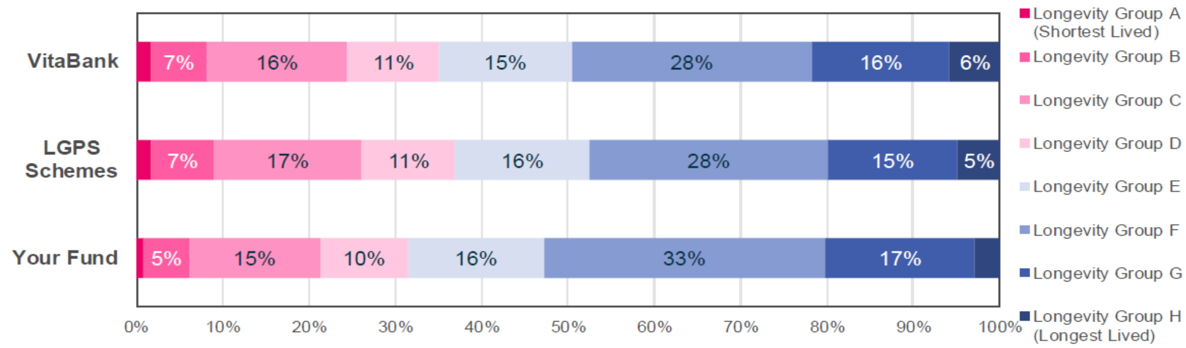
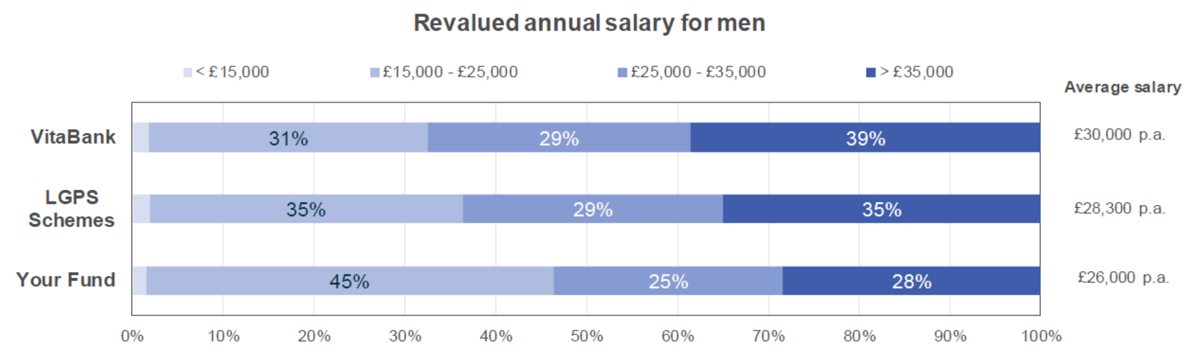
Female pensioners

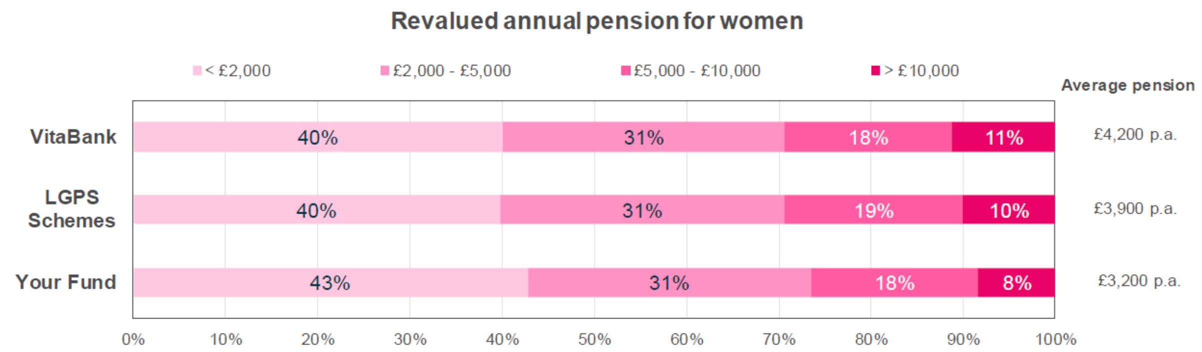


Benchmarking – affluence

Male pensioners



Female pensioners

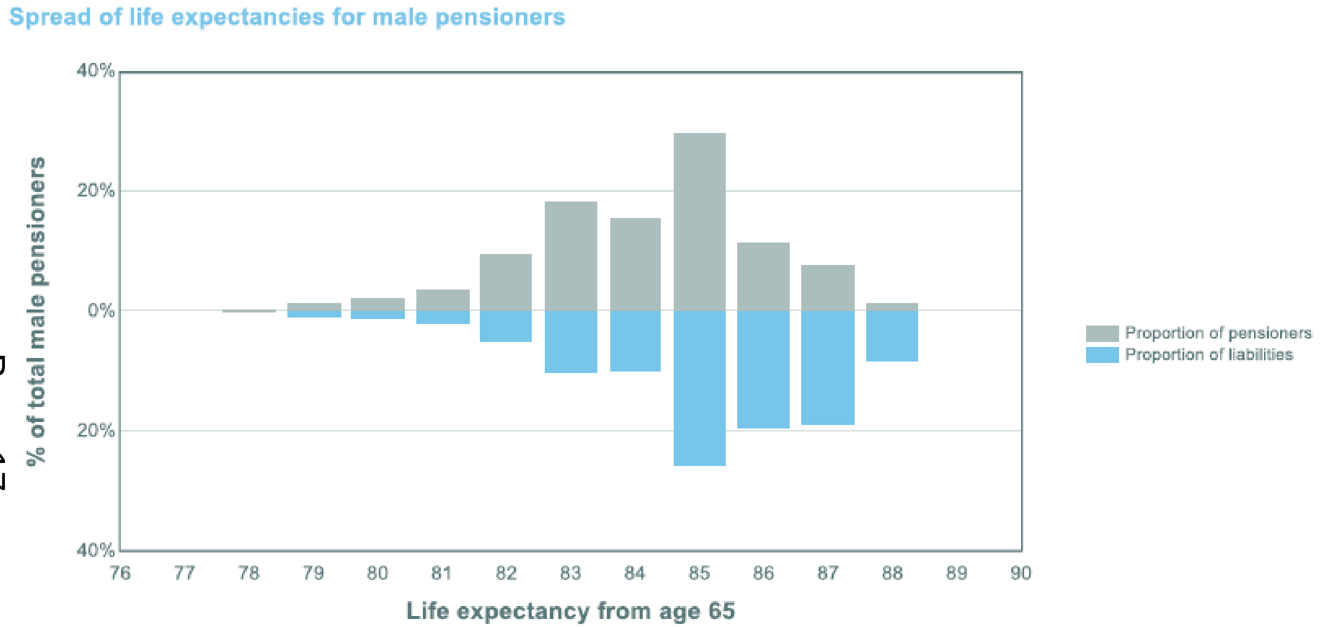


Impact of updating VitaCurves

Membership group	Approximate change in liability using the latest VitaCurves (data calibrated spanning 2016-2018) rather than current funding assumption
Actives	-0.3%
Deferred pensioners	-0.2%
Pensioners and Dependants	-0.4%
Overall	**-0.3%**
Change to future service contribution rate	**-0.2%**

Taking account of the latest VitaCurves (2016-2018 data) would decrease your 'whole fund' liabilities by 0.3% compared to your current funding assumptions (2015-2017 data)

Membership profiling



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Across the whole Scheme:

- **50%** of liabilities are concentrated on **9.8%** of members
- **10%** of liabilities are concentrated on just **0.8%** of members (i.e. 1,003 individuals)
- The "bottom" 50% of members account for **less than 4.7%** of liabilities

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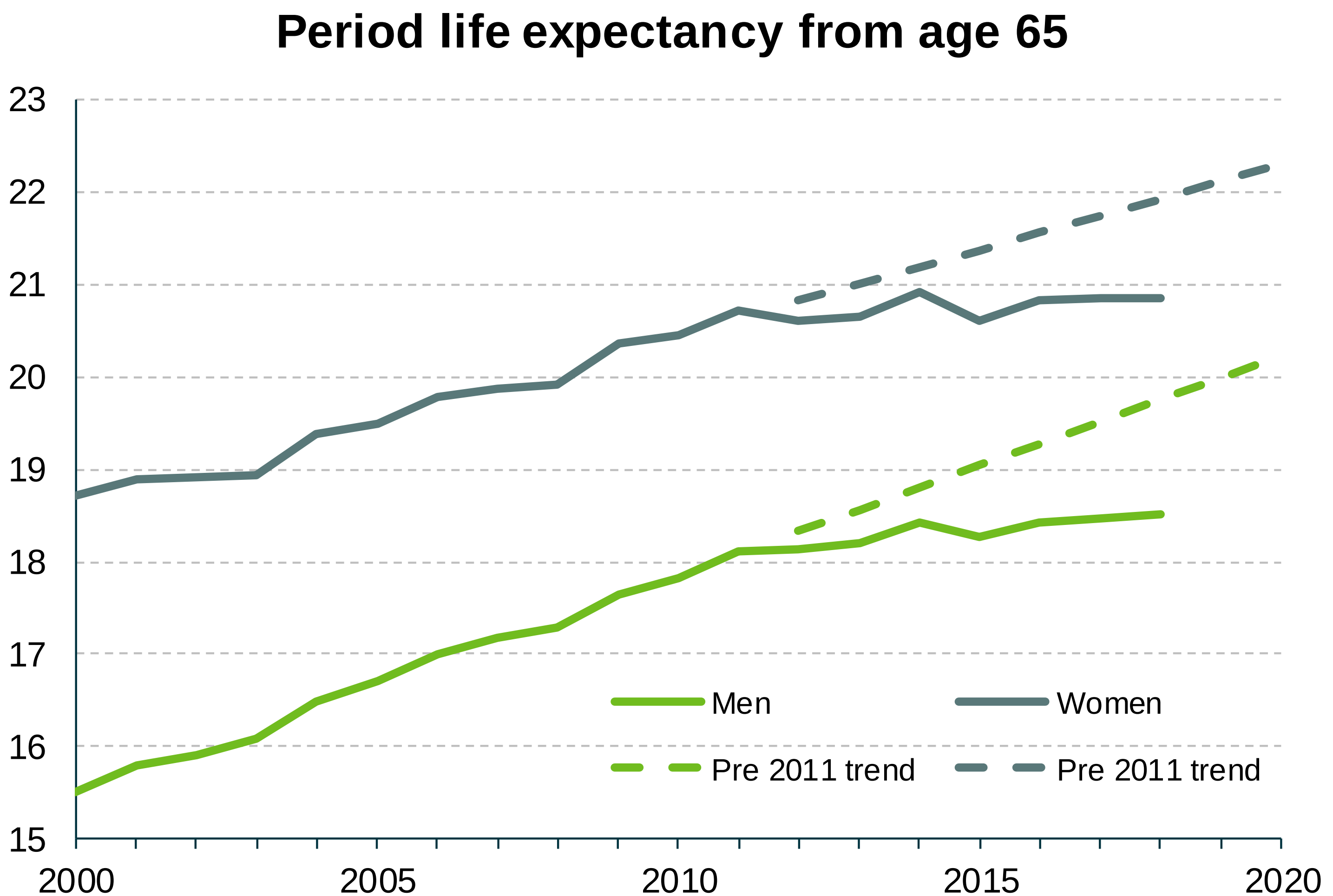
Longevity trends

No more longevity improvements?...



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Longevity is still improving, just not as fast as before

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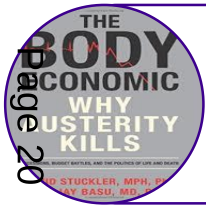
What might be driving the slowdown?

End of an era
Have we exhausted the era of cardio-vascular improvements with no replacement driver of improvements?

High-rise 00s
Were the 2000s simply abnormally good e.g. strong investment in health care, drives for social (health) equality?



Cash-strapped Britain
Are austerity driven cuts **(supply)** impacting health outcomes, particularly of older people in an ageing population **(demand)**?

Frailty decline
A few harsh winters and flu seasons, each of which trigger frailty decline and premature mortality have merged together.

Rise of Dementia
Larger rise in dementia than attributable to ageing population – are current generations more 'prone' for some reason?

Data anomaly?..
Some have questioned if there is an anomaly within the population data. Unlikely given the results replicated in Club Vita.

Are these experienced equally across society?

