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Pensions Committee

Friday, 26 March 2021

10:00

Virtual Meeting via Microsoft Teams

John Tradewell
Director of Corporate Services
18 March 2021

A G E N D A

PART ONE

1. **Apologies**
2. **Declarations of Interest**
3. **Minutes of the meeting held on 18 December 2020** (Pages 1 - 8)
4. **Minutes of the Pensions Panel held on:** (Pages 9 - 18)
 - 11 December 2020
 - 2 March 2021
5. **Staffordshire Pension Fund Business Plan 2021/22** (Pages 19 - 36)

Report of the Director of Corporate Services
6. **Staffordshire Pension Fund Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS)** (Pages 37 - 114)

Report of the Director of Corporate Services

7. **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

8. **Exempt minutes of the meeting held on 18 December 2020** (Pages 115 - 116)
(Exemption paragraph 3)
9. **Exempt minutes of the Pensions Panel held on:** (Pages 117 - 134)
(Exemption paragraph 3)
 - 11 December 2020
 - 2 March 2021
10. **LGPS Regulations - Admission of New Employers to the Fund** (Pages 135 - 138)
(Exemption paragraph 3)

Report of the Director of Corporate Services
11. **Local Government Pension Scheme Regulation - Debt Write-off** (Pages 139 - 142)
(Exemption paragraph 3)

Report of the Director of Corporate Services
12. **LGPS Central Limited 2021/22 Business Plan & Budget** (Pages 143 - 174)
(Exemption paragraph 3)

LGPS Central Limited 2021/22 Business Plan & Budget attached for information

A verbal update by the Committee’s Nominated Representative and the Head of Treasury & Pensions will be given at the meeting about the LGPS Central Shareholders Forum and Company AGM which was held on 10 February 2021.
13. **Staffordshire Pension Fund Climate Risk Report** (Pages 175 - 264)
(Exemption paragraph 3)

Report of the Director of Corporate Services and Presentation by LGPS Central Limited

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 Greateorex | Michael Vaughan |
| Phil Jones | |

Minutes of the Pensions Committee Meeting held on 18 December 2020

Attendance

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

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

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

PART ONE

1. Declarations of Interest

There were no declarations of interest on this occasion.

2. Minutes of the meeting held on 23 October 2020

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

3. Club Vita Update

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

The presentation covered a range of issues including:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. Pensions Business Plan Outturn 2019/20

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

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

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

(i) Pensions Administration Team -

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

(ii) Pensions Investment Team -

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

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

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

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

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

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

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

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

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

6. Staffordshire Pension Fund Draft Exit Credit Policy

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

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

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

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

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

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

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

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

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

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

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

7. Exclusion of the Public

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

PART TWO

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

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

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

Chairman

Minutes of the Pensions Panel Meeting held on 1 December 2020

Attendance

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

Also in attendance: Rob Birch (Observer), Iain Campbell (Hymans Robertson), Carolan Dobson (Independent Adviser), Ian Jenkinson (Observer), Alastair Little (Observer), Philip Pearson (Hymans Robertson) and Paul Potter (Hymans Robertson).

Apologies: Stephen Sweeney

PART ONE

13. Declarations of Interest

There were no declarations of interest on this occasion.

14. Minutes of the meeting held on 14 September 2020

RESOLVED – That the minutes of the Meeting of the Pensions Panel held on 14 September 2020 be confirmed and signed by the Chairman.

15. Staffordshire Pension Fund performance and portfolio of investments as at 30 September 2020

The Director of Corporate Services submitted a summary of the performance of the Staffordshire Pension Fund, together with a portfolio of the Fund's investments, as at 30 September 2020.

The Panel were informed that the Fund had a market value of £5.6 billion as at 30 September 2020. Over the quarter the Fund returned 2.4%, which was higher than the Fund's Strategic Asset Allocation benchmark return of 1.5%. The best performing asset classes relative to their benchmark, were Private Equity and Private Debt.

The Fund has modestly outperformed its strategic benchmark over a 1, 3, 5 and 10-year period. Annualised returns over 10 years were 9.0% per annum, well above the investment return assumptions used by the Actuary as part of the triennial valuation.

In response to a question from Mr Jenkinson as to the funding level which, at the last triennial valuation stood at 99%, the Director of Corporate Services indicated that whilst it was apparent the Fund's assets had performed well recently, the Fund's liabilities were not tracked on a regular basis and as such, an indicative funding level would be next available at the end of the financial year.

RESOLVED – That the Pension Fund Investment performance and the portfolio of investments for the quarter ended 30 September 2020 be noted.

16. Responsible Investment (RI) report quarter 3 2020

The Director of Corporate Services submitted a summary of activity during the quarter ended 30 September 2020 by the Fund's investment managers in fulfilment of their corporate governance and socially responsible investment obligations, including details of their voting activity on corporate resolutions for companies held in their portfolios.

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

Mr Jenkinson indicated that he was pleased that the information was in the public domain and suggested that it should be publicised more widely.

In response to a question from Cllr Sutherland on the timeframe for the production of the Climate Risk Report, the Director of Corporate Services indicated that the Fund was currently working with LGPS Central and other Partner Funds on this matter, to ensure the findings in the report were fully understood. The Director added that the Company had hired a new Director for Responsible Investment who will assist Partner Funds with their responsible investment activities.

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

17. Dates of Future Meetings

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

- 2 March 2021

(Note: All meetings are scheduled to start at 9.30am.)

18. Exclusion of the Public

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

PART TWO

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

19. Exempt Minutes of the Meeting held on 14 September 2020 (Exemption paragraph 3)

20. Staffordshire Pension Fund performance and manager monitoring for the quarter ended 30 September 2020
(Exemption paragraph 3)

21. Strategic asset allocation review and monitoring
(Exemption paragraph 3)

- a) Economic and Market Update
- b) Review of Position as at 31 October 2020
- c) Global Sustainable Equity

22. Property
(Exemption paragraph 3)

23. Sustainable Equity Manager presentation
(Exemption paragraph 3)

Chairman

Minutes of the Pensions Panel Meeting held on 2 March 2021

Attendance

| | |
|-------------------------------|-----------------|
| Philip Atkins, OBE (Chairman) | Mike Sutherland |
| Derek Davis, OBE | Stephen Sweeney |
| Colin Greateorex | |

Also in attendance: Iain Campbell (Hymans Robertson), Carolan Dobson (Independent Adviser), Philip Pearson (Hymans Robertson) and Paul Potter (Hymans Robertson).

PART ONE

24. Declarations of Interest

There were no declarations of interest on this occasion.

25. Minutes of meeting held on 1 December 2020

RESOLVED – That the minutes of the Meeting of the Pensions Panel held on 1 December 2020 be confirmed and signed by the Chairman.

26. Staffordshire Pension Fund performance and portfolio of investments as at 31 December 2020

The Director of Corporate Services submitted a summary of the performance of the Staffordshire Pension Fund, together with a portfolio of the Fund's investments, as at 31 December 2020.

The Panel were informed that the Fund had a market value of £5.9 billion as at 31 December 2020. Over the quarter the Fund returned 6.8%, which was just higher than the Fund's Strategic Asset Allocation benchmark return of 6.6%. The best performing asset class relative to its benchmark, was Private Equity.

The Fund had modestly outperformed its strategic benchmark over a 3, 5 and 10-year period. Annualised returns over 10 years were 9.0% per annum, well above the investment return assumptions used by the Actuary as part of the triennial valuation.

In response to a question from Cllr Sutherland, the Director of Corporate Services indicated that Property had been fairly consistent in terms of valuations during the pandemic. Carolan Dobson confirmed that material uncertainty clauses, accompanying recent valuations had now largely been removed.

RESOLVED – That the Pension Fund Investment performance and the portfolio of investments for the quarter ended 31 December 2020 be noted.

27. Responsible Investment (RI) report quarter 4 2020

The Director of Corporate Services submitted a summary of activity during the quarter ended 30 September 2020 by the Fund's investment managers in fulfilment of their corporate governance and socially responsible investment obligations, including details of their voting activity on corporate resolutions for companies held in their portfolios.

The Panel noted that information on manager engagements and voting was requested routinely as part of the quarterly reporting the Fund received from each of the managers and in Q4 2020 engagement topics included;

- the successful lobbying of an industrial services company, to no longer play any part in the construction of coal-fired power plants;
- engagement with a transport company over scope 3 carbon emissions and its aim to become carbon neutral by 2030;
- discussions with a large oil and gas company over its transition to becoming an integrated energy business, including growth in renewable energy, bioenergy and electric vehicle charging points; and
- a call with a financial services company regarding inclusivity, equal opportunities and investment into diverse suppliers and small businesses.

The Director also submitted the quarterly report of the Local Authority Pension Fund Forum (LAPFF)

The Panel were informed that LGPS Central Ltd were changing the structure of their reporting and for the October to December quarter, the usual RI report would be included in an Annual Report, which would be available for the meeting of the Panel in June. The Annual Report would take longer to publish, as not only would it include the usual quarterly stewardship information, but it would also include information on the progress LGPS Central Ltd had made against their Annual Stewardship Plan. Finally, it would act as the reporting tool for them to achieve, and maintain, their UK Stewardship Code signatory status.

The Director also informed the Panel that the Fund's Climate Risk Report, compiled by LGPS Central Ltd, had recently been received and would be reported to the Pensions Committee at its meeting in March. The Panel also noted that the Fund's UK Stewardship Code would need to be updated this year.

RESOLVED – That the content of the Responsible Investment (RI) report, including the Local Authority Pension Fund Forum (LAPFF) Quarterly Engagement Report and the change in process for this quarter in relation to the LGPS Central Ltd Quarterly Stewardship Report, be noted.

28. Annual Investment Strategy for Pension Fund Cash

The Panel received a joint report of the Director for Corporate Services and the County Treasurer seeking approval to the Staffordshire Pension Fund's ('the Fund'), Annual Investment Strategy (AIS) for the investment of internally managed cash.

They were informed that, under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, Administering Authorities were required to include policies for how they would manage Pension Fund cash as part of their

Investment Strategy Statement (ISS). In addition to this, the Fund considered it good practice to prepare a separate Annual Investment Strategy (AIS) for cash balances, with reference made to it within the ISS.

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

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

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

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

The Panel noted that MHCLG Guidance on Local Government Investments specified the types of financial instruments that local authorities could invest in. The Fund's AIS had followed the county Council's AIS in dividing investments between Standard and Non-Standard Investment categories. Standard Investment categories included investments that were made with approved counterparties and did not require further approval from the County Treasurer (S151), as Chair of the Treasury Management Panel or the Pensions Panel. These investments tended to be for a period of less than a year and were the most frequently used. In the case of the Pension Fund, standard investments are made with - the UK Government (central government or local authority, parish council or community council); short-term money market funds (MMFs); and the Fund's banking provider (currently Lloyds Bank). The Non-Standard Investments did not present any additional security risk to the investments within the Standard Investments category and included: Covered Bonds, issued by banks and building societies against mortgage assets and guaranteed by a separate group of companies; Repos (Repurchase Agreements), comprising the purchase of securities with the agreement to sell them back at a higher price in the future; UK Government Gilts; and Collective Investment Schemes.

In response to a question from Cllr Sutherland concerning whether the appointment of the Fund's Bankers was reviewed, the Director of Corporate Services indicated that this

was the case and that the Fund was shortly to go out to tender for the contract for the supply of its banking services.

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

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

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

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

29. Investment Strategy Statement

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

The Panel noted that the ISS documents how the investment strategy for the Fund was determined and implemented and was required to cover numerous areas, specifically:

- The requirement to invest money across a wide range of investments;
- An assessment of the suitability of particular investments and investment types;
- The maximum percentage authorities deem should be allocated to different asset classes or types of investment;
- The authority's attitude to risk, including the measurement and management of risk;
- The authority's approach to investment pooling;
- The authority's policy on social, environmental and corporate governance considerations; and
- The authority's policy with regard to stewardship of assets, including the exercise of voting rights.