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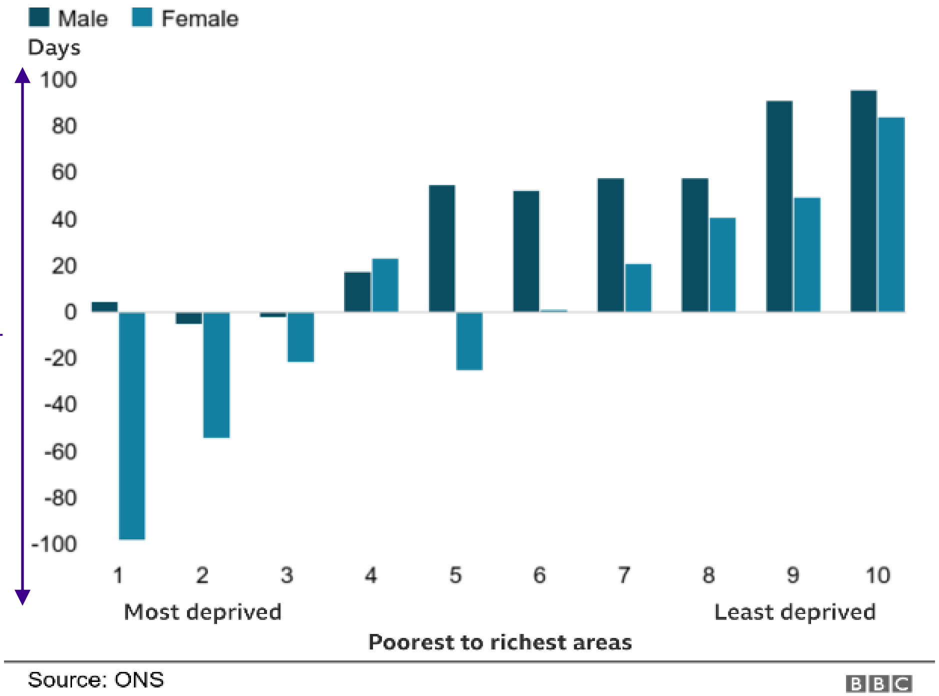
Socio-economics

Change in life expectancy between 2012-2014 and 2015-2017



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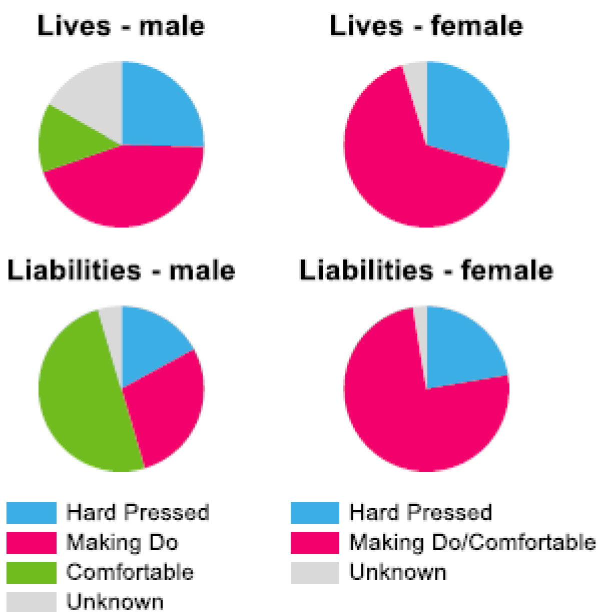
Your fund's profile



Evidence that comfortable members are more resilient to slowdown – ensure assumptions reflect this

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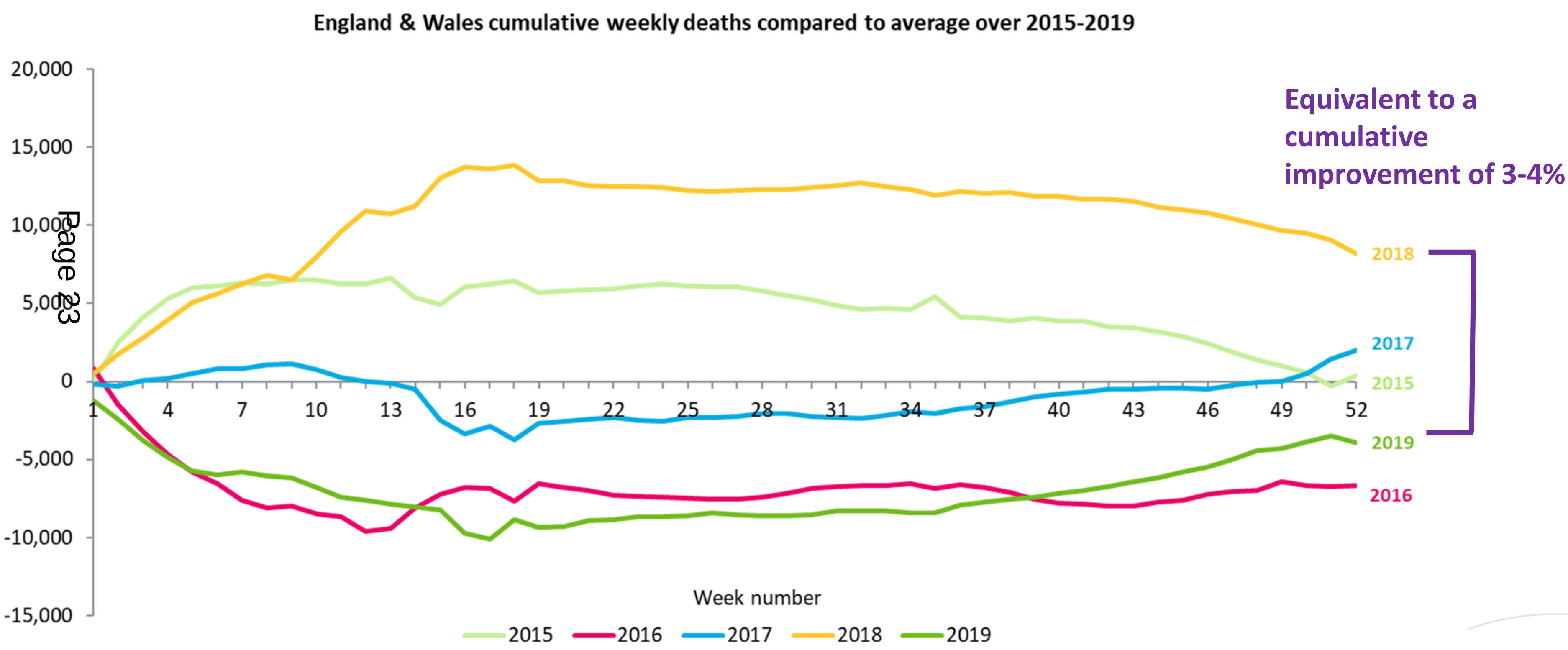
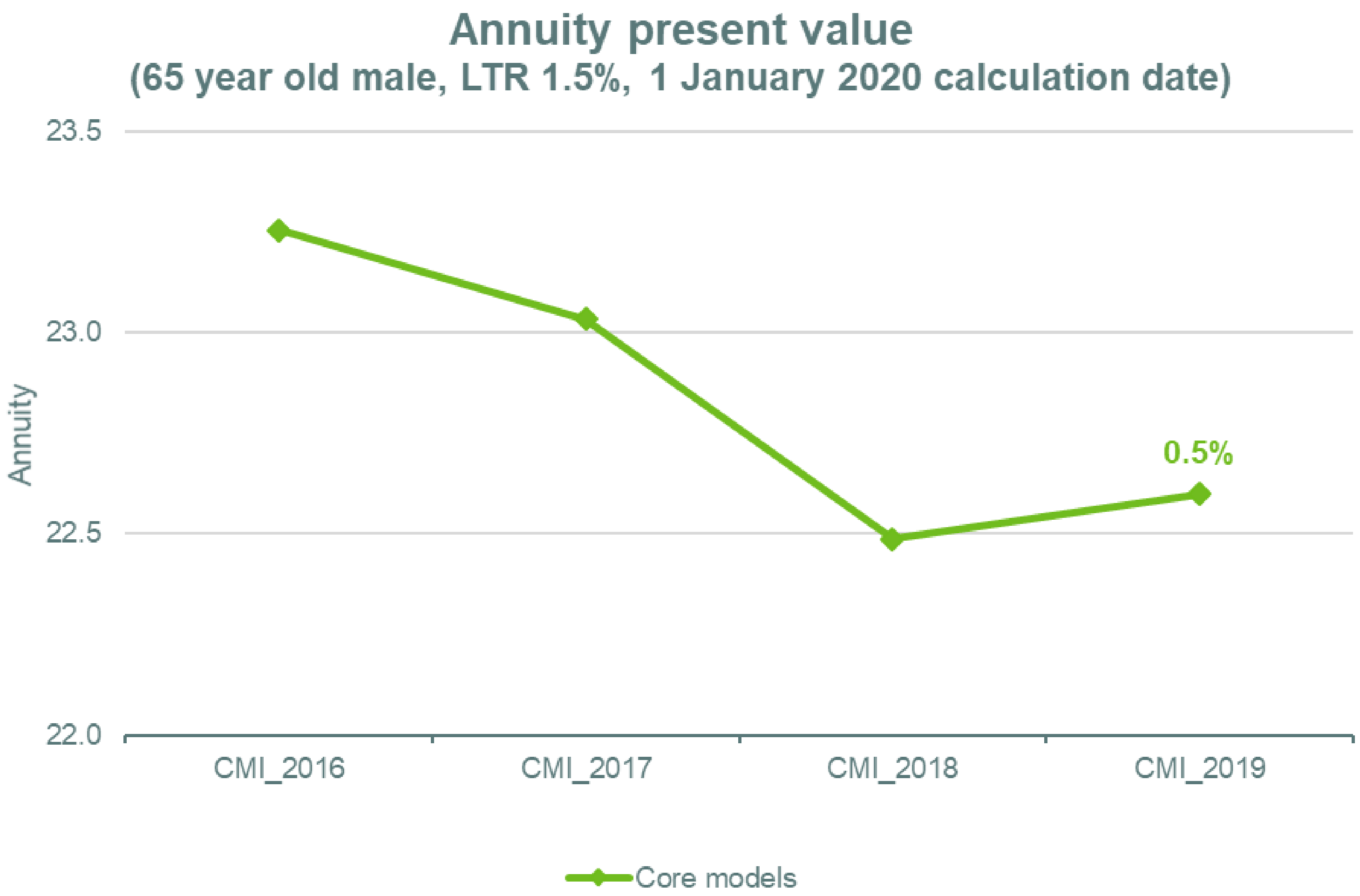
Longevity trends: 2019 and 2020

2019 bucks the trend



Source: Based on ONS weekly death data

What does this mean for liabilities?



Note: The annuity values shown are for men at age 65, based on the S3PMA base table, with a net interest rate of 0% p.a. and assuming a long term rate of 1.5% p.a. in each case. Calculations were carried out using the published CMI_2018 model, and the E&W population data included with that model. CMI_2019 values are estimated based on fitting the model to 1979 to 2019, where the exposures and deaths in 2019 have been estimated in line with the CMI's published methodology. The calculation date is set to 1 January 2020 throughout.

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What about 2020?

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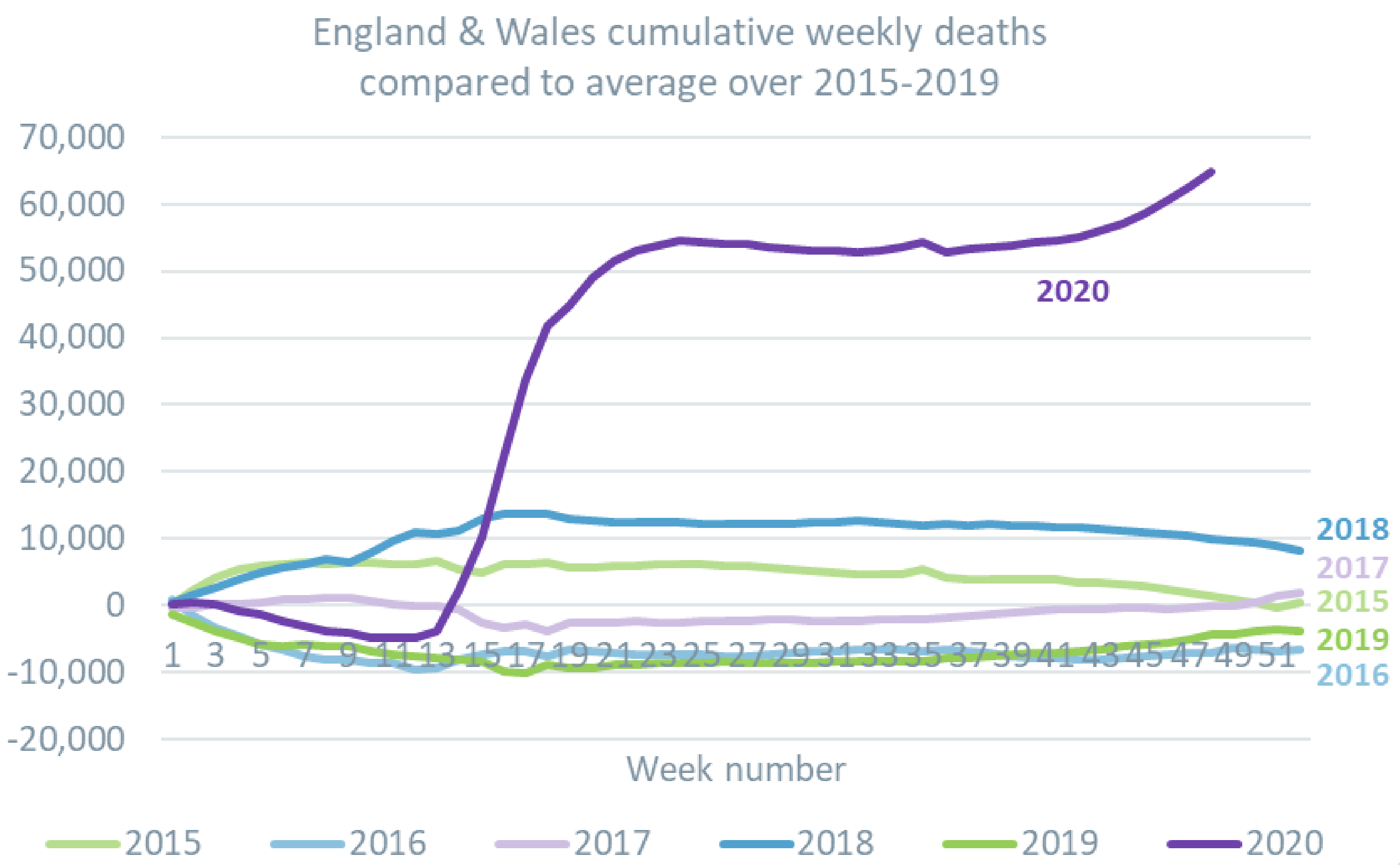
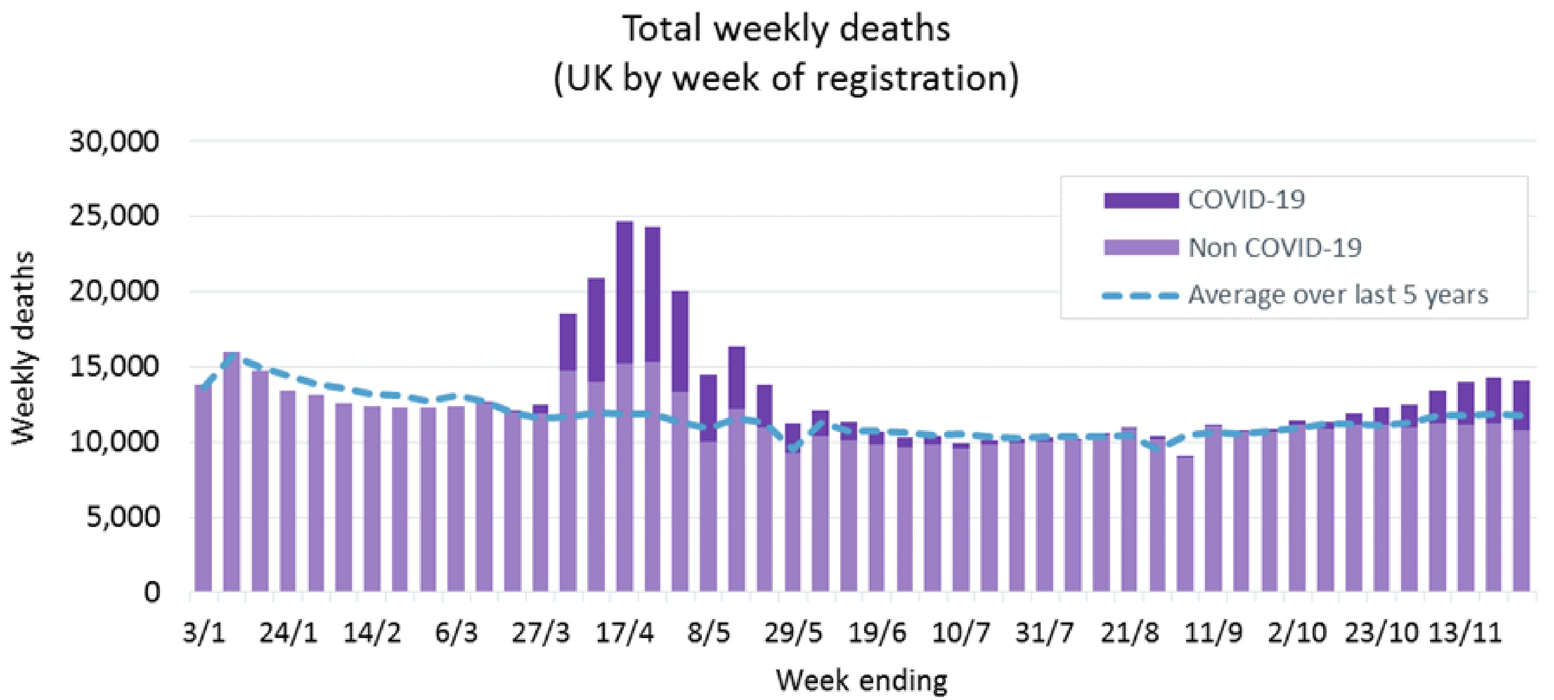


Source: ONS

COVID-19

Direct loss of life



Weekly figures for Scotland use a different definition of weeks, running from Monday to Sunday rather than Saturday to Friday. The chart above is based on using the Scottish data for the week ending on the Sunday immediately after the date shown on the horizontal axis.

Missing deaths: Direct loss of life could be 30% higher than official government statistics

Source: Club Vita's analysis of ONS/NRS/NISRA data to 27th November and official govt figures

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COVID-19

Indirect loss of life

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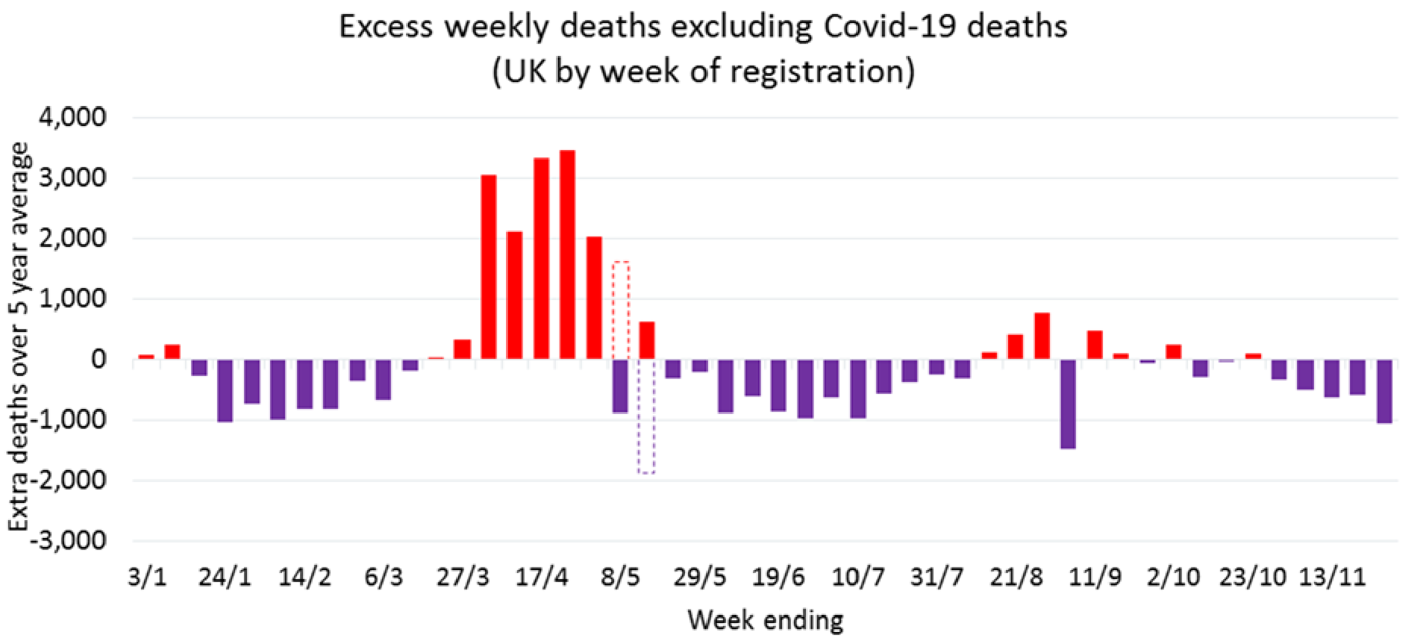

Notes:
1: Whilst Scotland started easing lockdown on 28th May, this was the first of three phases of lifting restrictions (to date), with subsequent phases beginning on 19th June and 10th July. Scotland continues to have more restrictions in place than England, for example on when essential offices may open.
2: As the first Bank Holiday in May was moved to Friday the 8th to mark VE Day, there was a more material impact on death registrations than usual for Monday bank holidays, as there was no time for 'catch up' before Friday. As a result deaths in that week were artificially low, while there was a 'catch up' the following week ending 15th May. We have illustrated what the adjusted figures may have looked like using the dashed lines in those two weeks.

Significant 'non COVID' deaths 20%-30% above seasonal averages

Source: Club Vita's analysis of ONS/NRS/NISRA data to 27th November and official govt figures

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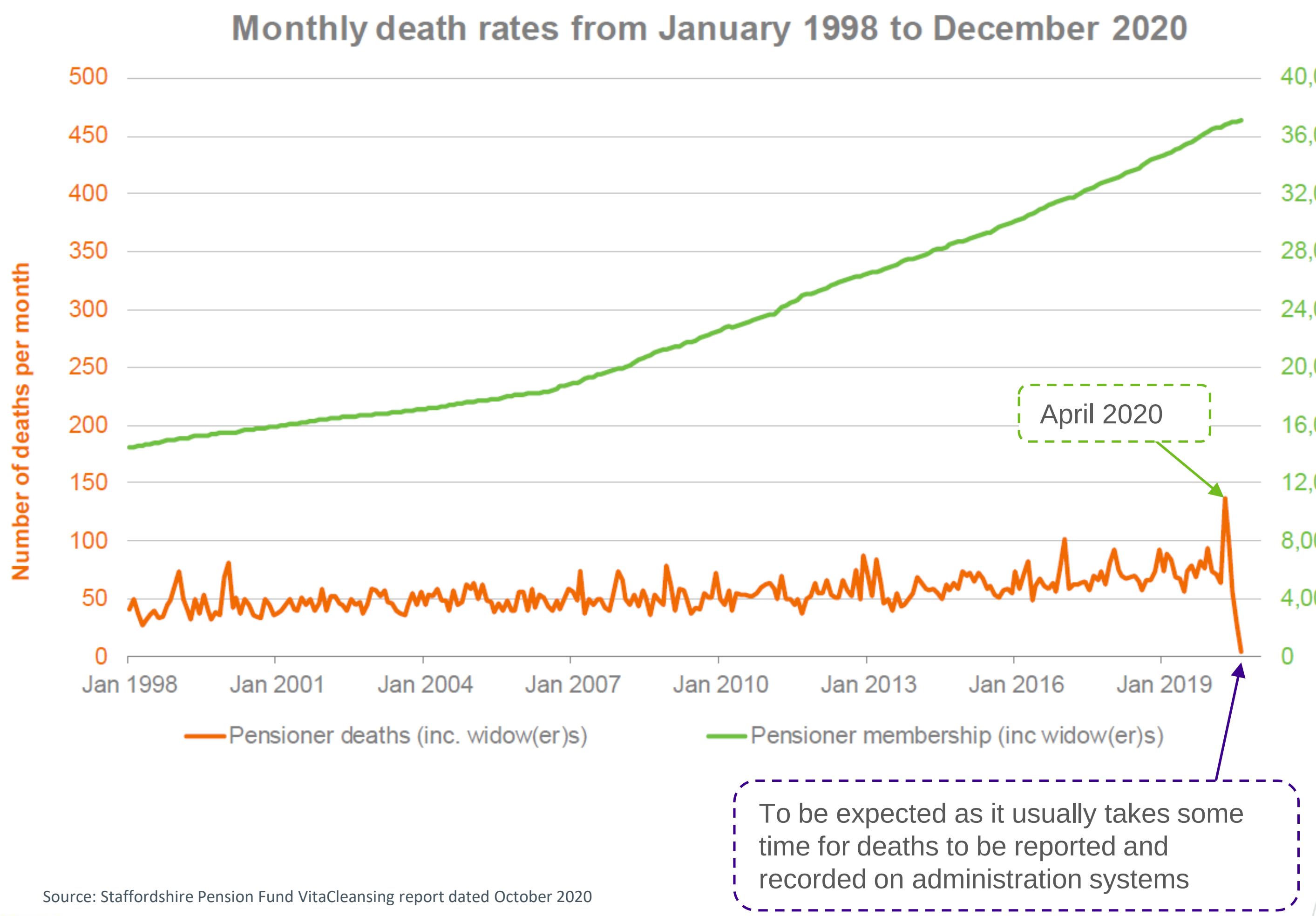
COVID-19

Fund specific mortality spike?



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Source: Staffordshire Pension Fund VitaCleansing report dated October 2020

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COVID-19

Why look at cases?

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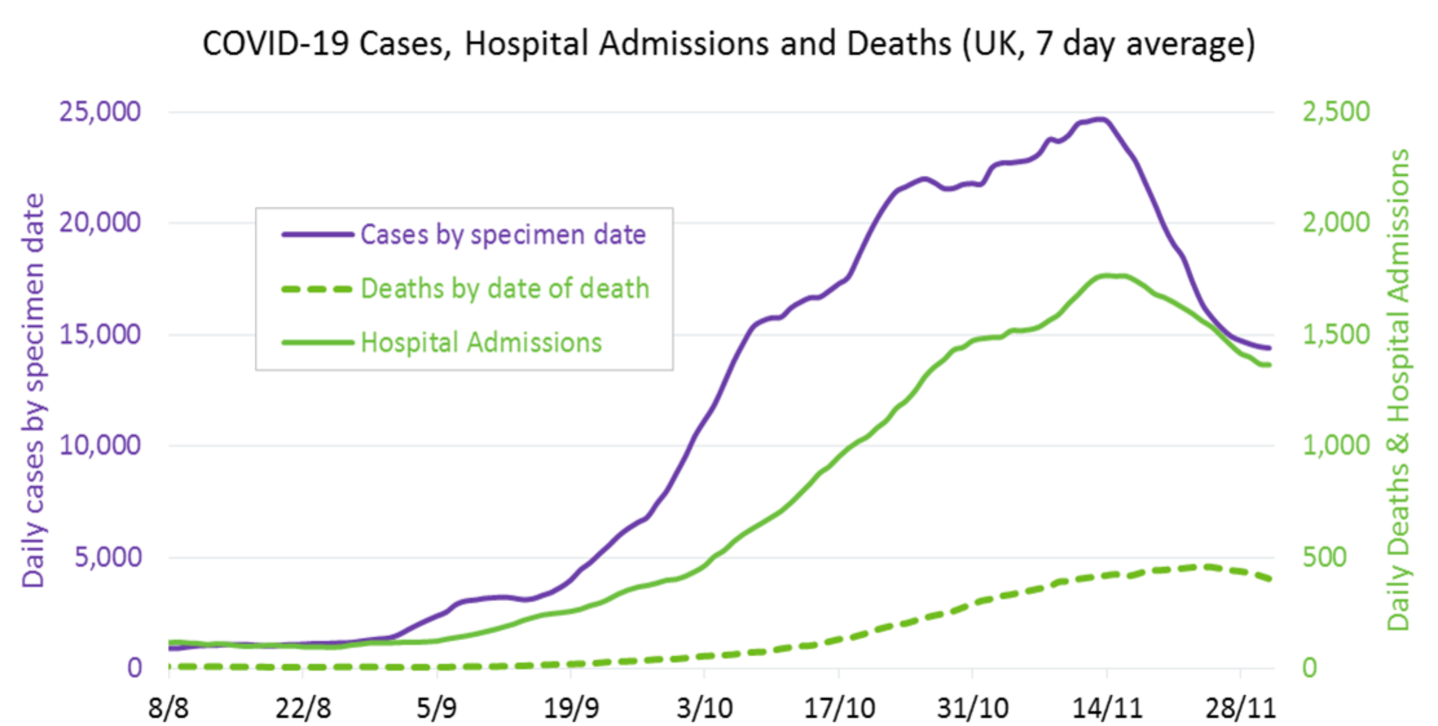

Cases figures are the daily number of people with at least one lab-confirmed positive COVID-19 test result, by specimen date.
Deaths figures are the number of deaths of people who had a positive test result for COVID-19 and died within 28 days of the first positive test, by date of death.
Hospital admissions show the daily numbers of COVID-19 patients admitted to hospital
Figures are averages for the 7 day period ending on the date shown.