The Fund's ISS was first published in April 2017 and had been reviewed annually since, to better reflect the arrangements in place for asset pooling and the transfer of assets into LGPS Central Ltd. Having been updated quite substantially, to incorporate the outcome of the 2019 Strategic Asset Allocation review and the 2019 Actuarial Valuation, the current version of the ISS included some relatively minor amendments to better reflect activity during 2020, thus keeping it up to date.

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

It was also noted that the ISS may need further substantial revision following the outcome of the MHCLG's formal consultation on the Statutory Guidance on Asset Pooling in the LGPS; expected sometime in 2021. At this stage, wider consultation on the ISS might also be considered appropriate.

The Panel were also informed that Paul Potter from Hymans Robertson was to retire shortly. Members extended their thanks to Mr Potter for the contribution he had made to the work of the Fund and wished him a happy retirement.

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

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

30. Dates of Future Meetings

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

- Tuesday 8 June 2021 (2pm start)
- Friday 3 September 2021
- Tuesday 30 November 2021
- Tuesday 1 March 2022

(Note: All meetings are scheduled to start at 9.30am unless indicated otherwise).

31. Exclusion of the Public

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

PART TWO

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

32. Exempt Minutes of the Meeting held on 1 December 2020

(Exemption paragraph 3)

33. Staffordshire Pension Fund performance and manager monitoring for the quarter ended 31 December 2020

(Exemption paragraph 3)

34. Strategic asset allocation review and monitoring

(Exemption paragraph 3)

- a) Economic and Market Update
- b) Review of Position as at 31 January 2021

35. Property

(Exemption paragraph 3)

- a) Annual Property Review and Strategy Report for 2021/22
- b) Gresham House Residential Secured Income LP
- c) Confirmation of action taken by the Director of Corporate Services

36. Manager presentation - Colliers (Property)

(Exemption paragraph 3)

Chairman

Item no 5 on Agenda

PENSIONS COMMITTEE – 26 MARCH 2021

Report of the Director of Corporate Services

Staffordshire Pension Fund Business Plan 2021/22

Recommendation of the Chairman

1. That the Pensions Committee approves the Staffordshire Pension Fund Business Plan for 2021/22 and notes the key challenges.

Background

2. For reasons of best practice and good governance, it is important for the Pensions Committee to consider and approve an annual Business Plan for the Pension Fund. This report reviews progress against the current financial year's Business Plan (Appendix A - 2020/21) and provides the proposed Business Plan for the following financial year (Appendix B – 2021/22).

Pensions Business Plan 2020/21 – Progress Update

3. In a year in which the whole world changed, it is extremely pleasing to be able to report good progress against the current year's Business Plan; this is detailed in Appendix A.
4. As well as continuing to do the 'day job' and the increasing challenges that this presents ordinarily, the majority of the Treasury & Pensions Team faced additional challenges as they moved to home working during March 2020. The team have continued to work from home since then and, in addition to delivery of a Business Plan, have had to adapt many of their day to day working practices to maintain a high standard of service provision to all stakeholders. However, successes have still been achieved in several areas of the 2020/21 Business Plan including;
 - Following a scaled down promotional campaign, due to the pandemic and the wider move to home working, increasing the awareness and use of the Member Self Service / My Pension Portal and issuing most of the Annual Benefit Statements electronically by 31 August 2020;
 - Continuing to make good progress with i-Connect; and
 - Following a competitive tender process, the re-appointment of Hymans Robertson as the main Investment Advisors to the Pensions Panel.
5. Understandably, several planned activities for 2021/21 have been delayed or scaled back but good progress has still been made, for example:

- A Covenant Monitoring process has been developed which will sit alongside the Hymans on-line Funding Level Review tool; and
- Following the 2019 move to Utmost plc, scoping work and data collection has begun for the external review of Additional Voluntary Contribution providers.

Full details will be included in the final outturn report which will be presented to the Pensions Committee at their meeting in June 2021.

Performance Standards 2020/21

6. The Committee have been made aware in previous year's reports of the challenges implicit in administering the LGPS, since the introduction of the 2014 scheme and the regulatory complexity that brings with it. Working from home has meant the Team has had new challenges to face this year and with a raft of new and changing legislation, either to implement or to plan for, there is always more to do.
7. Inevitably, there will always be room for improvement in performance and there will always be good reason why performance in certain areas may not be at an optimum level, but throughout 2020/21, the Treasury & Pensions Teams have been very aware of the challenges and made excellent progress in meeting the competing demands across the service. Circumstances this year have dictated that time has had to be spent reviewing processes and a great example of one of the relatively small changes with a big impact, that working from home has pushed through, is the issuing of Retirement Packs electronically; as opposed to the printing and postage costs, not to mention the environmental impact, of sending out paper packs of 20+ pages, the documents are all being made accessible via email and on the Fund's website.
8. Several experienced staff have retired over the last 12 months and whilst their experience will initially leave a knowledge gap, it does create an opportunity to promote some of the younger and newer team members. External and internal recruitment exercises have also been undertaken and the high standard of applicants leading to successful appointments has been encouraging.
9. A full set of performance statistics will be provided as part of the Outturn reporting for the June Committee.

Pensions Business Plan 2021/22

10. The Business Plan for 2021/22 is, once again, split into 2 distinct sections. The first section deals with Key Development Activities, which aim to make the way we work more efficient and effective. The second section deals with the activities that we need to undertake as part of the day job, but which impact us significantly at certain points in the year or which happen as a by-product of another activity e.g. finalising the year end data. Once again,

several of last year's development activities have now been re-categorised into Business as Usual activity, including the continuing implementation of i-Connect, the engagement with payroll providers and producing the Annual Accounts in line with CIPFA's new reporting requirements.

11. Several areas that the Treasury & Pensions Team have identified as Key Development Activities in 2021/22 include:
- Planning for the implementation of remedial action arising from the McCloud / Sergeant judgement (& possibly Goodwin) to include collection of retrospective data from Employers;
 - Re-tendering for the Administration System provider, which will include the need for an externally hosted platform service;
 - Promoting and encouraging the use of Member Self Service / My Pension Portal to **Retired** Scheme Members (with the aim of issuing the majority of P60s and payslips electronically);
 - Assessing the output from the Scheme Advisory Board's Good Governance Review and considering how best to implement any actions identified; and
 - Developing a Staffordshire Pension Fund Climate Strategy and Climate Stewardship Plan.

Pensions Administration – Key Development Activities

McCloud

12. Committee Members will be aware of the McCloud / Sergeant judgement and the resultant government consultation, in respect of the remedy for making good the potential for claims of age discrimination across UK Pension Schemes. Whilst the government have published their response to the consultation for unfunded schemes, they have yet to publish such for the LGPS.
13. Analysis by Fund Officers indicates that there are approximately 31,000 Scheme Member records in scope, for recalculation within the Staffordshire Fund. This rises to 54,000 records, if all Scheme Members with post 2014 service are included. Whilst administration systems, when appropriately developed, will take away the need for most of the manual recalculation work, the real challenge in the first instance, is around the collection of data.
14. Since 1 April 2012, many Scheme Members will have changed their hours and possibly their Employers and many Employers will have changed their payroll providers, and sometimes more than once. Whilst the responsibility for providing the data rests with Employers, the tasks of collection, manipulation, reconciliation and uploading of data rests with the Fund. Initial

communications have been sent to all Employers about the forthcoming need for us to ask them for data but the reality now, is that collecting the data cannot wait any longer.

15. Once we have the response to the consultation, updated administration software and the data, the next challenge of recalculation and rectification will begin.

Administration System Tender

16. The contract with the Fund's existing administration system provider is not due to end until late 2022. However, due to structural changes within the IT infrastructure at the County Council, there will be a need to move to an externally hosted service (whereby the software is held on servers outside of the Council) before then. Given the time that needs to be factored in, should there be a change in the administration system provider, and the working practices that stem from that, it is considered prudent to mitigate any risk of having to do so, at relatively short notice, by bringing forward the tender process into 2021. This will not only assist with the more pressing hosting issue but also avoid the Team having to run an extremely complicated systems tender process during the same year as the triennial actuarial valuation.

Scheme Member Communications and My Pensions Portal (MPP)

17. The benefits of MPP both from a Scheme Member and fund administration perspective are clear. Over time, as Members become more familiar with undertaking basic admin tasks in MPP and using it as a source of information about their pension benefits, then we expect to see a reduction in the number of ad-hoc and 'nice-to-know' benefit calculations being undertaken by the Benefits Team; freeing up their time to concentrate on providing a superior level of service at the point in time a Member does retire.
18. 2020 saw our large-scale plans for the promotion of MPP, to active and deferred Scheme Members, revisited, as the majority of Scheme Employers closed their offices and workplaces due to the pandemic. The promotion of MPP that did happen was far more subtle; restricted to email footers and requests to Employers for email promotions and content in newsletters etc. as opposed to the posters, sign board's and workplace visits that were envisaged originally.
19. Despite the challenges, we did receive a better than expected response and now have around 20% of the Fund's active and deferred Scheme Members signed up to use MPP. Whilst we acknowledge that there is still more work to do in this space, new Scheme Members are signed up at the outset and therefore a biennial promotional campaign, for those still yet to sign up, strikes a balance between cost and resource.
20. Our aim in 2021/22, is to encourage our Retired Members to use MPP to access their payslips and annual P60 notifications. We do recognise that this

will be more challenging for those who either do not have access to, or are less familiar with, technology, so we do expect a much lower level of individuals signing up and we will not be withdrawing the more traditional method of posting paper copies of these documents on request. However, over time, as Retirement Packs, which reference signing up to MPP, are issued electronically, then MPP will become the primary source of information for our Retired Scheme Members.

Good Governance Review

21. In 2019, the Scheme Advisory Board (SAB) commissioned a report to examine the effectiveness of Governance in the LGPS. After initially considering various alternative delivery models, the review refocussed itself on improving Governance across the LGPS and Hymans Robertson were appointed to assist. The final report was published in February 2021 and the SAB Chair will soon be submitting the action plan to the local government minister, with a view to government amending scheme regulations or issuing statutory guidance in respect of those matters that would fall to MHCLG to implement. A copy of the report is available on the SAB website via the link below:

https://www.lgpsboard.org/images/Other/Good_Governance_Final_Report_February_2021.pdf

22. Whilst an initial gap analysis has been carried out, which indicates there are no major areas for concern within the Staffordshire Fund, there will be a need to make some changes to the Fund's governance arrangements. There will also be new statements to publish e.g. Governance Compliance Statement and in due course Peer and/or External Reviews to undertake.

Pensions Investment – Key Development Activities

Climate Strategy

23. As well as continuing to focus on their day to day accounting, investment monitoring and stewardship activities, the key development activities for the Pensions Investment Team throughout 2021/22 will focus on Responsible Investment (RI) and particularly reporting around Climate Change.
24. The Fund already does a great deal in the RI arena and acknowledges such, within its Investment Beliefs. Officers recognise that there is an increasing focus on Climate Change and the challenge and impact that Pension Fund investments in this area both create and solve. LGPS Central Ltd have recently produced the Fund's first Climate Risk Report, which will be presented to Members later in today's meeting. This gives a real insight into the 'green' data that sits behind the Fund's current investments and the metrics on the Fund's Carbon Footprint and its weight in Fuel Reserves, as well as its weight in Clean Technology. It also gives a strong indication that going forwards, doing nothing is clearly no longer an option.

25. Working with LGPS Central Ltd and Hymans Robertson, Officers will use the data from the Climate Risk Report, alongside further analysis, as a baseline from which to develop a Climate Strategy. The work will consider the impact of different investment strategies for the Fund, with Paris-aligned carbon targets and the delivery of a Net Zero Commitment in a stated future timeframe.
26. Alongside the Climate Strategy, the Fund will also look to develop a Climate Stewardship Plan. This will help Fund Officers to focus their engagement on the specific investments and investment managers who are contributing most to climate risk.

Cost and Resources

27. The Pension Fund currently has six main areas of 'resource/cost':
 - Pension's administration and accounting (internal);
 - Governance (internal and external);
 - Advice from actuary and consultants/advisors (external);
 - Legal support (internal and external);
 - Investment management (external); and
 - Custody (external).
28. Several costs are very difficult to anticipate for example, costs for investment advice and legal support vary depending on the level of activity. Investment Management fees vary dependent of the value of assets under management (AUM) and the level of manager performance, impacting on the payment of performance related fees. Therefore, it is likely that there could be considerable variation in the final outturn position. The level of Investment Manager fees paid is also likely to increase, as the Fund's Strategic Asset Allocation moves it away from more traditional asset classes e.g. equities into more expensive alternative asset classes e.g. Infrastructure, and this has been reflected in the budget going forwards.
29. CIPFA reporting guidance states it is good practice to produce a three-year budget and Table 1 illustrates our best estimate of the likely budget costs for the three years commencing 2021/22. Clearly, given the difficulty outlined in the previous paragraph these are indicative costs only and as such, will be subject to further variation with changes over time.
30. The indicative costs have been produced using the information we have available at the current time, with reasonable assumptions made about growth in AUM and levels of activity. However, even small changes in activity levels combined with other factors, such as increases in the governance and running costs of LGPS Central Limited or contra to that, reduced investment manager fees, as a direct or indirect result of asset pooling, could create significant variations from these figures.

Table 1 - Indicative Pension Fund Costs 2020-2023

| Cost Heading | 2020/21 | 2021/22 | 2022/23 |
|------------------------------|----------------|----------------|----------------|
| | £000 | £000 | £000 |
| Pensions Administration | 2,720 | 2,770 | 2,830 |
| Governance* | 1,100 | 1,270 | 1,300 |
| Audit | 30 | 30 | 30 |
| Actuarial Fees | 170 | 170 | 320 |
| Legal Fees | 280 | 280 | 290 |
| Investment Advice | 60 | 80 | 80 |
| Investment Management Fees** | 11,850 | 12,880 | 13,440 |
| Property Expenses (ex-legal) | 4,080 | 4,200 | 4,320 |
| Monitoring and Custody | 60 | 50 | 50 |
| Other expenses | 370 | 390 | 400 |
| Total | 20,720 | 22,120 | 23,060 |

**Includes the running costs of LGPS Central*

*** the above does not include the cost of transition which will be taken from the capital value of assets.*

31. The LGPS Central Limited Strategic Business Plan and Budget for 2021/22, was presented to Shareholders for approval on 10 February 2021. Whilst the full implications of this for Partner Funds is still being analysed through the cost / savings model, the Fund's estimated share of the budget is included in the Governance costs in the table above. Whilst, this includes an element of fixed cost, that the Fund must pay by virtue of being a Shareholder of the company, many other elements of cost will be dependent on a number of variables, including the services being provided to the Fund by the company e.g. manager monitoring as well as the AUM invested in the sub-funds being offered by the company.

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

Governance arrangements. For Staffordshire, this will be a report to the Pensions Panel.

33. Because of the uncertainty around a number of costs highlighted in the previous paragraphs, it is not proposed to use these estimated costs for 'budget monitoring' purposes per-se but to use them as an indication. Whilst they will be compared to the budget forecast post 31 March as part of the outturn report, the Committee is asked to consider them alongside cost comparisons, benchmarking and trends to ensure that value for money is being delivered. A more detailed report on comparative outturn costs for 2020/21 will be brought to the Committee in June 2021.

Risk

34. The primary risks to the continued delivery of a pension's administration, accounting and investment monitoring service to the high standards achieved are;
- Having a team of staff, sufficiently resourced, with the right experience to cope with changes to Government Legislation E.g. McCloud;
 - The ability to deal with an increasing number of Employers and the challenge and complexities their different requirements present;
 - The increasing fragmentation of payroll provision and the requirement for accurate and timely data; and ultimately
 - The need to ensure that the correct Pensioner Members are paid on time with the correct amount.

These, and other risks, are further analysed in the Pension Fund's Risk Register, the latest version of which will be presented in full to the June 2021 meeting of this Committee.

35. **Equalities implications:** There are no direct equality implications arising from this report.
36. **Legal implications:** There are no direct legal implications arising from this report albeit LGPS Regulations do have an impact on the business.
37. **Resource and Value for money implications:** Resource and value for money implications are considered in the report.
38. **Risk implications:** There are no direct risk implications, but the report does contain some actions to address risks identified in the risk register.
39. **Climate change:** There are no direct climate change implications arising from this report.
40. **Health Impact Assessment screening:** There are no health impact assessment implications arising from this report.

John Tradewell
Director of Corporate Services

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

| Area of Service | Key Development Activity | Progress |
|---------------------------------------|---|---|
| LGPS Pensions Administration | Review / Undertake a Mortality / Living as Stated / Tracing Exercise to improve the accuracy of membership data | Deferred to 2021/22 |
| | Undertake an external review of Additional Voluntary Contribution providers | Partially achieved - External provider engaged & review to take place post 31 March 2021 |
| | Continue to develop new working practices with Third Party Payroll Providers following the introduction of i-Connect | Achieved – moved to Business as Usual activity |
| | Demonstrate a general improvement in KPI's | Achieved – moved to Business as Usual activity |
| | Implementation of any remedy arising from the McCloud judgement | Deferred - MHCLG McCloud consultation response for LGPS pending. Internal Project team set up and data to be collected from Employers post 31 March 2021 |
| | | |
| 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 | Achieved – moved to Business as Usual activity |
| | Continue review of task design in Altair | Deferred to 2021/22 pending Administration System Tender |
| | Review use of interactive dashboard in Altair | Deferred to 2021/22 pending Administration System Tender |
| | | |
| Contracting Out Reconciliation | Finalise under/overpaid pensioner members following responses to enquiries with HMRC | Partially achieved (subject to technical issues & further response from HMRC awaited) |
| | | |
| Governance | Assess the output from the Scheme Advisory Board's (SAB) Good Governance Review and consider implementation of any actions identified. | Deferred to 2021/22 – final report published February 2021. SAB to make recommendations for Statutory Guidance to MHCLG |

| Area of Service | Key Development Activity | Progress |
|--|--|--|
| | Continue to review need for and develop Covenant Monitoring Process | Partially achieved – use of Hymans' Funding Level Review (FLR) tool to be incorporated into routine monitoring process alongside internally captured Employer metrics |
| | Tender for external Legal Services provider | Deferred to 2021/22 |
| | | |
| Communications – Scheme Members | Continue to promote the use of Member Self Service / My Pension Portal (with the aim of issuing the majority of Annual Benefit Statements electronically by 31 August 2020) | Achieved – promotional campaign in 2020 with Active and Deferred Members Annual Benefit Statements issued electronically by 31 August |
| | | |
| Communications - Employers | Further develop and run Employer Practitioner Workshop(s) e.g Breaches, Ill-health retirement, IDRP. Consider more frequent and targeted workshops for different Employer Groups | Deferred to 2021/22 due to pandemic and wider availability of consistent technology within Employers. |
| | Further develop Employer Administration policies / guides / practices and promote such to relevant Employers e.g. Ill-Health Retirement | Achieved – moved to Business as Usual activity |
| | | |
| Pension Fund Investment | Continue to monitor processes, reconcile data and report performance impact following asset transitions into LGPS Central e.g. Corporate Bonds, Factor Based Investments and UK Equities planned for 2020/21 | Achieved – Factor Based Investment sub-fund launched January 2021 |
| | Appoint Independent Investment Advisor to Pensions Panel | Deferred to 2021/22 |
| | Produce Pension Fund Annual Report and Accounts in line with CIPFA's updated guidance | Achieved |
| Area of Service | Resource Intensive – Business as Usual Activity | Period |
| LGPS Pensions Administration | Review Pensions Services staffing levels and structure | 1 April – 31 March |
| | Finalise Year end data | 1 April - 30 July |

| Area of Service | Key Development Activity | Progress |
|--|--|--------------------|
| | Publish Deferred Annual Benefit Statements | 1 May – 31 August |
| | Publish Active Annual Benefit Statements | 1 July – 31 August |
| | Record Keeping Data Integrity Checks and continual improvement in quality of data across the Scheme generally | 1 April – 31 March |
| | Assess the impact of any Regulatory Changes and communicate such to all interested parties and stakeholders * | 1 April – 31 March |
| | Review compliance with Administration Strategy | 1 April – 31 March |
| | | |
| Governance | Continue to review published policies e.g. Administration Policy | 1 April – 31 March |
| | | |
| | | |
| Communications with Members and Employers | Continue to review and refine website content | 1 April – 31 March |
| | Further develop the role of the Employer Focus Peer Group and the Employer Focus Newsletters | 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 |

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

| Area of Service | Key Development Activity | Timetable |
|---------------------------------------|--|--|
| LGPS Pensions Administration | Undertake an external review of Additional Voluntary Contribution providers | 30 September 2021 |
| | Commence a Living as Stated / Address Tracing Exercise to improve the accuracy of deferred membership data | 31 March 2022 |
| | Undertake soft market testing for 3 rd party postal arrangements & providers | 31 March 2022 |
| | Planning for the implementation of remedial action arising from the McCloud / Sergeant judgement (& possibly Goodwin) to include collection of retrospective data from Employers | To be determined following publication of MHCLG consultation response & administration system provider updates |
| | | |
| 2022 Actuarial Valuation | Agree timing of key decision-making milestones & detailed delivery plan with Actuary (plus appropriate Training) | 1 June 2021 – 31 March 2022 |
| | | |
| Pensions Administration System | Tender for Administration System provider, to incorporate external hosting platform service * | 31 December 2021 |
| | *Subject to tender, review task design (in Altair) for Deaths & Concurrency | 31 March 2022 |
| | *Subject to tender, review use of interactive dashboard (in Altair) | 31 March 2022 |
| | | |
| Contracting Out Reconciliation | Finalise under/overpaid pensioner members following responses to enquiries with HMRC | 31 March 2022 (subject to technical issues & further response from HMRC) |
| | | |
| Governance | Undertake Training Needs Analysis and produce Training Plan for Pensions Committee and Local Pensions Board Members | 30 June 2021 |
| | Assess the output from the Scheme Advisory Board's Good Governance Review and consider implementation of any actions identified. | 30 September 2021 |
| | Tender for external Legal Services provider | 31 December 2021 |
| | Finalise development of Employer Covenant Monitoring Process | 31 March 2022 |