Cases can act as an indicator of imminent hospitalisation requirements and ultimately deaths

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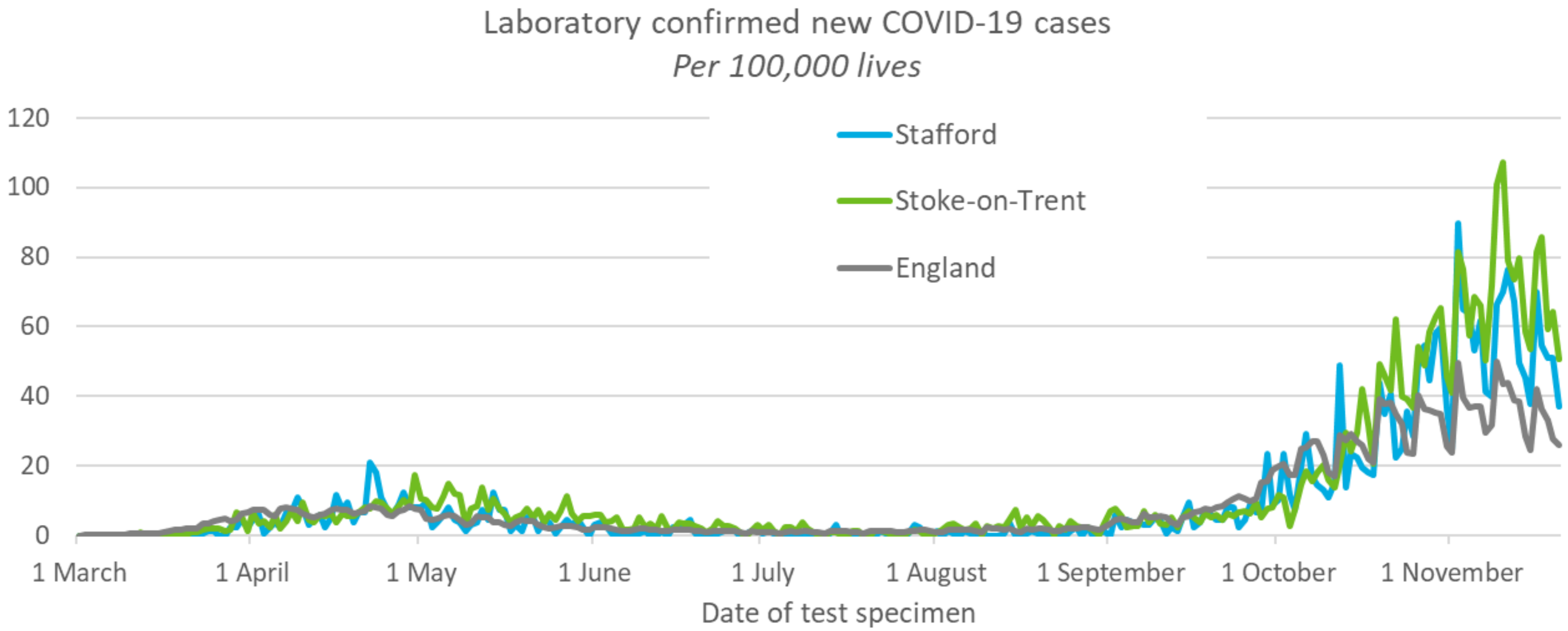
Source: Club Vita's analysis of ONS/NRS/NISRA data to 27th November and official govt figures

COVID-19

Local Cases



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Source: https://coronavirus.data.gov.uk/about-data#england to 24 November

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What does this mean for pension funds?

The impact on pension funds

Impact on scheme membership will vary depending on:

- Gender
- Age
- Health
- Region
- Socio-economic mix

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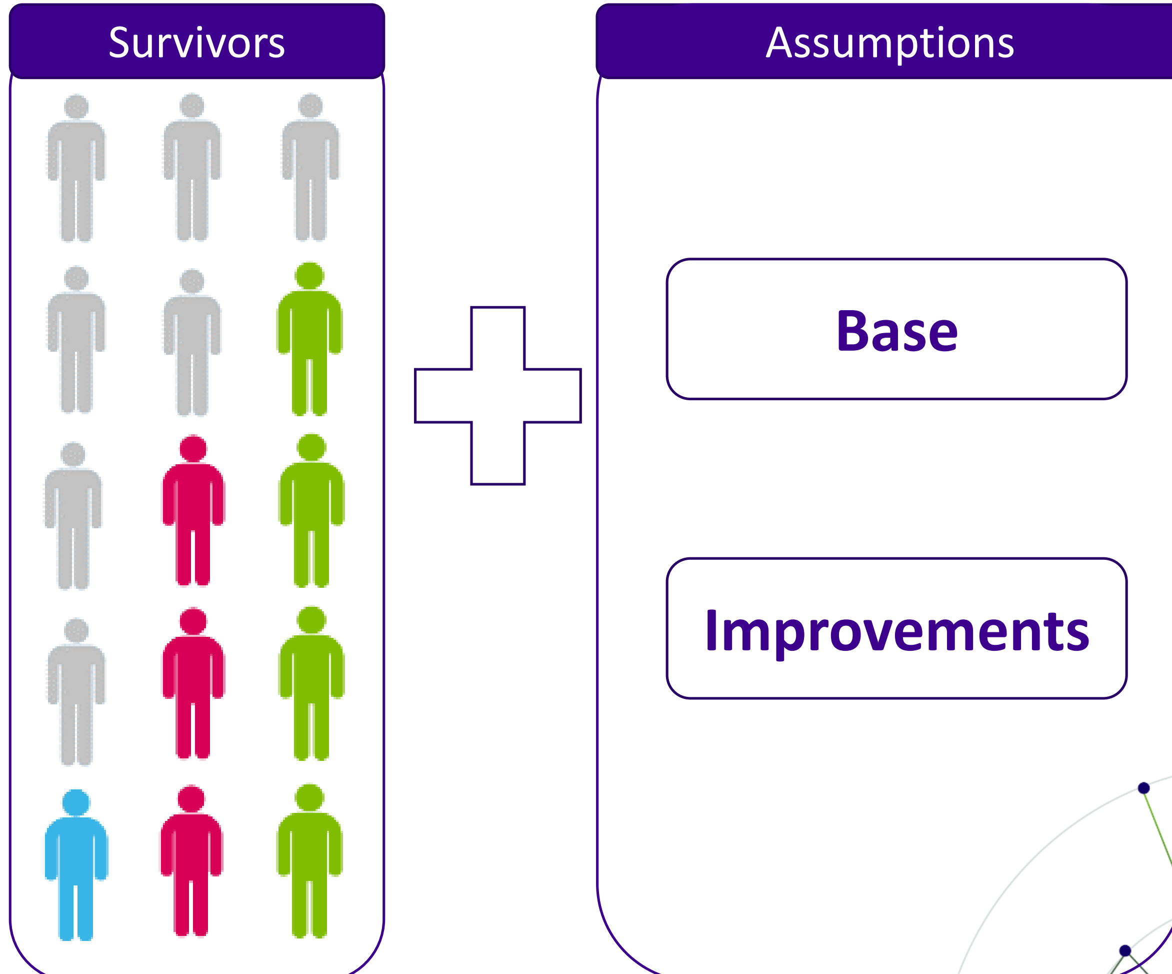

Image stylised for purposes of illustration.

Key drivers of long term uncertainty

Lower longevity improvements

Short term risk of COVID-19
There is a risk that we see further waves of infection as social distancing measures are relaxed

Long term risk of COVID-19
Disease could continue to be a risk without finding an effective vaccine.

Impaired long-term health
The long term health of those who were infected with COVID-19 but survived the virus might be damaged.

Disruption to non-COVID care
Deterioration of patients with non-coronavirus conditions due to delays in treatment (e.g. cancer)

Global recession
A global recession may impact future public sector spending in health care.

Higher longevity improvements

Survivorship bias
The average health of the surviving population could be higher in the years following the outbreak.

Reduced circulation of flu
Change in social behaviour (e.g. increased handwashing) may reduce prevalence of flu and other infectious diseases in future.

Reduction in air pollution
Change in social behaviour may result in the reductions to air pollution persisting.

Reduction in smoking
Disease may have encouraged existing smokers to stop

Health/social care funding increase
Issues with funding unearthed during the pandemic may be more likely to be addressed

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COVID-19:

Coming soon: Scenario analysis and mortality screening

Geography: 

Scheme: *XYZ Pension Scheme*

Demographics: Hard Pressed — Making - Do — Comfortable

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Severity: 0% — 100%

+25%

COVID-19 will increase 2020 deaths in overall population by 25% compared with prior best estimate.

Selectiveness: 0x — 3x

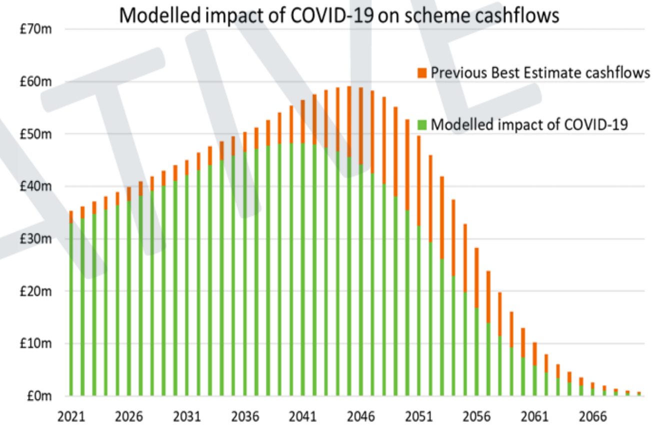
x1.5

Individuals in poor health are **1.5x** more likely to die of COVID-19 compared with overall population.*

Impairment: 0% — 100%

+25%

On average, the surviving population will have 25% higher mortality rate as a result of medical conditions related to COVID-19 exposure.



Reduction in PV: **1.5%**

Reduction in LE65 (men)	Hard Pressed	Making Do	Comfortable
	1.6 (2.1%)	1.1 (1.4%)	0.6 (1.1%)

Reduction in duration: **-2.7 years**

Scenario analysis and more timely data from Club Vita can help identify early warning signals

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Any questions?

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Check out our ***"Lexicon of Longevity"*** for definitions of technical terms used in longevity transactions.

Club Vita webinar series
including Climate change – Hot and Bothered, COVID-19 and Public Sector vs Private Sector research

Join our mailing list at
https://www.clubvita.co.uk/subscribe

Follow our Friends of Club Vita Linkedin group

www.clubvita.co.uk

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Appendix

CLUB VITA's data bank

Records for over 3 million UK pensioners

covering over 1 in 4 DB pensioners

Relationships with over 235 large pension schemes

with over £300 billion of liabilities

Over 1.5m death records

stretching back 25+ years

Segmented by affluence, postcode, health and more

Richest, most flexible and most relevant data

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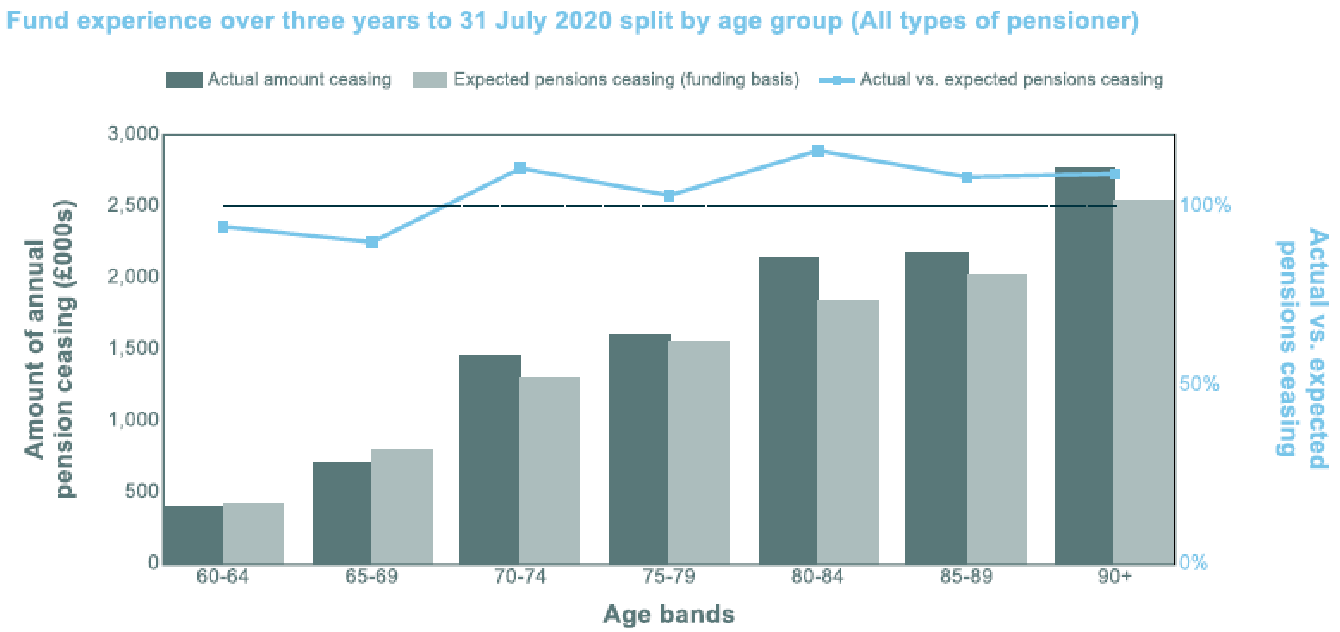
Fund longevity experience



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The table below shows **the impact of your fund's experience since the last valuation** (as at 31 March 2019) **has been to decrease your liabilities by 0.1%.**

	Year ending			Since last valuation
	31 Jul 2020	31 Jul 2019	31 Jul 2018	
Extra (less) pension in payment at year end (£k)	(636)	(15)	(224)	(641)
Estimated % increase (decrease) in liabilities	(0.1%)	0.0%	0.0%	(0.1%)

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Longevity Scenario testing

Lower trend scenarios | Central (ish) scenarios | Higher trend scenarios

Back to the fifties

Challenging times

Alzheimer's wave

Health cascade

Cancer revolution

80 is the new 60

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Challenging Times (-5%)
Climate change and resource constraints significantly impact on life expectancy

Health Cascade (+3%)
Uptake of healthy behaviours cascades from wealthier to poorer individuals.