| Area of Service | Key Development Activity | Timetable |
|--|---|--|
| | and implement regular funding reviews, through use of Hymans online funding tool, HEAT, financial metrics etc | |
| | | |
| Communications – Scheme Members | Promote and encourage the use of Member Self Service / My Pension Portal to Retired Scheme Members (with the aim of issuing the majority of P60s and payslips electronically) | 31 March 2022 and beyond |
| | | |
| Communications - Employers | Develop a series of regular / shorter virtual Employer Practitioner Workshop(s) e.g. Breaches, Ill-health retirement, IDRP & consider targeted workshops for different Employer Groups | 30 September 2021 |
| | | |
| Pension Fund Investment | Appoint Independent Investment Advisor to Pensions Panel | 30 September 2021 |
| | Continue to monitor processes, reconcile data and report performance impact following asset transitions into LGPS Central e.g. Global Sustainable Equities, Multi-Asset Credit planned for 2021/22 | 31 March 2022 (as required) |
| | Develop a Pension Fund Climate Strategy and Climate Stewardship Plan | 30 September 2021 |
| | Develop investment reporting in line with the Task Force for Financial Disclosure (TCFD) requirements | 30 September 2021 |
| | Retain Tier 1 UK Stewardship Code signatory status | 31 March 2022 |
| | Understand the implications for the LGPS as a result of the Department of Work & Pensions - Taking action on climate risk: improving governance and reporting by occupational pension schemes (likely to apply from 2023) | To be confirmed, subject to AUM > £5bn and application to LGPS |
| | Review the ongoing appropriateness of the Fund's Investment Strategy and Strategic Asset Allocation, ahead of 2022 Actuarial Valuation & in line with the Pension Fund's new Climate Strategy | 31 December 2021 |
| | | |

| Area of Service | Key Development Activity | Timetable |
|--|---|-----------------------------|
| Area of Service | Resource Intensive – Business as Usual Activity | Period |
| LGPS Pensions Administration | Review Pensions Services staffing levels and structure | 1 April – 30 September |
| | Finalise Year end data | 1 April - 30 July |
| | Publish Deferred Annual Benefit Statements | 1 May – 31 August |
| | Publish Active Annual Benefit Statements | 1 July – 31 August |
| | Maintain high level of KPIs / Service Standards | Ongoing – monthly reporting |
| | Record Keeping Data Integrity Checks and continual improvement in quality of data across the Scheme generally | Ongoing |
| 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 | Ongoing |
| | Continue to develop new working practices with Third Party Payroll Providers following the introduction of i-Connect | Ongoing |
| Governance | | |
| | Continue to review published policies e.g. Administration Policy | Ongoing |
| | Further develop Employer Administration policies / guides / practices and promote such to relevant Employers e.g. Ill-Health Retirement | Ongoing |
| | Assess the impact of any Regulatory Changes and communicate such to all interested parties and stakeholders ** | Ongoing |
| Communications with Members and Employers | | |
| | Continue to review and refine website content | Ongoing |
| | Continue to develop the role of the Employer Focus Peer Group and the Employer Focus Newsletters | Ongoing |
| | Review Employer compliance with Administration Strategy | Ongoing |
| The Pensions Regulator | Continually review compliance with The Public Service Scheme | Ongoing |

| Area of Service | Key Development Activity | Timetable |
|--------------------------------|---|------------------------|
| | Code of Practice and Public Service Regulatory Strategy in relation to Disclosure of Data | |
| | Maintain Improve common and conditional data scores | Ongoing |
| | Maintain and review Breaches Log and improve reporting to tPR | Ongoing |
| | | |
| Pension Fund Investment | Produce Pension Fund Annual Report and Accounts in line with CIPFA's updated guidance | 1 April – 30 September |

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

Item no 6 on Agenda

| | |
|------------------------|--|
| Local Members Interest | |
| <u>Nil</u> | |

PENSIONS COMMITTEE – 26 MARCH 2021

Report of the Director of Corporate Services

Funding Strategy Statement and Investment Strategy Statement

Recommendations of the Chairman

1. That the draft Funding Strategy Statement (FSS), attached as Appendix 2, is approved but, the Pensions Committee notes the need for wider consultation with Scheme Employers and delegates the approval of any minor changes required to the FSS, as a result of that consultation, to the Director of Corporate Services; and
2. That the Investment Strategy Statement (ISS) attached at Appendix 3 is approved but, the Pensions Committee notes the potential requirement for further updates, once the outcome of the Ministry of Housing, Communities and Local Government's (MHCLG) formal consultation on the Statutory Guidance on Asset Pooling in the LGPS is known.

Background

3. All Local Government Pension Scheme (LGPS) Funds are required to prepare, maintain, and publish FSS and ISS documents. The FSS must be formulated, maintained, and published in accordance with the Public Service Pension Act 2013, whilst the ISS must be formulated, maintained and published in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Both documents must be kept under review and revised from time to time and at least every three years. The FSS must be issued for consultation during each triennial Actuarial Valuation and the Pensions Committee must also formally approve the FSS and ISS as part of the triennial valuation.
4. A full review of both the FSS and the ISS was undertaken as part of the 2019 Actuarial Valuation, to take account of various changes in financial and demographic assumptions, and the Strategic Asset Allocation review, which was carried out alongside the valuation process.
5. In preparing maintaining and reviewing both statements, the administering authority must have regard to guidance published by CIPFA. The latest guidance for both documents was published in September 2016.

Funding Strategy Statement (FSS)

6. The FSS governs how employer liabilities are measured, the pace at which these liabilities are funded and how employers, or pools of employers, pay for their own liabilities.
7. At its meeting on 27 September 2019, the Pensions Committee approved the current version of the FSS, which had been updated to reflect various financial and demographic assumptions used in the 2019 Actuarial Valuation. Other key changes to the FSS at that time, included:
 - Detail on how the Fund will deal with the uncertainty arising from the McCloud ruling (2.7, Table 3.3 note (j)); and
 - Detail on when the Fund intends to carry out its next actuarial valuation considering MHCLG's proposals to change the valuation cycle (2.9);
8. The FSS was made available for a period of consultation with interested parties but, as there were no material responses or comments received during the consultation period, the final version of the FSS was approved by the Director of Corporate Services and published in June 2020.
9. As a result of LGPS Regulatory updates on 23 September 2020, further changes are required to the FSS to reflect:
 - A brief comment on the approach to be taken by the Fund in dealing with the uncertainty arising from the Goodwin court case (2.8);
 - An explanation of the circumstances under which the Fund might amend contribution rates between valuations (3.3 note (f));
 - Detail in relation to the payment of a cessation debt and the considerations that the Fund will make before paying an exit credit in line with their Exit Credit Policy (3.3 note (j)); and
 - The circumstances in which the Fund will enter into a Deferred Debt Agreement (DDA) as an alternative to the payment of an immediate cessation debt (3.3 note (j)).
10. Once again, there will need to be an appropriate period of consultation and it is proposed that unless there are any material changes, which it is considered necessary to bring to the attention of the Committee, that the Director of Corporate Services be given delegated authority to sign off the final version of the FSS, prior to its publication on the Fund's website.

Investment Strategy Statement (ISS)

11. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force in 2017 and under Regulation 7(6) and 7(7), the first ISS (which replaced the Statement of Investment Principles) had to be published by 1 April 2017, kept under review and revised from time to time and at least every three years.

12. The ISS documents how the investment strategy for the Fund is determined and implemented and is required to cover numerous areas, specifically:
- The requirement to invest money across a wide range of investments;
 - An assessment of the suitability of particular investments and investment types;
 - The maximum percentage authorities deem should be allocated to different asset classes or types of investment, although limits on allocations to any asset class are not prescribed as was the case under the previous (2009) Regulations;
 - The authority's attitude to risk, including the measurement and management of risk;
 - The authority's approach to investment pooling;
 - The authority's policy on social, environmental and corporate governance considerations; and
 - The authority's policy with regard to stewardship of assets, including the exercise of voting rights.
13. The Fund's ISS was first published in April 2017 and has been reviewed annually since, to better reflect the arrangements in place for asset pooling and the transfer of assets into LGPS Central Limited. Having been updated quite substantially, to incorporate the outcome of the 2019 Strategic Asset Allocation review and the 2019 Actuarial Valuation, the current version of the ISS (**Appendix 3**) includes some relatively minor amendments to better reflect activity during 2020, thus keeping it up to date.
14. Under Regulation 7(5), the authority must consult such persons as it considers appropriate as to the proposed contents of its investment strategy. In the formulation of the updated ISS, the Fund has consulted with its investment advisors, Hymans Robertson and the Pensions Panel,
15. Pensions Committee Members are asked to note that the document may need further substantial revision following the outcome of the MHCLG's formal consultation on the Statutory Guidance on Asset Pooling in the LGPS; expected sometime in 2021. At this stage, wider consultation on the ISS may also be considered appropriate.

John Tradewell
Director of Corporate Services

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

Background Documents:

Public Service Pensions Act 2013
The Local Government Pension Scheme Regulations 2013 (as amended)
The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

Appendix 1

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

Resource and Value for money implications: The direct cost of producing the FSS and ISS is relatively small; they are published only on the web site. The wider resource and value for money implications are included in the body of the ISS report.

Risk implications: The publication of an FSS and an ISS are requirements of the Local Government Pension Scheme Regulations.

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

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

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Staffordshire Pension Fund

Funding Strategy Statement

February 2021

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Funding Strategy Statement

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1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Staffordshire Pension Fund (“the Fund”), which is administered by Staffordshire County Council, (“the Administering Authority”).

It has been prepared by the Administering Authority (officers and the Pensions Committee) in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser. It is effective from .

1.2 What is the Staffordshire Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Staffordshire Pension Fund, in effect the LGPS for the Staffordshire area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in [Appendix B](#).

1.3 Why does the Fund need a Funding Strategy Statement?

Employees’ benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees’ contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers’ contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in [Appendix A](#).

The FSS is a summary of the Fund’s approach to funding its liabilities, and this includes reference to the Fund’s other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

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- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Investment Strategy Statement (see [Section 4](#))

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In [Section 2](#) there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In [Section 3](#) we outline how the Fund calculates the contributions payable by different employers in different situations.

In [Section 4](#) we show how the funding strategy is linked with the Fund's investment strategy.

In the [Appendices](#) we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. the Fund's bulk transfer policy
- G. a [glossary](#) explaining the technical terms occasionally used here.

If you have any other queries please contact Melanie Stokes, Head of Treasury & Pensions in the first instance at e-mail address melanie.stokes@staffordshire.gov.uk or on telephone number 01785 276330.

2 Basic Funding issues

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

2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

1. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See [Appendix E](#) for more details of what assumptions we make to determine that funding target;
2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in [3.3](#) and [Note \(c\)](#) for more details;
3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See [2.3](#) below, and the table in [3.3 Note \(e\)](#) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in [Appendix D](#). Employer contributions are normally made up of two elements:

- a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including an allowance for administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as “Scheduled Bodies”, the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the MHCLG regarding the terms of academies’ membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as ‘admission bodies’. These employers are generally those with a “community of interest” with another scheme employer – **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund’s admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term ‘admission bodies’; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers.)

2.4 How does the calculated contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in [Section 3](#) and [Appendix D](#)).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). If an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The **time horizon** required is the period over which the funding target is achieved. A shorter period will lead to higher contributions, and vice versa (all other things being equal. Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **likelihood of achieving** the funding target over that time horizon will be dependent on the Fund’s view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker than the required likelihood will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see [3.4](#).

Any costs of non ill-health early retirements must be paid by the employer, see [3.6](#).

Costs of ill-health early retirements are covered in [3.7](#) and [3.8](#).

2.5 How is a funding level calculated?

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

- the market value of the employer's share of assets (see [Appendix D](#), section [D5](#), for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's "deficit"; if it is more than 100% then the employer is said to be in "surplus". The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the funding level and deficit/surplus are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, funding levels and deficits are short term, high level risk measures, whereas contribution-setting is a longer term issue.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see [3.1](#)). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date as appropriate. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation ([see 3.3 Note \(b\)](#)), a longer time horizon relative to other employers, and/or a lower likelihood of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter time horizon relative to other employers, and/or a higher likelihood of achieving the target may be required.

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

2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of writing, the Ministry of Housing, Communities and Local Government (MHCLG) has not provided any details of changes as a result of the case. However it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

The LGPS Scheme Advisory Board (SAB) issued advice to LGPS funds in May 2019. As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. As the benefit structure changes that will arise from the McCloud judgement are uncertain, the Fund has elected to make an approximate allowance for the potential impact in the assessment of employer contribution rates at the 2019 valuation: this will be achieved by building in a slightly higher required likelihood of reaching funding target, all other things being equal.

The fund will reassess the employer contribution rates at the next formal valuation of the Fund. If the outcome of the McCloud case is then known, a more accurate allowance for the impact will be made at that time.

The Fund has also considered the McCloud judgement in its approach to cessation valuations. Please see note (j) to table 3.3 for further information.

2.8 What approach has the Fund taken to dealing with uncertainty arising from the Goodwin court case and its potential impact on the LGPS benefit structure?

The Goodwin tribunal was raised in the Teachers' scheme. It claimed members, or their survivors, were discriminated against due to their sexual orientation. The claim was because the Teachers' scheme provides a survivor's pension which is less favourable for a widower or surviving male partner, than for a widow or surviving female partner of a female scheme member. On 30 June 2020, the Tribunal found in favour of the claimant and agreed there was discrimination. This finding and remedy is expected to apply across all public service pension schemes, including the LGPS, however this is not certain and the details are not yet known.

The impact, if any, of the Goodwin case on Fund liabilities is expected to be small and will largely be an administrative issue. In the absence of a resolution or any guidance to this case, no allowance has been made for this within the 2019 formal valuation.

2.9 When will the next actuarial valuation be?

On 8 May 2019 MHCLG issued a [consultation](#) seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle.

On 7 October 2019 MHCLG confirmed the next LGPS valuation cycle in England and Wales will be in 2022, regardless of the ongoing consultation. The Fund therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future e.g. market movements. Higher likelihood "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority reserves the right to direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required likelihood of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will result in a lower level of future investment returns on the employer's asset share. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

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Overleaf ([3.3](#)) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

[Section 3.4](#) onwards deals with various other funding issues which apply to all employers.

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3.3 The different approaches used for different employers

| Type of employer | Scheduled Bodies | | | Community Admission Bodies and Designating Employers | | Transferee Admission Bodies |
|---|---|--------------------------------------|--------------------------------------|---|---|---|
| Sub-type | Councils, Police, Fire | Colleges & Universities | Academies | Open to new entrants – see Note (k) | Closed to new entrants – see Note (k) | (all) |
| Funding Target Basis used | Ongoing participation basis, assumes long-term Fund participation (see Appendix E) | | | Ongoing participation basis, but may move to “gilts exit basis” - see Note (a) | | Ongoing participation basis, assumes fixed contract term in the Fund (see Appendix E) |
| Primary rate approach | (see Appendix D – D.2) | | | | | |
| Stabilised contribution rate? | Yes - see Note (b) | No | Yes - see Note (b) | No | No | No |
| Maximum time horizon – Note (c) | 20 years | 15 years | 15 years | 15 years | 15 years or average future working lifetime if less | As per the Letting Employer |
| Secondary rate – Note (d) | Monetary amount | Monetary amount | % of payroll | Monetary amount | Monetary amount | % of payroll |
| Treatment of surplus | Covered by stabilisation arrangement | Contributions kept at Primary rate | Covered by stabilisation arrangement | Preferred approach: contributions kept at Primary rate. Reductions may be permitted by the Admin. Authority | | Preferred approach: contributions kept at lower of Primary rate and current contribution rate in payment. |
| Likelihood of achieving target – Note (e) | 68% (see Appendix D – D.2) | 75% | 68% | 68% for Town & Parish Councils, else 72% | 77% | As per the Letting Employer |
| Phasing of contribution changes | Covered by stabilisation arrangement | By Administering Authority agreement | Covered by stabilisation arrangement | By Administering Authority agreement | By Administering Authority agreement | None |
| Review of rates – Note (f) | Review of rates will be carried out in line with the Regulations and as set out in Note (f) | | | | | Particularly reviewed in last 3 years of contract |
| New employer | n/a | n/a | Note (g) | Note (h) | | Notes (h) & (i) |

| Type of employer | Scheduled Bodies | Community Admission Bodies and Designating Employers | Transferee Admission Bodies |
|---|--|--|--|
| Cessation of participation: exit debt/credit payable | Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation calculation principles applied would be as per Note (j) . | Can be ceased subject to terms of admission agreement. Exit debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see Note (j) . | Participation is assumed to expire at the end of the contract. Cessation debt/credit calculated on the ongoing participation basis, unless admission agreement terminated early by contractor in which case gilts exit basis would apply. Letting employer will be liable for future deficits and contributions arising. See Note (j) for further details. |

Note (a) (Gilts exit basis for Community Admission Bodies and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. based on the return from long-term gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from or a surplus payment being made to the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2019 valuation exercise (see [Section 4](#)), the stabilised details are as follows:

| Type of employer | Council, police & fire authority* | Academy ** | Other employers at the Fund's discretion *** |
|---|---|--------------|---|
| Contributions for 2019/20 | As per 2016 valuation Rates and Adjustments certificate | 24.2% | As per 2016 valuation Rates and Adjustments certificate |
| Max annual contribuion increase thereafter | +1.0% or +2.0% of pay | +1.0% of pay | Case-by-case |
| Max cont decrease | -1.0% or -2.0% of pay | -1.0% of pay | Case-by-case |

*The actuary has discussed the risks with the individual employers concerned. Ordinarily, more mature employers will be recommended to have 2% steps instead of 1%. The relevant % of pay is calculated by reference to 2010 pay levels projected in line with actuarial assumptions, rather than actual current pay levels, in order to maintain Secondary contribution rates even if payrolls fall in real terms.

**The Academy stabilised rate is a single rate applicable for all academies in the Fund who have opted for a stabilisation approach as an alternative to their individual calculated rate (most of the Fund's academies have chosen this approach). The stabilised rate will normally be close to (but not exactly equal to) the rates applicable to the ceding Local Authorities. Academies that are stabilised have the option of paying more than the stabilised contribution rate (for example, their individually calculated rate, if this is higher) but cannot pay less than the stabilised contribution rate. Academies that have opted not to participate in the stabilisation approach will be certified an individually calculated contribution rate subject to re-calculation at each formal valuation.

***The Fund will only offer some form of stabilisation in special circumstances and further to likelihood-based modelling carried out by the actuary. This would require suitably assessed strength of covenant (possibly including the provision of some form of security by the employer), the employer remaining open to new entrants, and the employer appreciating the risks involved in this option.

The stabilisation criteria and limits will be reviewed at the next formal valuation. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, not normally to exceed 10 years.

Note (d) (Secondary rate)

The Secondary contribution rate for each employer, covering the period until the next formal valuation, will ideally be set as a monetary amount; however for less mature employers, open to new entrants, this may instead be set as a percentage of salaries. The Administering Authority reserves the right to amend these latter rates between formal valuations and/or to require these payments to be in monetary terms instead, for instance where:

- the employer becomes materially more mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

In the case of Council-run schools, the contribution may be expressed in percentage of pay terms for ease of administration.

Note (e) (Likelihood of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum likelihood. A higher required likelihood bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in [Appendix D](#).

Different likelihoods are set for different employers depending on their nature and circumstances: in broad terms, a higher likelihood will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Under the Regulations the Fund may amend contribution rates between valuations for "significant change" to the liabilities or covenant of an employer: this may result in a material increase or decrease in contributions, depending on the circumstances. The Fund would consider the following circumstances as a potential trigger for review:

- in the opinion of an Administering Authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the scheme within the next two years and before completion of the next valuation;
- an employer agrees to pay increased contributions to meet the cost of an award of additional pension, under [Regulation 31\(3\) of the Regulations](#);

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- there are changes to the benefit structure set out in the LGPS Regulations including the outcomes of the McCloud case and cost sharing mechanisms (if permitted in Regulation at that time) which have not been allowed for at the last valuation;
- it appears likely to the Administering Authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the Administering Authority that there has been a significant change in the ability of an employer or employers to meet their obligations (i.e. a material change in employer covenant);
- it appears to the Administering Authority that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the Administering Authority.

The Administering Authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially or they are going through a significant restructuring impacting their membership).

Except in circumstances such as an employer nearing cessation, the Administering Authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

The Rates & Adjustments Certificate will be updated as necessary, following such a review.

The Administering Authority will also consider guidance in such matters from the Scheme Advisory Board as issued from time to time.

Note (g) (New Academy conversions)

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

- i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with, for the purposes of setting contribution rates, those of the other academies in the MAT;
- ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The assets allocated to the academy will be limited if necessary so that its initial funding level is subject to a maximum of 100%. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;
- iv. The new academy's calculated contribution rate will be based on the time horizon and likelihood of achieving the target outlined for Academies in the table in Section [3.3](#) above.
- v. As an alternative to (iv), the academy will have the option to elect to pay a stabilised rate of contribution as described in [Note \(b\)](#). However, this election will not alter its asset or liability allocation as per (ii) and (iii) above. Ultimately, all academies remain responsible for their own allocated assets and liabilities.
- vi. It is possible for an academy to leave one MAT and join another. If this occurs, all active, deferred and pensioner members of the academy transfer to the new MAT.

The Fund's policies on academies are subject to change in the light of any amendments to MHCLG and/or DfE guidance (or removal of the formal guarantee currently provided to academies by the DfE). Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (iv) and (v) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a greater than expected rise in liabilities;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

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Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also [Note \(i\)](#) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

These approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see [Note \(j\)](#).

Risk sharing

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same contribution rate as the letting employer, which may be under a stabilisation approach. On cessation the employer may not pay any deficit or receive a refund of surplus (subject to the terms of the employer’s Admission Agreement).

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit (or entitled to any surplus) at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term. Please note, the level of exit credit (if any) payable on cessation would be determined by the Administering Authority in accordance with the Regulations, its Exit Credit Policy and this FSS.

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iii) Fixed contribution rate agreed (“pass-through”)

Under this option the contractor pays a fixed contribution rate throughout its participation in the Fund and on cessation does not pay any deficit or receive an exit credit. In other words, the pension risks “pass through” to the letting employer. The certified employer contribution rate will be set equal to the fixed contribution rate agreed between the letting employer and the contractor. The fixed rate that will be paid is at the discretion of the letting employer and contractor subject to a minimum rate equal to the letting employer’s primary rate (at the time of the contract award).

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. Alternatively, letting employers and Transferee Admission Bodies may operate any of the above options by entering into a separate side agreement. The Administering Authority would normally be a party to this side agreement, but either way may treat the Admission Agreement as if it incorporates the side agreement terms where this is agreed by all parties and appropriate.

Any risk sharing arrangement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

As a result, the letting employer will bear the main risk of pension costs being different as a result of changes in longevity, investments, inflation etc. All pension risks therefore reside with the letting employer with the exception of those set out in the above two bullet points.

Approach for small new Transferee Admission Bodies

Where a new Transferee Admission Body has 10 members or fewer, and a contract period of 5 years or less, the Administering Authority’s default approach is for the employer to participate with a fixed contribution rate. The contribution rate will be set equal to the letting employer’s primary contribution rate (at the time of the contract award) and will not change for the duration of the employer’s contract. On cessation the employer will not pay any deficit or receive a refund of surplus and as such the pension risk will “pass through” to the letting employer. This approach will be documented in the Admission Agreement.

The Administering Authority will apply or permit a fixed contribution rate (“pass through”) agreement for Transferee Admission Bodies that have greater than 10 members or a contract period of more than 5 years at its sole discretion.

Should a letting employer wish to operate a different approach (e.g. a “stand-alone” basis with no risk sharing) the Administering Authority will permit this at its sole discretion.

Note (j) (Admission Bodies Exiting the Fund)

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

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);

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- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund; or
- On termination of a deferred debt agreement

On cessation, in the absence of a deferred debt arrangement, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus.