80 is the new 60 (+25%)
Mortality rates for 80 year olds fall over time to levels seen by current 60 year olds

Back to the Fifties (-14%)
Life expectancy shows a prolonged and material decline for all groups

Alzheimer's Wave (+3%)
Deaths attributed to Alzheimer's increase rapidly over 5 years before a 'cure' is found.

Cancer Revolution (+6%)
Following a period of modest improvements, a 'cure' for cancer is released in 2027.

How might the current trend change?

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Local Members Interest	
Nil	

PENSIONS COMMITTEE – 18 DECEMBER 2020

Report of the Director of Corporate Services and County Treasurer

Staffordshire Pension Fund Annual Report and Accounts 2019/20

Recommendations of the Chair

1. That the Pensions Committee approve the draft Staffordshire Pension Fund Annual Report and Accounts 2019/20, https://www.staffspf.org.uk/Finance-and-Investments/Annual-Reports-and-Accounts/Reports-and-Accounts.aspx 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 on page 86. 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.

2. That the Pensions Committee note 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, attached as **Appendix 2**.

Background

3. Under Regulations, the Pension Fund must publish an annual report, which includes the accounts, by 1 December. 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 has not been met. The Staffordshire Pension Fund is one of many Local Government Pension Schemes that find itself in this situation, and the Ministry of Housing, Communities and Local Government (MHCLG) have been made aware.

4. The Pension Fund's accounts are 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.

5. Since then, EY have 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 is likely to be an 'unqualified' audit opinion, but there will be some caveats in relation to matters arsing as a result of market

uncertainties created by Covid-19. A representative from EY will explain more about this during the meeting, when they present their report.

6. EY's statement on the Pension Fund accounts is to confirm that they are consistent with those included within Staffordshire County Council's Statement of Accounts for the year ended 31 March 2020. It also states the accounts were properly prepared in accordance with accounting standards.

Preparing the Annual Report

7. In March 2019, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued Guidance for Local Government Pension Scheme Funds on Preparing the Annual Report. As the guidance was relatively late in being issued and proposed many changes to the content of the Annual Report, specifically to encompass various information and metrics on Local Government Pools, it was acknowledged that for the 2018/19 report, changes should be done on a 'best endeavours' basis. Whilst the 2019/20 report includes many more of the changes required by the CIPFA Guidance, Members are asked to note that once again, the report has been prepared on a 'best endeavours' basis in certain areas and this may be the case until more consistent data is available to be included.

8. As the report being presented to Pensions Committee today has missed the 1 December publishing deadline, Members are asked 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 is recommended that a final version of the Annual Report and Accounts be signed off by the Chair, as soon as this is available and prior to publishing such on the Staffordshire Pension Fund's website. Due to the size of the document, the report has not been included with these papers but can be accessed via the following link.

https://www.staffspf.org.uk/Finance-and-Investments/Annual-Reports-and-Accounts/Reports-and-Accounts.aspx

A hard copy can be provided on request.

John Tradewell
Director of Corporate Services

Contact: Melanie Stokes
Telephone No. (01785) 276330
Background Documents: None

Appendix 1

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

Legal implications: These have been addressed in the report.

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

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

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

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

Staffordshire Pension Fund

Audit results report

Year ended 31 March 2020

December 2020

EY

Building a better working world

Staffordshire Pension Fund

December 2020

Dear Pension Committee Members

We are pleased to attach our initial audit results report for the forthcoming meeting of the Pensions Committee. This report summarises our preliminary audit conclusion in relation to the audit of Staffordshire Pension Fund for 2019/20.

At the date of this report our audit of the Fund's accounts for the year ended 31 March 2020 remains in progress. However, subject to concluding the outstanding matters listed in our report, we anticipate issuing an unqualified audit opinion on the financial statements in the form at Section 3 of this report. As set out on pages 5 to 7, as per our update to the Audit Committee in July 2020, the Covid-19 pandemic has impacted the statements and our audit opinion.

This report is intended solely for the use of the Pensions Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement given the additional pressures they have faced responding to the pandemic and working remotely.

Yours faithfully

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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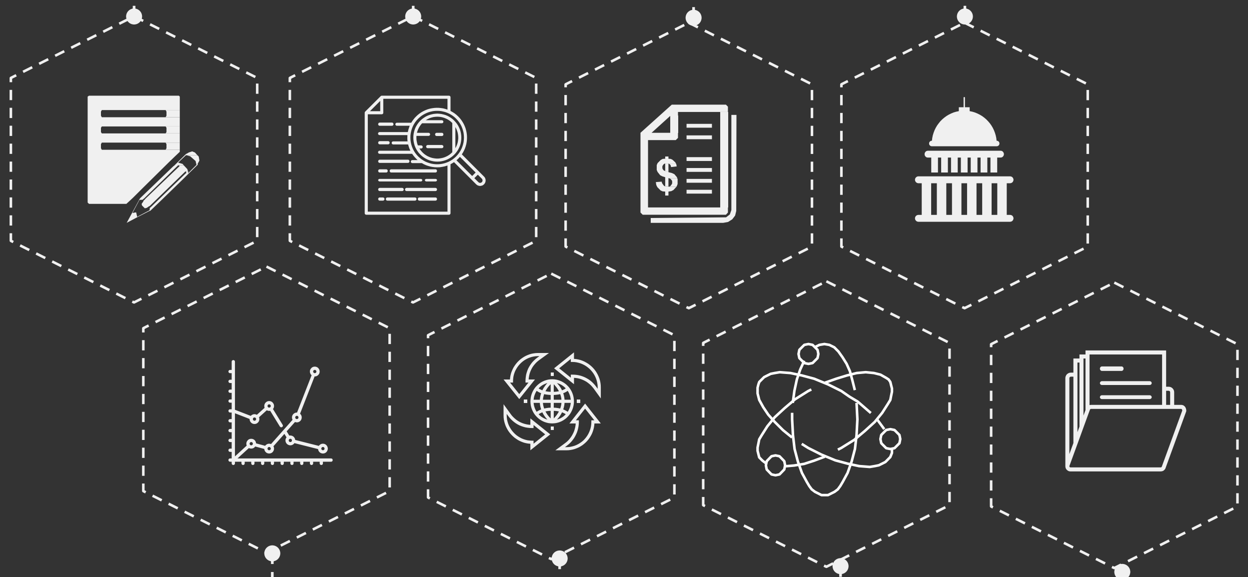

Public Sector Audit Appointments Ltd (PSAA) have issued a ‘Statement of responsibilities of auditors and audited bodies’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This Statement of responsibilities serves as the formal terms of engagement 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 (updated April 2018)’ issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive Summary

Scope update

In our audit planning report dated 25 June 2020 but presented to the September Pensions Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We are conducting our audit in accordance with this plan, with the following exceptions:

Changes to reporting timescales

As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Changes to our risk assessment as a result of Covid-19

- **Disclosures on Going Concern** – The pandemic has had a significant impact on the value of investments and as a result there was a need for the Fund to consider its financial plans for 2020/21 and the medium term. We determined that the unpredictability of the current environment gave rise to a risk that the Fund would not appropriately disclose the key factors relating to going concern, underpinned by management's assessment with particular reference to Covid-19 and the Fund's actual year end financial position and performance.
- **Events after the balance sheet date** – We identified an increased risk that further events after the balance sheet date concerning the Covid-19 pandemic would need to be disclosed, specifically for the Fund, changes to the value of investments after the initial lockdown announcement. The amount of detail required in the disclosure needs to reflect the specific circumstances of the Fund.
- **Level 3 Investments –** We have had to undertake a detailed assessment of investments where the values are based on Financial Statements produced at December 2019.
- **Valuation of Property -** The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty were included in the year-end valuation report produced by the Fund's external valuer for directly held property. We considered that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property.

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Changes in materiality - Our planning materiality assessment using the draft financial statements has not changed and there are no new audit risks.

Planning Materiality	Performance Materiality	Audit Differences
Our planning materiality represents 1% of the prior year's net assets, consistent year on year	Performance materiality represents 75% of planning materiality and is the top of our range, consistent year on year.	We will report all uncorrected misstatements relating to the primary statements (net asset statement and fund account) greater than 5% of planning materiality.
£47.4m	£23.7m	£2.4m

Executive Summary

Scope update (continued)

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Fund's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19.
The continued impact of the Covid-19 pandemic increases the risks to the material accuracy of financial statements and disclosures. To ensure we are providing the right assurances to the Fund and its stakeholders the firm has introduced a rigorous consultation process for all auditor reports to ensure that they include the appropriate narrative.

The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We have set out the impact on our audit fee on page 25.

Status of the audit

Owing to the sickness absence of our audit manager the audit has been protracted and our work remains in progress. We are performing the procedures outlined in our Audit Plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

• Consideration of the going concern disclosure and supporting evidence including internal EY consultation	• EY internal consultation on the emphasis of matter planned for directly held property
• Related party transactions review and testing	• Contribution confirmations to be received and schedule updated
• Confirmation that all fund manager control reports have been received and reviewed	• Final review of audit procedures
• Completion of technical review of the statements	• Completion of cash cut-off testing
• Consideration of post balance sheet events	• Reviewing the final version of the statements
• Review of the Pension Fund Annual Report	• Receipt and review of the management representation letter
• Completion of a consistency check between the Pension Fund Accounts and the Staffordshire County Council Full Statement of Accounts pack	

Executive Summary

Areas of audit focus

Our audit plan identified significant risks and areas of focus for our audit of the Fund's financial statements. We summarise below our latest findings.

Significant risk	Findings & conclusions
Management Override: Misstatements due to fraud or error	We have completed our testing and found no indications of management override of controls.
Posting of investment journals	We have completed our testing and have nothing to report.
Valuation of unquoted investments	We have completed our testing and subject to final EY review we have nothing to report.

Other area of audit focus	Findings & conclusions
Valuation of directly held properties	The Fund accounts will be updated to reflect the Covid-19 related valuation uncertainty reported by the valuer of the £415m directly held property. Subject to concluding internal EY consultation, we will emphasise the disclosure in our audit opinion.
Local Government Pension Scheme (LGPS) Asset Pooling Arrangements	We have no matters to report.
Going concern	At the date of drafting this report, we have yet to complete our review of the Fund's going concern assessment or revised disclosure note. This will be subject to internal EY Consultation.

We request that you review these and other matters set out in this report to ensure:

- There are no residual further considerations or matters that could impact these issues
- You concur with the resolution of the issue
- There are no further significant issues you are aware of to be considered before the financial report is finalised

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Pension Committee.

Audit differences

At the date of this report there are no unadjusted audit differences. Management are amending the draft accounts for its updated disclosures on going concern and the valuation uncertainty on its directly held properties. At this stage there are no other audit differences that are above our reporting threshold.

Executive Summary

Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Fund. We have no matters to report as a result of this work.

We have no other matters to report.

IAS19 and membership data testing

In common with prior years we were requested by the auditors of 12 local authorities who are admitted bodies to the Fund to carry out work on the IAS19 related information that informs the pension liability disclosures in the authorities statement of accounts. For 2019/20, because of the triennial valuation of the fund, we were required to carry out additional testing on a sample of 250 members and the membership data that the Fund provides to the actuary. Our testing sought to test the validity of the key membership data that informs the actuarial valuation to give some assurance to the auditor of each authority that the resultant information from the actuary is reliable. We sought to agree membership details, such as pensionable salaries and key dates (such as dates pensions were deferred or dates when pensions were taken) to the source evidence that was used to support the data submitted by the Fund to the actuary. In common with other Funds across the country, we found that the Fund initially struggled to provide all the requested evidence due largely to some of the age of the information. However, the Fund was able to respond to our requests and at the end of October we were able to provide the IAS19 assurances to the auditors of the 12 local authorities. This work took a significant amount of audit input compared to previous years and in Section 08 we outline the additional fees associated with this work.

Independence

Please refer to Section 07 for our update on Independence.

02 Areas of Audit Focus

Significant risk

Risk of Management Override: Misstatements due to fraud or error

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. We identify and respond to this fraud risk on every audit engagement.

What did we do and what judgements did we focus on?

In order to address this risk we:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Reviewed accounting estimates for evidence of management bias; and
- Evaluated the business rationale for significant unusual transactions.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Fund's normal course of business

Significant risk

Risk of Management Override: Year end investment journals

What is the risk?

The Pension Fund posts year end manual journals in relation to the valuation of it's investments and the recognition of investment income. There is a risk that, due to fraud or error, investment journals posted into the general ledger are incorrect, which could result in a misstatement of year-end investment value and/or investment income.

What did we do and what judgements did we focus on?

- Tested journals at year-end to ensure there are no unexpected or unusual postings;
- Undertook a review of reconciliations to the fund manager and custodian reports and investigated any reconciling differences;
- Re-performed the detailed investment note using the reports we have acquired directly from the custodians or fund managers, including the agreement of investment additions and disposals in the year;
- Sought to obtain further independent support for the valuation of pooled year-end investments where this can be obtained;
- Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports; and
- Reviewed accounting estimates for evidence of management bias,

We utilised our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries for evidence of management bias and evaluated for business rationale.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Pension Fund's normal course of business.