Payment of cessation debt

Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body. The Fund's normal policy is that this cessation debt is paid in a single lump sum within 30 days of the employer being notified.

However, in line with the Regulations and when in the best interests of all parties, the Fund may agree for this payment to be spread over an agreed period, however, such agreement would only be permitted at the Fund's discretion, where payment of the debt in a single immediate lump sum could be shown to be materially detrimental to the employer's normal operations. In cases where payment is spread, the Fund reserves the right to require that the ceasing employer provides some form of security (such as a charge over assets, bond indemnity or guarantee) relating to the unpaid amount of debt at any given time.

Consideration of surplus / exit credit

Where there is a surplus, the Administering Authority will determine the amount of exit credit (if any) to be paid in accordance with the Regulations. In making this determination, the Administering Authority will consider:

- 1 the extent of any surplus,
- 2 the proportion of surplus arising as a result of the employer's contributions,
- 3 any representations (such as risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee (or some other form of employer assistance/support) and
- 4 any other factors the Administering Authority deem relevant.

The Fund's Exit Credit Policy sets out the general guidelines that the Fund will consider when determining the amount (if any) of an exit credit payable to an exiting employer in line with Regulation 64, depending on the employer's participation conditions. Please note that these are guidelines only and the Fund will also consider any other factors that are relevant on a case-by-case basis. These considerations may result in a determination that would be different if the Exit Credit Policy was rigorously adhered to. In all cases, the Fund will not be bound by the guidelines, and will make its decision on a discretionary basis.

Allowance for McCloud on cessation

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will apply a 0.6% loading to the ceasing employer's active and deferred member liabilities, as an estimate of the possible impact of resulting benefit changes.

Actuarial basis on cessation

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- (a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit/surplus will normally be calculated using a “gilts exit basis”, which is more prudent than the ongoing participation basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.
- (b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing participation basis as described in [Appendix E](#);
- (c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body’s liabilities and assets to the guarantor, without needing to crystallise any deficit or surplus. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), the calculation may include the cost of obtaining the cessation valuation from the actuary. If there is a cessation debt (rather than exit credit), this would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund may spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

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

Deferred Debt Agreement (“DDA”) alternative to immediate cessation

As an alternative, where the ceasing Admission Body is continuing in business, the Administering Authority may enter into a written agreement with the Admission Body to defer their obligations to make an exit payment and continue to make secondary contributions (a ‘Deferred Debt Agreement’ as described in Regulation 64 (7A)). The Admission Body must meet all active employer requirements and pay the secondary rate of contributions as determined by the Fund Actuary until the termination of the deferred debt agreement. The Administering Authority will consider deferred debt agreements in the following circumstances:

- The Admission Body requests the Fund consider a deferred debt agreement;
- The Admission Body is expected to have a deficit if a cessation valuation was carried out;
- The Admission Body is expected to be a going concern; and
- The covenant of the Admission Body is considered sufficient by the Administering Authority.

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The Administering Authority will normally require:

- Security be put in place covering the Admission Body's deficit on their cessation basis;
- Regular monitoring of the contribution requirements and security requirements;
- All costs of the arrangement are met by the Admission Body, such as the cost of advice to the Fund, ongoing monitoring of the arrangement, and correspondence on any ongoing contribution and security requirements.

A deferred debt agreement will normally terminate on the first date on which one of the following events occurs:

- the Admission Body enrolls new active Fund members;
- the period specified, or as varied, under the deferred debt agreement elapses;
- the take-over, amalgamation, insolvency, winding up or liquidation of the Admission Body;
- the Administering Authority serves a notice on the Admission Body that the Administering Authority is reasonably satisfied that the Admission Body's ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months;
- the Fund actuary assesses that the Admission Body has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. Admission Body is now largely fully funded on their cessation basis);
- the Fund actuary assesses that the Admission Body's value of liabilities has fallen below an agreed *de minimis* level, if the employer becomes an exiting employer on the calculation date; or
- The Admission Body requests early termination of the agreement and settles the exit payment in full as calculated by the Fund actuary on the calculation date (i.e. the Admission Body pays their outstanding cessation debt on their cessation basis).

On the termination of a deferred debt agreement, the Admission Body will become an exiting employer and a cessation valuation will be completed in line with this FSS.

Note (k) (Open or closed status)

As can be seen from table 3.3, the contribution rate setting criteria used for some bodies will depend whether the employer is open or closed to new entrants.

An employer will be treated as being closed to new entrants from such time as the employer gives notice to the Administering Authority that it will no longer permit any new employees entry to the Staffordshire Pension Fund.

In some circumstances, where an employer has not given such notice, the Administering Authority reserves the right to deem an employer closed to new entrants and treat them as a closed employer. This may be the case if, for example, the number of active members reduces significantly over a period of time with no or limited replenishment of the active membership. The principle is that, with a declining active membership, the employer is heading towards cessation at some point and its funding should be set accordingly.

Whether an employer is treated as being open or closed to new entrants is at the sole discretion of the Administering Authority.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. The current pools in place within the Fund are as follows:

- Minor Employers Pool, consisting largely of Town and Parish Councils, as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.
- Schools (other than academies) are generally pooled with their funding Council. However there may be exceptions for specialist or independent schools.
- Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree – this is particularly the case for contractors with 10 or fewer employees (see Note (i) above).

The intention of the Minor Employers pool is to minimise contribution rate volatility which would otherwise occur when members join, leave, take early retirement, receive pay rises markedly different from expectations, etc. Such events can cause large changes in contribution rates for very small employers in particular, unless these are smoothed out for instance by pooling across a number of employers.

On the other hand it should be noted that the employers in the pool will still have their own individual funding positions tracked by the Actuary, so that some employers will be much better funded, and others much more poorly funded, than the pool average. This therefore means that if any given employer was funding on a stand-alone basis, as opposed to being in the pool, then its contribution rate could be much higher or lower than the pool contribution rate.

It should also be noted that, if an employer is considering ceasing from the Fund, its required contributions would be based on its own funding position (rather than the pool average), and the cessation terms would also apply: this would mean potentially very different (and in particular possibly much higher) contributions would be required from the employer in that situation.

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

Employers who are permitted to enter (or remain in) a pool at the 2019 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

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The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

With the agreement of the Administering Authority the payment can be spread as follows:

| | |
|--|------------------------|
| Councils, Police & Fire Authorities | - up to 5 years |
| Academies | - up to 3 years |
| Colleges & Universities | - payable immediately |
| Community Admission Bodies and Designating Employers | - payable immediately |
| Transferee Admission Bodies | - payable immediately. |

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by internal insurance (see [3.8](#) below).

3.8 Internal ill health insurance

The Fund currently operates a form of internal insurance whereby any ill-health early retirement strain costs are in effect spread among all employers. This avoids adversely high ill-health added costs falling on any one employer.

As and when ill-health retirements occur, the strain cost is not levied on that particular employer's asset share; instead, the cost is met by all employers via a reduction to their asset share, weighted by their total active and deferred membership numbers.

3.9 Employers with no remaining active members

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

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

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

In exceptional circumstances the Fund may permit an employer with no remaining active members and a cessation deficit to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

The Fund has a separate written policy (see Appendix F) which covers bulk transfer payments into, out of the Fund. Each case will be treated on its own merits, but in general:

- where a group of active scheme members joins (or leaves) the Fund, the Administering Authority's objective is to ensure that sufficient assets are received (or paid out) to meet the cost of providing those benefits;
- The Administering Authority's default approach for bulk transfers out (or in) will be to propose (or accept) that the transfer value is calculated based on the appropriate cash equivalent transfer values. However, the scheme employer whose funding position will be affected by the transfer will always be consulted on the transfer terms before the Administering Authority agrees to any arrangement.
- A bulk transfer in may result in a shortfall when assessed using the Fund's ongoing funding basis. This may require the receiving employer's Fund contributions to increase between valuations.
- A bulk transfer out which is greater than the value of the past service liabilities of the transferring members assessed on the Fund's ongoing funding basis, may require the transferring employer's Fund contributions to increase between valuations.

3.11 Policies on intra-fund transfers

Where members transfer between employers within the Staffordshire Pension Fund, the assets that will be transferred from the transferring employer's asset share to the receiving employer's asset share will depend on the circumstances of the member(s)' transfer. In particular:

- Note (g) to Table 3.3 explains how assets will be allocated to new academy schools when members transfer from the ceding employer at the academy conversion date;
- Note (i) to Table 3.3 explains how assets will be allocated to new transferee admission bodies when services are outsourced from a scheduled body;
- If an individual member changes his/her employment from one employer in the Fund to another employer in the Fund, assets equal to the individual's cash equivalent transfer value (using standard Club factors) will be transferred from the transferring employer to the receiving employer;
- For all other cases, the Fund's default approach will be to transfer assets equal to the transferring liabilities (assessed on the Fund's ongoing funding basis) from the transferring employer's asset share to the receiving employer's asset share, unless there are specific circumstances which would merit an alternative approach.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement, which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

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

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The actuary's assumptions for future investment returns (described further in Appendix E) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the Fund's two funding bases include a margin for prudence, and are therefore considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix [A1](#)).

In the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability.

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

4.4 What if the Fund chooses to change its investment strategy?

The strategic asset allocation for the Fund has been determined with reference to:

- the likelihood that it will deliver a return that, in conjunction with the contribution strategy, will achieve the Fund's long-term funding target; and
- the likelihood that any shortfall from funding target in the event of adverse investment outcomes will be within acceptable levels.

From time to time the Fund may make relatively small changes to the strategic asset allocation and/or changes to investment managers appointed.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Ministry of Housing, Communities & Local Government (MHCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional MHCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- (a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either
- (b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- (c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of Fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

- i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
- ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

- 1. the implied deficit recovery period; and
- 2. the investment return required to achieve full funding after 20 years.

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Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

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Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Ministry of Housing, Communities and Local Government (MHCLG) has stated that the purpose of the FSS is:

*“to establish a **clear and transparent fund-specific strategy** which will identify how employers’ pension liabilities are best met going forward;*

*to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**;*
and

*to take a **prudent longer-term view** of funding those liabilities.”*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Investment Strategy Statement.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers on 01 November 2019 for comment;
- b) Comments were requested within 30 days;
- c) There was an Employers Forum on 12 November 2019 at which questions regarding the FSS could be raised and answered;
- d) Following the end of the consultation period the FSS was updated where required and then published, on 28 March 2020.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at <https://www.staffspf.org.uk/Finance-and-Investments/Funding-Strategy-Statement>
- A full copy linked from the annual report and accounts of the Fund; Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation (which may move to every four years in future – See Section 2.9). Normally the FSS is expected to remain unaltered until it is consulted on as part of the formal process for the next valuation.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at <https://www.staffspf.org.uk/Finance-and-Investments/>

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
11. prepare and maintain a FSS and an ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the Fund's performance and funding and amend the FSS and ISS as necessary and appropriate.

B2 The Individual Employer should:-

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

B3 The Fund Actuary should:-

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

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4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;
2. LGPS Central Pool, investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. MHCLG (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

| Risk | Summary of Control Mechanisms |
|---|---|
| Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term. | <p>Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p> |
| Inappropriate long-term investment strategy. | <p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p> |
| Active investment manager under-performance relative to benchmark. | <p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p> |
| Pay and price inflation significantly more than anticipated. | <p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p> |

| Risk | Summary of Control Mechanisms |
|--|---|
| Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies | An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions. |
| Orphaned employers give rise to added costs for the Fund | <p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).</p> |
| Liquidity issues posed by significant cessations by employers in surplus funding position | <p>Careful monitoring of funding levels at triennial valuations, and allowing contribution holidays where appropriate to ensure employers do not generate significant surplus positions</p> <p>Ensuring that the Fund's investment strategy allows for a significant proportion of liquid investments and asset classes</p> |
| Effect of possible asset underperformance as a result of failure to follow Responsible Investment principles | Please see the Fund's Investment Strategy Statement for details on how this risk is managed. |

C3 Demographic risks

| Risk | Summary of Control Mechanisms |
|--|---|
| Pensioners living longer, thus increasing cost to Fund. | <p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p> |
| Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees. | Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies. |
| Deteriorating patterns of early retirements | <p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and an internal insurance arrangement is operated (see 3.8).</p> |

| Risk | Summary of Control Mechanisms |
|--|--|
| Reductions in payroll causing insufficient deficit recovery payments | <p>In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).</p> <p>For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</p> |

C4 Regulatory risks

| Risk | Summary of Control Mechanisms |
|--|---|
| Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform. | <p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The Administering Authority is monitoring the progress on the McCloud court case and will consider an interim valuation or other appropriate action once more information is known.</p> <p>The government's long term preferred solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits - was built into the 2019 valuation.</p> |
| Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5). | Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis. |
| Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies. | <p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p> |

C5 Governance risks

| Risk | Summary of Control Mechanisms |
|---|--|
| Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants. | <p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p> |
| Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way | <p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p> |
| Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body. | <p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p> |
| An employer ceasing to exist with insufficient funding or adequacy of a bond. | <p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> |

| Risk | Summary of Control Mechanisms |
|--|--|
| | <p>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).</p> |
| An employer ceasing to exist resulting in an exit credit being payable as a regulatory requirement | <p>The Administering Authority regularly monitors admission bodies coming up to cessation</p> <p>The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.</p> |

Appendix D – The calculation of Employer contributions

In [Section 2](#) there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three-step process:

- Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See [Appendix E](#) for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in [3.3](#) and [Note \(c\)](#) for more details;
- Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in [3.3 Note \(e\)](#) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in [Appendix E](#).

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

- a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see [D2](#) below); plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see [D3](#) below).

The contribution rate for each employer is measured as above, appropriate for each employer's assets, liabilities and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see [note 3.3 Note \(c\)](#) for further details),
3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see the [table in 3.3](#) and [3.3 Note \(e\)](#) for further details).

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* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller (the “Economic Scenario Service”) developed by the Fund’s actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund’s investment strategy), inflation, and bond yields. Further information about this model is included in [Appendix E](#). The measured contributions are calculated such that the proportion of outcomes meeting the employer’s funding target (at the end of the time horizon) is equal to the required likelihood.

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

D3 How is the Secondary contribution rate calculated?

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total contribution rate is projected to meet the required funding target:

1. relating to combined past and future service benefit accrual, including accrued asset share (see [D5](#) below)
2. at the end of the determined time horizon (see [3.3 Note \(c\)](#) for further details)
3. with a sufficiently high likelihood, as set by the Fund’s strategy for the category of employer (see [table in 3.3](#) and [3.3 Note \(e\)](#) for further details).

The projections are carried out using an economic modeller (the “Economic Scenario Service”) developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund’s investment strategy), inflation, and bond yields. Further information about this model is included in [Appendix E](#). The measured contributions are calculated such that the proportion of outcomes meeting the employer’s funding target (at the end of the time horizon) is equal to the required likelihood.

D4 What affects a given employer’s valuation results?

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

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- the effect of any differences in the funding target, i.e. the valuation basis used to value the employer’s liabilities at the end of the time horizon;
- any different time horizons;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made; and/or
- differences in the required likelihood of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore it cannot account for each employer's assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

- 1) A technique known as "analysis of surplus" in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.
- 2) A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31 March 2016 the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

The Fund Actuary uses the Hymans Robertson's proprietary "HEAT" system to track employer assets on a monthly basis. Starting with each employer's assets from the previous month end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the month are added to calculate an asset value at the month end.

Ill-health early retirement strains are allowed for as described in 3.8; individual member transfers are described in D6 below.

The Fund is satisfied that this new approach provides the most accurate asset allocations between employers that is reasonably possible at present.

D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash Equivalent Transfer Value (CETV) as advised by the Fund's administrators.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions used to calculate employer contribution rates?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”) and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future. For instance, taking pension increases (which follow price inflation) as an example:

- a higher assumed rate of increase will give higher assumed costs and hence higher calculated contributions;
- the actual cost of pensions will vary by the rate of actual price inflation, not what had been assumed in the past.

The actuary’s approach to calculating employer contribution rates involves the projection of each employer’s future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer’s assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer’s required likelihood) being successful at the end of the employer’s time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer’s assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson’s proprietary stochastic economic model - the Economic Scenario Service (“ESS”).
2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has two different funding bases.

Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).

E2 What assumptions are used in the Economic Scenario Service (ESS)?

The actuary uses Hymans Robertson’s ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

| | | Annualised total returns | | | | | | | RPI inflation expectation | 17 year real govt bond yield | 17 year govt bond yield |
|--------------------------|-----------|--------------------------|-----------------------------|-------------------------------|-----------|-----------------|----------|----------------------------------|---------------------------|------------------------------|-------------------------|
| | | Cash | Index Linked Gilts (medium) | Fixed Interest Gilts (medium) | UK Equity | Overseas Equity | Property | A rated corporate bonds (medium) | | | |
| 5 years | 16th %ile | -0.4% | -2.3% | -2.9% | -4.1% | -4.1% | -3.5% | -2.7% | 1.9% | -2.5% | 0.8% |
| | 50th %ile | 0.7% | 0.5% | 0.3% | 4.0% | 4.1% | 2.4% | 0.8% | 3.3% | -1.7% | 2.1% |
| | 84th %ile | 2.0% | 3.3% | 3.4% | 12.7% | 12.5% | 8.8% | 4.0% | 4.9% | -0.8% | 3.6% |
| 10 years | 16th %ile | -0.2% | -1.8% | -1.3% | -1.5% | -1.4% | -1.5% | -0.9% | 1.9% | -2.0% | 1.2% |
| | 50th %ile | 1.3% | 0.0% | 0.2% | 4.6% | 4.7% | 3.1% | 0.8% | 3.3% | -0.8% | 2.8% |
| | 84th %ile | 2.9% | 1.9% | 1.7% | 10.9% | 10.8% | 7.8% | 2.5% | 4.9% | 0.4% | 4.8% |
| 20 years | 16th %ile | 0.7% | -1.1% | 0.1% | 1.2% | 1.3% | 0.6% | 0.7% | 2.0% | -0.7% | 2.2% |
| | 50th %ile | 2.4% | 0.3% | 1.0% | 5.7% | 5.8% | 4.3% | 1.9% | 3.2% | 0.8% | 4.0% |
| | 84th %ile | 4.5% | 2.0% | 2.0% | 10.3% | 10.4% | 8.1% | 3.0% | 4.7% | 2.2% | 6.3% |
| Volatility (Disp) (1 yr) | | 1% | 7% | 10% | 17% | 17% | 14% | 11% | 1% | | |

(NB The reference to 17 year government bond yields is to the market's view of long term gilt stocks, looking ahead from any given point in time, as opposed to any connection with 17 year funding time horizon).

E3 What assumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (aka the “discount rate”)

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (aka discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has two funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding target.

| Funding basis | Ongoing participation basis | Low risk exit basis |
|---------------|--|--|
| Employer type | All employers except closed Community Admission Bodies | Community Admission Bodies that are closed to new entrants |

| | | |
|---|---|--|
| Investment return assumption underlying the employer's funding target (at the end of its time horizon) | Long term government bond yields plus an asset outperformance assumption (AOA) of 1.6% p.a. | |
|---|---|--|

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

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

E4 What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding target.

a) Salary growth

After discussion with Fund officers and the Pensions Committee, the salary increase assumption at the 2019 valuation has been set to be a blended rate combined of:

1. 2.0% p.a. until 31 March 2021, followed by
2. Pay awards in line with the consumer prices index (CPI) plus 0.5% per annum p.a. thereafter.

This led to a blended assumption of CPI plus 0.4%, which is the same assumption as was used in the 2016 valuation of the Fund.

b) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

At this valuation, we have continued to assume that CPI is 1.0% per annum lower than RPI. (Note that the reduction is applied in a geometric, not arithmetic, basis).

c) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This updated allowance for future improvements will

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generally result in lower life expectancy assumptions and hence a reduced funding target (all other things being equal).

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

d) General

The same financial assumptions are adopted for most employers (on the ongoing participation basis identified above), in deriving the funding target underpinning the Primary and Secondary rates: as described in [\(3.3\)](#), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

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Appendix F – Bulk Transfer Policy

Introduction

The purpose of this policy is to set out the Administering Authority's approach to dealing with the bulk transfer of scheme member pension rights in to and out of the Fund in prescribed circumstances.

Bulk transfer requests will be considered on a case by case basis, ensuring that:

1. transfers out of the Fund do not allow a deficit to remain behind unless a scheme employer is committed to repairing this; and
2. bulk transfers received must be sufficient to pay for the added benefits being awarded to the members, again with the scheme employer making good any shortfall where necessary.

When considering any circumstances where bulk transfer provisions might apply, however, the Administering Authority will always ensure adherence to any overriding requirements set out in the Local Government Pension Scheme Regulations and/or any supplementary or statutory guidance (e.g. the Best Value Staff Transfers (Pensions) Direction 2007).

Bulk transfer circumstances

Bulk transfers into and out of the Fund can occur for a variety of reasons, namely:

1. where an outsourcing arrangement is entered into and active scheme members leave the LGPS to join a broadly comparable scheme;
2. where an outsourcing arrangement ceases and active scheme members re-join the LGPS from a broadly comparable scheme;
3. where there is a reorganisation of central government operations (transfers in from, or out to, other government sponsored schemes);
4. Where there is a reorganisation or consolidation of local operations (bought about by, for example, local government shared services, college mergers or multi academy trust consolidations); or
5. a national restructuring resulting in the admission of an employer whose employees have LGPS service in another LGPS fund, or vice versa.

Unlike bulk transfers out of the LGPS, there is no specific provision to allow for bulk transfers into the LGPS. As a result, any transfer value received into the LGPS, whether on the voluntary movement of an individual or the compulsory transfer of a number of employees, must be treated the same way as individual transfers.

Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 contain relevant provisions regarding transfers (including bulk transfers) to and from the scheme, include the following:

1. Regulation 98 – applies on transfer out to non-LGPS schemes. It allows for the payment of a bulk transfer value where at least two active members of the LGPS cease scheme membership and join another approved pension arrangement;
2. Regulation 99 - gives the LGPS actuary discretion as to the choice of method of calculation used to calculate the bulk transfer value;

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3. Regulation 100 – allows an individual who holds relevant pension rights under a previous employer to request to be admitted for past service into the LGPS. Members wishing to transfer in accrued rights from a club scheme, who request to do so within 12 months of joining their new LGPS employment must be granted their request. For members with non-club accrued rights the LGPS Fund does not have to grant the request. Any request must be received in writing from the individual within 12 months of active employment commencing or longer at the discretion of the employer and the administering authority.
4. Regulation 103 - states that any transfer between one LGPS fund and another LGPS fund (in England and Wales) where 10 or more members elect to transfer will trigger bulk transfer negotiations between Fund actuaries.

The Best Value Authorities Staff Transfers (Pensions) Direction 2007, which came into force on 1 October 2007, applies to all “Best Value Authorities” in England (which therefore applies to all local authorities in England). The Direction:

1. requires the contractor to secure pension protection for each transferring employee through the provision of pension rights that are the same as or are broadly comparable to or better than those they had as an employee of the authority, and
2. provides that the provision of pension protection is enforceable by the employee.