Significant risk

Valuation of unquoted investments

What is the risk?

Valuation of unquoted investments

The Fund's investments include unquoted pooled investment vehicles such as private equity and private debt (Level 3 Investments).

Investment managers make judgements to value those investments as their prices are not publicly available. The material nature of Investments means that any error in judgement could result in a material valuation error.

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.

As these investments are more complex to value, we have identified the Fund's investments in Level 3 investments as a significant risk, as even a small movement in these assumptions could have a material impact on the financial statements.

What did we do and what judgements did we focus on?

Our audit approach has included the following procedures:

- Assessing the competence of management experts;
- Reviewing the basis of valuation for property investments and other unquoted investments and assessing the appropriateness of the valuation methods used;
- Comparing the investment value included in the financial statements to direct confirmations from the Fund Managers.
- Review the basis of valuation for level 3 investments and ensure it is in line with the accounting policy.
- Reviewing the latest audited accounts for the relevant fund managers and ensuring there are no matters arising that highlight weaknesses in the funds valuation;
- Obtain copies of the ISAE3402 reports over internal control for any control exceptions raised in relation to the valuation of investments; and
- Performing analytical procedures and checking the valuation output for reasonableness against our own expectations.

What are our conclusions?

- Subject to final review of the completed procedures and confirmation that we have obtained all internal control reports we are satisfied that the valuation of level 3 investments is materially stated.

Areas of Audit Focus

Valuation of directly held property

The fund holds £415m as directly held property, which is valued annually by an external valuer. The market uncertainty at 31.3.20 due to Covid-19 resulted in the valuer including a material uncertainty paragraph in the valuation report which is disclosed in Notes 4 and 5 of the draft accounts but not Note 13e (Investment properties). We considered the work of the Fund's external valuer and we also engaged our own internal valuation specialists (EY Real Estates) to review a sample of the properties and we found that overall the valuations were reasonable.
The fund has now revised note 13e to include the valuer's material uncertainty paragraph and in light of the size of the directly held property portfolio we consider the disclosure to be fundamental to the reader's understanding of the fund's accounts and are therefore proposing an emphasis of matter paragraph in the audit opinion as outlined in Section 03. This is subject to internal EY consultation.

Local Government Pension Scheme (LGPS) Asset Pooling Arrangements

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.
We have:

- Enquired with officers about the governance arrangements put in place to ensure that the pooled investments are appropriately managed.
- Confirmed our understanding of the process of how investments transition into the LGPS Central Ltd pool, how the investments are monitored throughout the year and how they will be disclosed within the Fund's financial statements.
- Confirmed the value of the pooled investments as of 31/03/2020.

We have no matters to report.

Going concern disclosure

There is presumption that the Fund will continue as a going concern. However, the current and future uncertainty presented by the Covid-19 pandemic increases the need for the Fund to undertake a going concern assessment to support its assertion. From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the audit opinion date, rather than the balance sheet date. So, this year, for example, we have requested evidence of the going concern assessment up to and including around October/November 2021.
The draft accounts did not include any disclosure in respect of Going Concern. The Fund have since provided a going concern assessment and an associated disclosure. We are currently reviewing the information provided and we will consult internally with our Professional Practices Department in respect the impact, if any, on our audit opinion.

03 Audit Report

Our draft opinion on the financial statements is subject to final EY consultation

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STAFFORDSHIRE COUNTY COUNCIL

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the pension fund financial statements:
give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and the amount and disposition of the fund's assets and liabilities as at 31 March 2020; and
have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Directly held property

We draw attention to Note 4 Critical judgements in applying accounting policies, Note 5 Assumptions made about the future and other major sources of estimation uncertainty and Note 13e Directly held property net asset account which describe the valuation uncertainty the Fund is facing as a result of Covid-19 in relation to the valuation of its directly held property. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Corporate Services use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Corporate Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the statement of accounts, other than the financial statements and our auditor's report thereon. The Director of Corporate Services is responsible for the other information.
Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Our opinion on the financial statements

Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Director of Corporate Services

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Director of Corporate Services is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Corporate Services is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of Staffordshire County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Suresh Patel (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
London
Date

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of unadjusted and adjusted differences

None to report

05 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements

We must give an opinion on the consistency of the financial and non-financial information in the Staffordshire Pension Fund Annual Report with the audited financial statements. We have yet to complete this review.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We have had no reason to exercise these duties.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Fund's financial reporting process. We have no matters to report.

06 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

07 Independence

Independence

Confirmation

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 25 June 2020. We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Pension Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Pension Committee.

We confirm we have undertaken non-audit work outside of the Statement of responsibilities of auditors and audited bodies as issued by the Public Sector Audit Appointments Ltd. We have adopted the necessary safeguards in our completion of this work.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2020.

In our Audit Plan we have communicated our proposal to increase the scale fee for 2019/20 to £52,500. This proposal is currently being considered by PSAA as part of their national consideration of EY's fee proposals. The table below does not reflect those proposals. On completion of the audit we will finalise our fees and provide supporting details to the Director of Corporate Services for agreement.

	Final fee 2019/20	Planned fee 2019/20	Final Fee 2018/19
	£	£	£
Scale Fee – Code work	21,553	**21,553**	21,553
Additional work and associated fees:			
IAS 19 Assurance Work – annual approach (1)	9,500	6,000	5,500
Triennial Review Procedures (2)	11,500	12,000	-
Going concern assessment. EOM disclosures including EY consultations **(3)**	2,500-5,000	-	-
Additional work to obtain assurance over directly held property in light of Covid-19. **(4)**	4,000-6,000	TBC	-
Total indicative Pension Fund fee	**TBC**	**TBC**	**27,053**

1. *Additional fee of £9,500 in 2019/20 takes into account the additional work required to respond to twelve IAS19 assurance requests from scheduled bodies. In 2018/19 we did not account for the number of requests.*
2. *We reported in the Audit Plan that as a result of the triennial valuation of the Fund we would be required to undertake additional testing of membership date. We have tested data for a sample of 250 members.*
   Items 1 and 2 are outside of the PSAA fee regime and we will seek agreement with the Director of Corporate Services.
3. *We reported in the update to the Audit Plan that we would need to carry out additional work to review, assess and challenge the Authority's going concern assessment and associated disclosure and the impact of C-19 on the valuation of directly held property. We also highlighted that to ensure that we are giving the right assurance to the Authority, EY have instigated a consultation process involving the Firm's Professional Practice Directorate. We will confirm the final fees associated with this additional work on completion of the audit.*
4. *We have had to undertaken additional work on directly held properties and engaged our EYRE specialists in light of the impact of Covid-19 on the valuation of the assets.*

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
  - Tax advocacy services Remuneration advisory services Internal audit services Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for us to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020. We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2020

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 end 30 June 2020: https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2020/ey-uk-2020-transparency-report.pdf

08 Appendices

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the audit 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.	Audit planning report 25 June 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report 25 June 2020
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit results report December 2020

Appendix A

		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 December 2020
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	Audit Results Report December 2020
Subsequent events	▸ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit Results Report December 2020
Fraud	▸ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▸ Any other matters related to fraud, relevant to Audit Committee responsibility.	Audit Results Report December 2020

Appendix A

Required communications	What is reported?	Our Reporting to you: When and where
Related parties	Significant matters arising during the audit in connection with the Authority'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 Authority	Audit Results Report December 2020
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 Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report 25 June 2020 Audit Results Report December 2020
Fee Reporting	▸ Breakdown of fee information when the audit planning report is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit planning report 25 June 2020 Audit Results Report December 2020

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	We have received all requested confirmations.
Consideration of laws and regulations	▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▸ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Audit Results Report December 2020
Written representations we are requesting from management and/or those charged with governance	▸ Written representations we are requesting from management and/or those charged with governance	Audit Results Report December 2020
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report December 2020
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report December 2020

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PENSIONS COMMITTEE – 18 DECEMBER 2020

Report of the Director of Corporate Services

Staffordshire Pension Fund Business Plan 2019/20 Outturn

Recommendation of the Chairman

1. That the Pensions Committee approves the outturn position of the Staffordshire Pension Fund Business Plan for 2019/20.

Background

2. At the beginning of each financial year, the Pensions Committee is asked to approve an annual Business Plan for the Staffordshire Pension Fund. This report details the final outturn position for the financial year 2019/20 and summarises the key achievements against that Business Plan.

3. The Business Plan that was approved for 2019/20 is set out in Appendix 2. The final position against the plan shows that most planned activities have been achieved or are in progress. Of those in progress, some are classed as 'business as usual' activities and these together with several other 'development' activities which require further work, or ongoing activity, have been carried forward into the 2020/21 Business Plan.

4. Key achievements during 2019/20 include:

(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.

5. Additionally, throughout the year there have been several Internal Audit reviews across the two Teams. The Pension Fund Governance Audit received 'substantial' assurance for the 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 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 make up LGPS Central. As well as providing assurance that the necessary controls are in place, this re-affirms the hard work and effort of staff across the Teams and their ongoing commitment to the Fund, despite the increasing complexities of delivering the service.

Pensions Administration - Performance Standards

6. The Pensions Administration Team's Service Standards for 2019/20 are attached at Appendix 3. The Committee are asked to note the continued improvement in these standards over the previous two years and the number of performance targets achieved in 2019/20. A summary of the position is as follows:

    - 2017/18 shows that a 90% performance target was achieved in 8 of the 14 published standards.
    - 2018/19 shows that a 90% performance target was achieved in 9 of the 14 published standards.
    - 2019/20 shows that a 90% performance target was achieved in 11 of the 14 published standards.

7. The 3 published standards where the performance target was not achieved in 2019/20 all relate to the area of work around Transfer Values (TV). A TV is the payment that arises when a scheme member elects to move their pension benefits between Employer schemes or alternative insurance-based schemes. The current value of the individuals pension benefits effectively follows them, and an appropriate payment is made to or from an LGPS Fund. For TV's from other public sector pension schemes and from within the LGPS, the options now available to members are more complex to process, and communicate, than for transfers from external schemes. Potentially, if this type of TV remains 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 has remained consistent and further changes to internal processes are likely to build on this. In all TV cases, the strict statutory deadlines, prescribed within the various Pensions Schemes Acts, are always met, often well within the prescribed statutory timescales.

8. Whilst extremely pleasing to report the continued improvement, the Pensions Senior Management Team (PSMT) are cognisant of the fact that this may be in some part down to timing. The fact that we are now able to capture the 'throughput' of cases on a monthly basis is helpful in identifying any trends, and peaks and troughs. Monitoring such also enables PSMT to consider resourcing across the teams to ensure that there are sufficiently skilled officers to deal with the caseload. Throughout 2017/18 and 2018/19, Jardine Lloyd Thomson (JLT), who are now part of the Mercers Group, had been engaged in a 'backlog' project across Deferred Benefit and Aggregation cases. And whilst the project was successful, 2019/20 saw the

teams faced with absorbing any ongoing backlog work into their routine caseload. As expected, this has had an impact on some areas of performance in the short term.

Ongoing workloads and impact on Service Standards

9. Whilst the Service Standards for 2019/20 are very gratifying and something of which the teams should very proud, it is important to remind the Committee, that the Scheme continues to become more and more complex and the number of Employers and their arrangements for continuing to participate in the Scheme are in themselves becoming more complex as a result. Going forward old challenges remain and new ones come to the forefront.

10. One such new challenge, which will undoubtedly impact the Service Standards, will be the ability to undertake and resource the ‘McCloud’ project. This is an area that has been highlighted to the Committee at their recent meetings and whilst it is anticipated the overall number of scheme members impacted will be relatively few, there will be significantly more calculations to be undertaken, to ensure no one has been discriminated against, purely because of their age. Whilst the Government’s report on the outcome of their recent consultation is eagerly awaited, particularly in relation to any expected delivery timescales, the collection of retrospective data across the Fund’s wide and diverse Employer and Payroll provider base should not be underestimated, particularly if the pensions administration systems are not updated quickly.

11. Unforeseen changes in Regulations also have an impact on workload that needs to be accommodated. The recent Public Sector Regulations 2020, limit an exit payment to £95,000, where an Employee is made redundant or their employment is terminated for reasons of business efficiency. This is already having repercussions for the Pensions team, in terms of creating a backlog of actuarial strain cost quotes and assisting scheme members, who are age 55 and over, with their retirement benefit calculations. And the fact that the corresponding LGPS Regulations are not in place, means there is a period of uncertainty for administrators and scheme members, which may lead to an increase of IDRP challenges to consider going forwards. Again, the need for software development will be paramount, to avoid a return to manual calculations.

Other considerations

12. Not all administration processes are benchmarked but most are usually complex and time-consuming areas of work for example:

- Combining pension records for re-joining members known as aggregation.
- Concurrent employment cases.
- Data cleansing.
- Software upgrades & testing ICT infrastructure.
- Record maintenance, including year-end member data.
- Issue of Annual Benefit Statements.

- Attending retirement sessions and sessions to support members being made redundant.
- Communication projects for example Academy training sessions.
- Introducing new software to Employers for the monthly transmission of data to the pension system and onboarding (i-Connect).
- Pensions Increase exercise
- Production of HR costing data for Employers.
- Regulatory and legal support to Employers and the monitoring of Employee and Employer Contributions.

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

Pensions Administration Team Staffing

13. Due to the complex nature of the LGPS, recruiting experienced staff is always difficult and so the focus must be on ‘training and growing our own’.

14. Following the retirement of several experienced staff in recent years, it is 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, has been successful. The staff have all proved to be excellent appointments and are now fully up to speed on their daily activities. As at 31 March 2020, the number of full-time equivalent staff in the Team stood at 43.90 FTE which has been the result of a gradual and measured increase in staff from 37.50 FTE over the last 5 years.

15. The backlog project with JLT came to an end on 30 June 2019 and whilst it was anticipated that current staffing levels would prove sufficient to absorb this work back across the Teams, caseloads in these areas continue to increase. Additionally, the aim of getting all Employers onto i-Connect is proving to be extremely resource intensive and although this will lead to efficiencies longer term, it does mean that staffing resources will need to be enhanced in the short to medium term to accommodate this additional caseload falling on the service. It is also extremely likely that in the short-term resources across the Teams will need to increase, to deal with the implications of McCloud.

16. Whilst there is inevitably a direct cost implication of any increase in staff numbers, as always, this will be limited and measured. 1 or 2 entry grade staff will be recruited initially, so that training on the more routine activities can be provided by team leaders, ahead of them being released to work on more complex cases and project work. The systems team will also need to be increased by 1 or 2 individuals, to cope with the large amounts of data that these projects will involve dealing with and manipulating.

17. The aim is that by recruiting now, the service will be better prepared to face the new challenges. This will not only ensure that performance against published service standards does not decline significantly but more importantly that the service to the end user i.e. the Scheme Member, is not sub-standard and in direct contravention of the Pensions Regulators Disclosure requirements.

Pensions Investment Team

18. As well as undertaking their day to day accounting and contract monitoring activities, the investment team were kept busy during the year with several projects:

- Following LGPS Central Limited's launch on 3 April 2018, work has continued at pace, with several members of the team involved in the continuing development of the LGPS Central pool and the various Officer Working Groups. After significant planning, with the Company and the Transition Manager, over a period which included 2 potential Brexit dates, the Fund undertook its second asset transfer into the LGPS Central Global Corporate Bond sub-fund, in March 2020. Notably this was during a particularly volatile period, as markets reacted to the Covid-19 pandemic, so it is pleasing to report that, although transition costs were higher than originally envisaged, the transition was well managed and the sub-fund itself continues to perform as expected.

- Following a preliminary review of the Fund's Strategic Asset Allocation (SAA), ahead of the commencement of the 2019 Actuarial Valuation, Officers, in consultation with the Fund's appointed Investment Consultant, Hymans Robertson, worked through the detailed structure of the Fund's SAA. As well as considering the allocations to various asset classes (E.g. equities, bonds), the implementation style was also considered (E.g active, passive) and long term 'aspirational' SAA targets were set.

- The Team also commenced work on scoping an Infrastructure Framework for the Fund and reviewed the continued appropriateness of the Private Equity and Private Debt allocations and the way in which these were implemented.

19. In 2019/20, the Fund's investment return was -5.7% which was 0.8% lower than the return of its strategic benchmark return target. Returns across all markets were severely impacted in late February 2019, with the uncertainty and fears surrounding the Covid-19 pandemic. Markets have since recovered but some investment portfolios are still suffering negative returns from being invested in sectors and stocks that were hit severely as a result of the pandemic (e.g. Travel and Leisure) and from not having invested in the Technology sectors, where stocks continue to perform strongly.

20. Whilst also impacted by the markets falling, the Fund's longer-term annualised performance numbers, at 31 March 2020, are in excess of 7%, which is still well ahead of the long-term investment return assumptions used by the Actuary in the triennial valuation.

21. The Committee has already received a presentation from the Fund's independent performance measurer, Portfolio Evaluation Limited on the detail of the Fund's investment performance in 2019/20, when they met in October.

Pension Fund Budget and Costs

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

23. Unfortunately, as the availability of comparative figures continues to diminish, a combination of budget monitoring and benchmarking, is more beneficial.

24. The headline budget reported to Pensions Committee for 2019/20, as part of the Business Plan versus the headline Actual Outturn position is provided in the following table. A comparison to 2018/19 is also provided.

	2018/19	**2019/20**
	£000	**£000**
Initial Budget forecast	19,040	18,770
Less LGPS Central Transition Costs*	(2,030)	0
Revised Budget forecast	**17,010**	**18,770**
Actual Outturn position	20,443	20,833
Under (Over) spend	(3,433)	(2,063)

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

25. The majority of the £2.1m budget 'overspend' in 2019/20 is attributable to vacant property costs. This is an area that is difficult to forecast on any consistent basis and the budget assumed around £0.933m, based on an average of previous void costs across the property portfolio. In 2019/20, four properties account 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 is 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 are all in excess of £200,000 each.

26. The tables that follow break the Actual Outturn position down into more detail, as per CIPFA's reporting classification in the annual accounts. They also provide comparisons to previous years' expenditure and income, to highlight any significant changes or trends.

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

	2017/18	**2018/19**	**2019/20**
	£000	**£000**	**£000**
Pensions administration	2,124	2,099	2,601
Legal costs	140	114	97

Other costs	163	34	161
Income	(44)	(57)	(37)
Total Administration Costs	**2,383**	**2,190**	**2,822**

28. Administration Costs have increased from 2018/2019 levels by £0.630m. Almost half of this (£0.294m) can be accounted for by increased support service charges, following a review of the internal recharging process (see also paragraph 32). Increased CLASS charges (£0.207m) and an additional one-off cost relating to i-Connect software (£0.125m) account for the balance.

29. Using the latest data available (for 2018/2019), we can compare the cost per scheme member of our Pensions Administration Team to those of the 28 other Funds (out of a possible 90) captured by the CIPFA benchmarking service. The 2017/2018 costs are provided in brackets for reference.

2018/2019	**Administration Costs per scheme member**	
	SCC	**Average**
CIPFA benchmarking - pensions administration	£18.57 (£21.30)	£21.34 (£21.16)

30. In 2018/19 the Fund's administration costs were significantly below the CIPFA average as a result of lower indirect costs, relating to such things as premises costs. The difference is also because the costs of employing an external company to assist with the backlog work had been allocated to indirect costs in the previous year. Going forward, we do need to ensure that we are consistent with the way we allocate our costs, but it should also be acknowledged, that with less than a third of LGPS Funds taking part in the CIPFA benchmarking, comparisons are extremely difficult; especially when LGPS Funds range in size from £0.500m to in excess of £15.0m and all have very different administrative arrangements.

31. The following table shows this year's **Oversight and Governance Costs** compared to the last two years:

	2017/18	**2018/19**	**2019/20**
	£000	**£000**	**£000**
Audit Fees	29	33	19
Actuarial Advice	97	130	232
Governance Expenses	176	180	0
Investment Oversight fees	165	137	170
LGPS Central costs	0	833	947
Other	545	427	224
Total Oversight & Governance costs	**1,012**	**1,740**	**1,592**

32. Total Oversight and Governance costs have decreased in 2019/2020 as a result of the review of the re-allocation of support charges, as previously outlined in paragraph 28 (£0.180m in 2018/19 to £0.0m in 2018/19).

33. The following table shows this year's **Investment Management Costs** compared to the last two years:

	2017/18	**2018/19**	**2019/20**
	£000	**£000**	**£000**
Investment managers	11,763	13,940	13,077
Property costs	1,301	2,349	3,158
Custody costs	136	130	110
Other	155	93	74
Total investment costs	13,355	16,512	16,419

34. Whilst Investment Managers fees have reduced overall in 2019/20, there are some large variances within the total. Savings from investing in Emerging Market Equities have been offset by a move from passively investing in Global Equities, to actively investing in Global Equities through LGPS Central Limited. Private Equity costs were lower in the year (£0.500m) as were transaction costs (£0.233m). The increase in property costs has been explained previously in paragraph 25.

35. As a result of the unprecedented falls in equity markets in February 2019, the market value of the Fund's assets fell back to below its 2017/2018 levels by the end of 2019/2020, a decrease of over 7.5% on its 2018/2019 position. This has had the short-term impact of increasing the Fund's average Investment Management Fee level by 1bps, whereas it would have been slightly lower at 0.24% had markets not fallen, in the final quarter of the year.

	2017/18	**2018/19**	**2019/20**
	£000	**£000**	**£000**
IM Fees	11,763	13,940	13,077
Fund value at 31/3	4,775,829	5,128,319	4,731,370
Average Fee level (%)	0.25	0.27	0.28

36. The Fund is already beginning to see the impact of investing in Alternative assets classes, such as Private Debt, in the cost benchmarking data (see following section). Looking forward, with an increased allocation to Alternative asset classes, such as Infrastructure, the investment management costs of the Fund are expected to rise in the short-term. Over the long-term, however, as the economies of scale from asset pooling are achieved it is anticipated that these costs will stabilise before eventually falling, to provide savings. As always, these costs are largely dependent on the Fund's Strategic Asset Allocation and should always be justifiable on a 'net return' basis.

Cost Benchmarking

37. In previous years it was possible to benchmark the Fund’s Investment Management Costs, using data taken from the SF3 Government return, but this service is no longer being offered by MHCLG LGPS Statistics. With the advent of pooling and the wider agenda for cost savings as a result, LGPS Central Partner Funds are keen to work together to explore options, to ensure that they can put some appropriate and meaningful metrics in place, both for peer benchmarking within and potentially across pools. However, with the focus on getting pools up and running, and transitioning assets, over the last 3 years, this piece of work is still yet to be developed.

38. To seek further reassurance about cost, Staffordshire Pension Fund continues to take part in an extended benchmarking exercise with international company CEM Benchmarking. CEM benchmark 300+ global pension funds with total assets of £7.2 trillion (average £24bn, median £6bn).

39. 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, our 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 has been a strong performing asset for the Fund over the period and has delivered returns well in excess of its benchmark. This illustrates the point that whilst cost is an important consideration, it must be viewed versus any out-performance it delivers.

40. Measuring trends is also important and the Fund’s costs have increased from 55.8bps in 2014/2015 to 67.0bbs in 2019/2020. The reasons for this are predominantly down to changes in asset allocation and the way in which we choose to implement those decisions. Over the last 5 years, the Fund has increased its allocation to active Global Equities (away from cheaper passive Global Equities) and to Private Debt. A new asset class introduced in 2017, Private Debt has been invested in via a Fund of Funds approach, like Private Equity. Early indications are that the asset class is performing ahead of its benchmark and delivering ‘net’ positive returns and so, once again, cost is only one factor to be considered.

John Tradewell
Director of Corporate Services

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

Background Documents: None

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

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

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

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

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

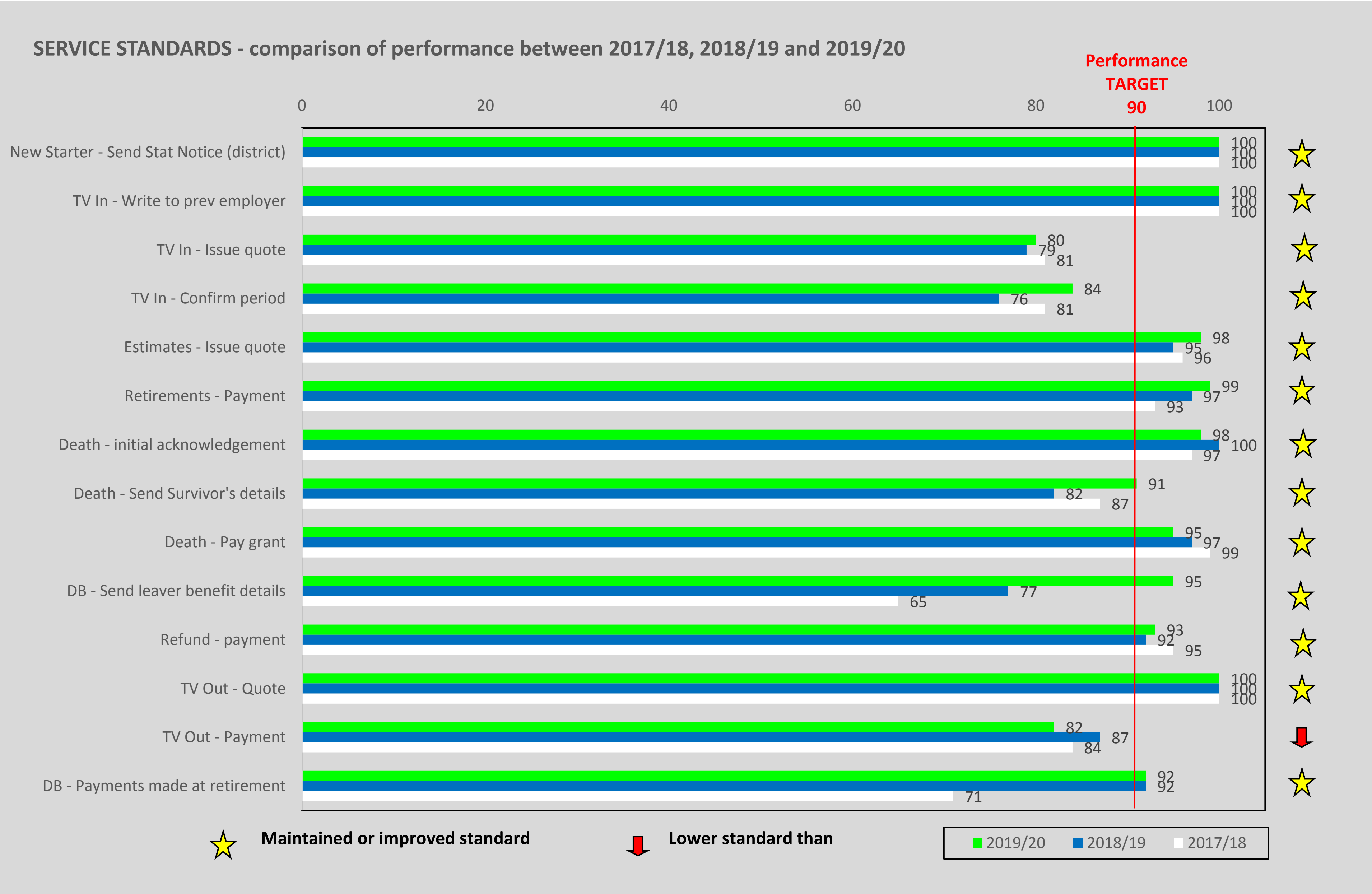
Health Impact Assessment screening – There are no health impact assessment implications arising from this report.

Area of Service	Key Development Activity	Progress
LGPS Pensions Administration	2019 Actuarial Valuation – work with Actuary and Employers to ensure all valuation work is carried out in a timely, informative and efficient way	**Achieved**
	Undertake a Mortality / Living as Stated / Tracing Exercise prior to issue of 2020 Deferred Annual Benefit Statements	**Deferred until 2020/21** Discussion with potential suppliers indicates tender process will be necessary.
	Continue to develop new working practices with Third Party Payroll Providers following the introduction of i-Connect	**Partially achieved.** Good progress continues to be made. Ongoing into 2020/21
	Demonstrate a general improvement in KPI's	**Achieved**. KPI's continue to improve generally but need to recognise additional resource will be required in certain areas going forward for them to be maintained.
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	**Partially achieved.** Progress continues despite some resistance from payroll providers. c50% of Active Membership data now received monthly with pipeline to increase this to as close to 100%
	Review task design in Altair	**Partially achieved**. Review of refund and deferred workflow

Area of Service	Key Development Activity	Progress
		processes undertaken with further process reviews to be carried out in 2020/21
	Review use of interactive dashboard in Altair	**Partially achieved.** Initial review undertaken with implementation in 2020/21
Contracting Out Reconciliation	Finalise under/overpaid pensioner members following responses to enquiries with HMRC	**Partially achieved.** Reconciliation process completed but response from HMRC awaited in order to complete rectification process.
Governance	Run appointment process for 4 Members of the Local Pensions Board	**Achieved**.
	Continue to review published policies e.g. Administration Policy	**Achieved**. All major policies now reviewed. Routine review going forward.
	Review need for and develop Covenant Monitoring Process	**Partially Achieved**. Initial review carried out as part of 2019 Actuarial Valuation. Data to inform further review in 2020/21
	Review of Funding Strategy Statement following Actuarial Valuation and consultation with Employers	**Achieved**
Communications – Scheme Members	Promote the use of Member Self Service / My Pension	**Achieved**. New version of ‘My Pension Portal’

Area of Service	Key Development Activity	Progress
	(with the aim of issuing all Annual Benefit Statements electronically in 2021)	launched January 2020 with wider promotion planned throughout 2020
	Continue to review Website content	**Achieved**. Excellent progress with continuing development of structure and content. New pages, forms and guides published plus general website clean-up
Communications - Employers	Further develop and run Employer Practitioner Workshop(s) e.g Breaches, Ill-health retirement, IDRP	**Achieved.** 90+ attendees at 2019 event.
	Further develop the role of the Employer Focus Peer Group and the Employer Focus Newsletters	**Achieved.** Group is well attended and input extremely valuable to both sides. Monthly newsletters being produced with mailing list to be expanded.
	Further develop Employer Administration policies / guides / practices and promote such to relevant Employers	**Achieved**. New Administration Strategy and Independent Dispute Resolution Process (IDRP) Guide published
Pension Fund Investment	Review of Strategic Asset Allocation (SAA) in conjunction with 2019 Actuarial Valuation and the Investment Offering of LGPS Central Ltd	**Achieved**
	Review of the Investment Strategy Statement following the SAA review	**Achieved**

Area of Service	Key Development Activity	Progress
	Continue to monitor processes, reconcile data and report performance impact following asset transitions into LGPS Central e.g. Corporate Bonds	**Achieved -** Substantial input has been required on transitions to date and remains ongoing.
	Resource Intensive – Business as Usual Activity	**Period**
LGPS Pensions Administration	Management of JLT backlog project and continued response to resulting queries	1 April - 30 June
	Review Pensions Services staffing levels and structure	1 April – 30 September
	Finalise Year end data	1 April - 30 July
	Issue Deferred Annual Benefit Statements	1 May – 30 June
	Issue Active Annual Benefit Statements	1 July – 31 August
	Record Keeping Data Integrity Checks (pre-2019 /post 2019 Valuation)	1 April – 31 March
	Continue to improve quality of data generally across the Scheme	1 April – 31 March
	Assess the impact of any Regulatory Changes and communicate such to all interested parties and stakeholders	1 April – 31 March
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


SERVICE STANDARDS - comparison of performance between 2017/18, 2018/19 and 2019/20
Performance TARGET 90
0
20
40
60
80
100
New Starter - Send Stat Notice (district)
100 100 100
TV In - Write to prev employer
100 100 100
TV In - Issue quote
80 79 81
TV In - Confirm period
84 76 81
Estimates - Issue quote
98 95 96
Retirements - Payment
99 97 93
Death - initial acknowledgement
98 100 97
Death - Send Survivor's details
91 82 87
Death - Pay grant
95 97 99
DB - Send leaver benefit details
95 77 65
Refund - payment
93 92 95
TV Out - Quote
100 100 100
TV Out - Payment
82 87 84
DB - Payments made at retirement
92 92 71
Maintained or improved standard
Lower standard than
2019/20
2018/19
2017/18

PENSIONS COMMITTEE – 18 DECEMBER 2020

Report of the Director of Corporate Services

STAFFORDSHIRE PENSION FUND EXIT CREDITS POLICY

Recommendation of the Chair

1. That the Pensions Committee approve the draft Exit Credits Policy for the Staffordshire Pension Fund, provided at Appendix 2.

2. That the Pensions Committee notes the need for wider consultation with Scheme Employers and approves that, following a suitable period of consultation, any minor changes to the Exit Credits Policy be agreed by the Director of Corporate Services, in consultation with the Chair.

Legislation and Background

3. 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.

4. This 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. (An employer typically ceases to be a participating employer when their last active member of the LGPS leaves or when an admission body's admission agreement comes to an end e.g. on expiry on a contract.) Previously any 'surplus' had been retained by the Pension Fund and reallocated to the letting employer's notional assets.

5. 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 may also have exceeded the level of contributions actually paid in.

6. 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.

7. The new responsibility placed on the administering authority for determining the level of any exit credit, and the discretion available, makes 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.

8. The Staffordshire Pension Fund draft Exits Credits Policy, having regard to the above, is presented for approval at Appendix 2.

Consultation

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

10. 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 this Committee. Where only minor changes are proposed, Committee is asked to delegate the approval of these to the Director of Corporate Services, in consultation with the Chair.

11. Once a final version is approved, the Fund's Funding Strategy Statement (FSS) will need to be updated to reflect the terms of the Exit Credits Policy and an updated FSS, which also reflects other recent changes, such as inter valuation contribution level reviews, will be presented to Committee for approval in due course.

John Tradewell
Director of Corporate Services

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

Background Documents: None

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

Legal implications: The legal implications are considered in the report.

Resource and Value for money implications: Whilst there are no direct resource and value for money implications, not having an Exit Credits Policy may result in the Pension Fund having to make large payments to exiting Employers.

Risk implications: Having and Exit Credits Policy in place, mitigates the risk of the Pension Fund having to make large payments to exiting Employers.

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

Exit Credits Policy

Introduction

The Local Government Pension Scheme (Amendment) Regulations 2020 came into force on 20 March 2020 and are retrospectively effective from 14 May 2018.

If an employer becomes an exiting employer on or after 14 May 2018 under Regulation 64 of the 2013 Local Government Pension Scheme (LGPS) Regulations (as amended) it may be entitled to receive an exit credit.

Determination

In accordance with Regulation 64(2ZAB) of the LGPS Regulations 2013, the Administering Authority will determine the amount of any exit credit (which may be zero) by taking into account the factors set out in Regulation 64(2ZC):

(a) the extent to which there is an excess of assets in the fund relating to that employer over the liabilities specified in paragraph (2)(a);

(b) the proportion of this excess of assets which has arisen because of the value of the employer’s contributions;

(c) any representations to the administering authority made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 to these Regulations; and

(d) any other relevant factors.

Exit Valuation

When an employer becomes an exiting employer, Staffordshire Pension Fund (the Fund) must obtain from the Fund Actuary:

(a) an actuarial valuation as at the exit date of the liabilities of the Fund in respect of benefits in respect of the exiting employer's current and former employees; and

(b) a revised rates and adjustments certificate showing the exit payment due from the exiting employer; or the excess of assets in the Fund relating to that employer over its liabilities as calculated by the valuation

When commissioning the valuation from the actuary, the Fund will also request the actuary to confirm the proportion of any excess of assets which has arisen because of the value of the employer's contributions. This a factor the Fund must have regard to when making its determination as to the amount of the exit credit.

Notification

The Fund will notify its intention to make a determination on whether to pay an exit credit to:

- the exiting employer;
- where the exiting employer is a 'transferee' admission body, the scheme employer in connection with that body (i.e. the letting authority); and
- where the exiting employer is an admission body of any type, any other body that has given a guarantee in respect of the admission body.

Policy

In determining whether an exit credit may be payable, Staffordshire Pension Fund (the Fund), will review each case on its own merits and will apply the following guidelines:

1. For pre 14 May 2018 admissions, the Fund will take into account the fact that original commercial contracts between admission bodies and letting authorities/guarantors could not have been drafted with regard to the May 2018 regulation changes that implemented exit credits retrospectively. Subject to any representations to the contrary, it will be assumed that the employer priced the contract accordingly and that no subsequent agreements covering the ownership of exit credits have been negotiated.

2. The basis for calculating an employer's pension liabilities to determine the level of any exit credit, will generally be as set out in the Fund's Funding Strategy Statement.

3. No exit credit will be payable to an admission body which participates in the Fund via a mandated pass through approach, as set out in the Funding Strategy Statement.

4. Employers within a funding pool (e.g. the Town and Parish Councils pool or a Multi Academy Trust with more than one school in the Fund) will not normally receive an exit credit payment, upon leaving the Fund, provided the remaining participants of the pool take responsibility for the residual assets and liabilities after the employer has exited.

5. If an employer becomes an exiting employer under Regulation 64 of the 2013 LGPS Regulations (as amended) an exit payment may be due to the Fund. If the employer enters into an arrangement or a 'Deferred Debt Agreement' with the Fund, over such period of time as the Fund considers reasonable, to pay the exit payment, no exit credit will be payable at any future date in relation to that specific agreement, unless the agreement explicitly requires it.

6. The Fund may calculate an exit credit payment which reflects any contractual pension risk sharing provisions between the exiting employer and the letting authority and/or other relevant scheme employer. This information, which will include which party is responsible for which funding risk, must be presented in writing to the Fund and in clear terms. The document must be agreed by the exiting employer and the letting authority and/or other relevant scheme

employer and presented to the Fund no later than one month after the exiting employer ceases participation in the Fund. Where a variation to the original letting contract is required to facilitate any agreement containing the required information, this will be agreed between the exiting employer and the letting authority and/or other relevant scheme employer.

7. Where a guarantor or similar arrangement is in place, but no formal risk sharing arrangement exists, the Fund may consider any representations as to how the approach to setting contribution rates, payable by the exiting employer during its participation in the Fund, reflects which party is responsible for funding risks. This may inform the determination of the value of any exit credit payment.

8. If an employer leaves on the ‘gilts exit basis’ as set out in the Funding Strategy Statement, any exit credit will normally be paid in full to the employer, subject to consideration of the individual circumstances.

9. If an admission agreement ends early, the Fund will consider the reason for the early termination, and whether that should have any relevance on the Fund’s determination of the value of any exit credit payment.

10. If a scheduled body or resolution body becomes an exiting employer due to a reorganisation, merger or take-over, no exit credit will generally be paid.

11. If there is any doubt about the applicable LGPS benefit structure at the date of exit (e.g. McCloud remedy), the Fund’s actuary may include an estimate of the possible impact of any resulting benefit changes when calculating an employer’s pension liabilities to determine the level of any exit credit.

12. The Fund will take into account whether any contributions due or monies owed to the Fund remain unpaid by the exiting employer at the cessation date. If contributions or monies are due to the Fund, the Fund will notify these to the exiting employer and will deduct these from any exit credit payment.

13. Costs associated with the determination of an exit credit payment will be deducted from any exit credit payment at the Fund’s discretion.

14. The Fund will consider any representations made by the letting authority and/or other relevant scheme employer regarding monies owed to them by the exiting employer in respect of the contract/services under which the exiting employer participates in the Fund. These representations must be made in writing to the Fund in clear terms no later than one month after the exiting employer ceases participation in the Fund. Where a variation to the original letting contract is required to facilitate any agreement containing the required information, this will be agreed between the exiting employer and the letting authority and/or other relevant scheme employer.

15. The Fund’s final decision will be made by the Head of Treasury & Pensions in the first instance, in conjunction with advice from the Fund’s Actuary, and/or legal advisors and Director of Corporate Services where necessary, in consideration of the points held within this policy. Where any dispute remains

unresolved, the parties will use the internal dispute resolution procedure specified in MHCLG guidance and Regulations.

16. The Fund acknowledges that there may be some situations which are bespoke in nature and do not fall into any of the categories set out above. In these situations, the Fund will take into account the factors it considers to be relevant in determining whether an exit credit is payable, including representations from relevant parties. The Fund's decision on how to make an exit credit determination in these instances will be final.

17. The Fund will advise the exiting employer of the exit credit amount due to be repaid and seek to make the payment within six months of the exit date. In order to meet the six-month timeframe, the Fund requires prompt notification of an employer's exit and for all data and relevant information to be provided as requested. The Fund is unable to make any exit credit determination or payment until it has received all data and information required and if the delay caused by the Fund requiring data means the 6 month date is passed, the parties will work constructively to enable the Fund to reach its decision as soon as possible thereafter.

18. If there is any dispute from either party with regards interpretation of contractual, risk sharing or guarantor agreements as outlined above, the Fund will withhold payment of any exit credit until such disputes are resolved by the letting authority and/or other relevant scheme employer and the exiting employer.

Appeals

If a party involved in the exit credit process set out in this Policy wishes to dispute the Fund's determination, this must be routed through the Fund's Internal Dispute Resolution Procedure (IDRP).

https://www.staffspf.org.uk/Employers/Internal-Dispute-Resolution-Procedure.aspx

If the relevant party is still unhappy with the exit credit determination, having gone through all the stages of the IDRP, they may be able to take a complaint to the Pensions Ombudsman.

Review

This Exit Credits Policy will be reviewed at least every three years as part of the triennial Actuarial Valuation process or following any relevant changes in the LGPS Regulations.

December 2020

Document is Restricted