The Direction also requires similar pension protection in relation to those former employees of an authority, who were transferred under TUPE to a contractor, in respect of any re-tendering of a contract for the provision of services (i.e. second and subsequent rounds of outsourcing).

New Fair Deal, introduced in October 2013, applies to academies and multi academy trusts. It requires that, where they outsource services, they ensure pension protection for non-teaching staff transferred is achieved via continued access to the LGPS. As a result it would not be expected the Fund would have any bulk transfers out of the LGPS in respect of outsourcings from academies or multi academy trusts.

Note:

For all other scheme employers – who are not subject to the requirements of Best Value Direction or New Fair Deal - there is no explicit requirement to provide pension protection on the outsourcing or insourcing of services, although any successful contractor is free to seek admission body status in the Fund, subject to complying with the Administering Authority's requirements (e.g. having a bond or guarantor in place).

It is our understanding that there is no specific provision giving protection to past pension accrual in either the Direction or new Fair Deal (albeit if the individual remains in their original scheme then their past service rights are automatically protected). In the absence of a bulk transfer agreement, therefore, the Administering Authority would not expect to pay out more than individual cash equivalent transfer amounts, in accordance with appropriate GAD guidance.

Statement of Principles

The Administering Authority's policy is drafted on the basis of the following key principles:

1. where a group of active scheme members joins (or leaves) the Fund, the Administering Authority's objective is to ensure that sufficient assets are received (or paid out) to meet the cost of providing those benefits;
2. The Administering Authority's default approach for bulk transfers out (or in) will be to propose (or accept) that the transfer value is calculated based on the appropriate cash equivalent transfer values. However, the scheme employer whose funding position will be affected by the transfer will always be consulted on the transfer terms before the Administering Authority agrees to any arrangement.
3. A bulk transfer in may result in a shortfall when assessed using the Fund's ongoing funding basis. This may require the receiving employer's Fund contributions to increase between valuations.
4. A bulk transfer out which is greater than the value of the past service liabilities of the transferring members assessed on the Fund's ongoing funding basis, may require the transferring employer's Fund contributions to increase between valuations.
5. Service credits granted to active scheme members should fully reflect the value of the benefits being transferred, irrespective of the transfer value paid or received.

Policies

The following table sets out a summary of the various scenarios for the transfer in to and out of the Fund, together with the Administering Authority's policies relating to bulk transfers. In the remainder of this section we set out the Administering Authority's policies in relation to a number of subsidiary areas associated with bulk transfers.

| Scenario | | Bulk transfer mechanism | Policy | Methodology |
|--|-----|--|--|--|
| Machinery of Government from a Club Scheme | In | Club Memorandum | The Club mechanism ensures the pension credit in the Fund provides actuarially equivalent benefits | The pension credit awarded to members transferring in will be calculated in line with the Club transfer-in formulae . |
| | Out | Regulation 98 of the Local Government Pension Scheme Regulations 2013 or Club Memorandum | Where agreement can be reached, the Fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. or Where agreement cannot be reached, revert to the Club transfer out formulae in accordance with GAD guidance. | The Fund's default policy is to offer the receiving scheme transfers out calculated in line with the Club transfer-out formulae . |

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| | | | | |
|---|-----|---|--|---|
| Broadly Comparable scheme or Machinery of Government where scheme is treated as a non-Club scheme | In | GAD guidance | Non-Club transfer in formulae in accordance with GAD guidance | The pension credit awarded to members transferring in will be calculated in line with the non-Club transfer-in formulae . |
| | Out | < 2 members – GAD guidance | Cash equivalent transfer values in accordance with GAD guidance | The transfer value paid to the receiving scheme will be calculated in line with the CETV transfer-out formulae . |
| | | 2 or more members – Regulation 98 of the Local Government Pension Scheme Regulations 2013 | Where agreement can be reached, the Fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. or Where agreement cannot be reached, revert to cash equivalent transfer values under GAD guidance | The Fund's default policy is to offer the receiving scheme transfers out calculated in line with the CETV transfer-out formulae . |
| Inter-fund transfer (transfer between the Fund and another LGPS Fund) | In | < 10 members – GAD guidance | Cash equivalent transfer values in accordance with GAD guidance | On receipt of a transfer value (calculated in line with the CETV transfer-out formulae), the Fund will award the member a pension credit on a day-for-day basis. |
| | | 10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013 | Where agreement can be reached, the Fund and the transferring Fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. or Where agreement cannot be reached, revert to cash equivalent transfer values under GAD guidance | The Fund's default policy is to accept a transfer value that is at least equal to the total of the individual cash equivalent transfer values calculated using the Club transfer-out formulae . The Fund will consult with the scheme employer whose funding position will be impacted by the transfer before agreeing to a negotiated bulk transfer arrangement. Pension credits will be awarded to the transferring members on a day-for-day basis. |
| | Out | < 10 members – GAD guidance | Cash equivalent transfer values in accordance with GAD guidance | The transfer value paid to the receiving fund will be calculated in line with the CETV transfer-out formulae . |

| | | | | |
|--|--|---|---|--|
| | | 10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013 | Where agreement can be reached, the Fund and the receiving Fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. or Where agreement cannot be reached, revert to cash equivalent transfer values under GAD guidance | The Fund's default policy is to offer a transfer value that is equal to the total of the individual cash equivalent transfer values calculated using the Club transfer-out formulae . The Fund will consult with the scheme employer whose funding position will be impacted by the transfer before agreeing to a negotiated bulk transfer arrangement. |
|--|--|---|---|--|

Notes:

- There may be situations where a transfer amount accepted in respect of a transfer in is less than is required to fully fund the transferred in benefits on the Fund's ongoing basis. In such cases the Fund reserves the right to require the receiving employer to fund this deficit (either by lump sum or increase in ongoing employer contributions) ahead of the next formal valuation.
- Any shortfall between the bulk transfer payable by the Fund and that which the receiving scheme is prepared to accept must be dealt with outside of the Fund, for example by a top up from the employer to the receiving scheme or through higher ongoing contributions to that scheme.
- For transfers out, in exceptional circumstances the Fund's policy may be altered to reflect specific issues of the transferring employer (e.g. the cessation of the transferring scheme employer).

Adjustment to transfer payment or payment date

In the normal course of events payment of a bulk transfer value will occur well after the actual transfer of employment.

Regulation 92(1) specifically refers to the actuary to the paying scheme being able to adjust the transfer amount for the period between the transfer date and payment date.

Bearing in mind the overriding principle of minimising the risk to the Fund of paying out more in the bulk transfer than the Fund holds in assets which are attributable to the transferring liabilities, the most appropriate adjustment would be to use the actual returns achieved on the Fund's assets over the appropriate period.

Format of transfer payment

Ordinarily payment will be in cash, with discretion delegated to the s.151 officer to agree alternatives.

A deduction to the bulk transfer will be made for any administration, legal and transaction costs incurred by the Fund as a result of having to disinvest any assets to meet the form of payment that suits the receiving scheme.

Impact on transferring employer

Any transfer of pension rights may have an effect on the valuation position of the employer and consequently their individual contribution rate.

The Fund will agree with the transferring authority how this change is dealt with. Though it is likely this will be through adjustments to its employer contribution rate, the Fund may require a lump sum payment or instalments of lump sums to cover this relative change in deficit, for example where the deficit is a large proportion of the total remaining notional assets and liabilities where the transfer is small relative to the employer's share of the Fund, any adjustment may be deferred to the next valuation.

Consent

Where required within the Regulations, for any bulk transfer the Administering Authority will ensure the necessary consent is obtained from each individual eligible to be part of the transfer.

Approval process

Under the principles of good governance, it is important that a clear and robust approval process is in place when determining whether to pay or receive a bulk transfer.

The Fund will normally agree to bulk transfers into or out of the Fund where this policy is adhered to. All bulk transfers that represent a departure from this policy will be put to the Pensions Committee for agreement, detailing any proposals to depart from this policy

Non-negotiable

It should be noted that, as far as possible, the Fund's preferred terms on bulk transfers are non-negotiable. Any differences between the value the Fund is prepared to pay (or receive) and that which the other scheme involved is prepared to accept (or pay) should be dealt with by the employers concerned outside the Fund.

Appendix G – Glossary

| | |
|--------------------------------|---|
| Administering Authority | The council with statutory responsibility for running the Fund, in effect the Fund's "trustees". |
| Admission Bodies | Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3). |
| Covenant | The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term. |
| Designating Employer | Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund. |
| Employer | An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and funding target values for each employer are individually tracked, together with its Primary rate at each valuation . |
| Funding basis | The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer's time horizon. The main assumptions will relate to the level of future investment return, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target. |
| Gilt | A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but are also used in funding as an objective measure of a risk-free rate of return. |
| Guarantee / guarantor | A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's. |
| Letting employer | An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy. |

| | |
|--|---|
| LGPS | The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers. |
| Maturity | A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy. |
| Members | The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees). |
| Primary contribution rate | The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details. |
| Profile | The profile of an employer's membership or liability reflects various measurements of that employer's members , ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also. |
| Rates and Adjustments Certificate | A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal valuation . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed. |
| Scheduled Bodies | Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers). |
| Secondary contribution rate | The difference between the employer's actual and Primary contribution rates . See Appendix D for further details. |
| Stabilisation | Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. |
| Valuation | A risk management exercise to review the Primary and Secondary contribution rates , and other statutory information for a Fund, and usually individual employers too. |



Investment Strategy Statement

April 2021



Investment Strategy Statement (revised April 2020)

1. Introduction and Background

1.1 This is the Investment Strategy Statement ('the Statement') produced by Staffordshire County Council as the administering authority of the Staffordshire Pension Fund ('the Fund'), to comply with the regulatory requirements specified in Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ('the investment regulations'). The Statement is subject to annual review and within six months of any material change in investment policy or other matters as required by law.

1.2 The Statement was approved by the Pensions Committee in March 2021, following consultation with the Fund's Investment Advisor, Hymans Robertson. The Pensions Committee is the main decision making body and comprises both elected Councillors and non-voting representatives from Trade Unions and from other employing bodies in the Fund. A full explanation of the governance arrangements setting out the respective roles of the Pensions Committee, Pensions Panel and the Local Pensions Board (LPB) can be found in the separate document entitled 'Governance Policy Statement' published on the web.

<https://www.staffspf.org.uk/Governance/Governance-policy-statement/Governance-policy-statement.aspx>

1.3 In preparing the Statement, the Pensions Committee has consulted with its Advisors, as there are close links between this Statement and the separate Funding Strategy Statement ('FSS') which can also be found on the web.

<https://www.staffspf.org.uk/Finance-and-Investments/Funding-Strategy-Statement>

2. The Fund's Objectives

2.1 The **primary objective** of the Fund is:

- To ensure that sufficient funds are available to meet all pension liabilities as they fall due for payment.

2.2 The Fund has **funding strategy objectives** which are set out in the Funding Strategy Statement (FSS). These are:

- To ensure the long-term solvency of the Fund, using a prudent long-term view. This will ensure that sufficient funds are available to meet all members' / dependent's benefits as they fall due for payment;
- To ensure that employer contribution rates are reasonably stable where appropriate;
- To minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return (NB this will also minimise the costs to be borne by Council Tax Payers);
- To reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

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- To use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax Payer from an employer defaulting on its pension obligations.
- 2.3 The FSS sets out the main aims of the Fund and sets employers' contribution rates to achieve those aims based on a Strategic Asset Allocation that is predominantly invested in equities. The FSS models the risks of this investment strategy and the link between assets and liabilities. It also sets out the likelihood of achieving the funding objective in the long term. The FSS has an explicit stabilisation mechanism to limit the annual increase in contribution rates for Local Authorities and other employing bodies with strong covenants.
- 2.4 The **investment objective** of the Fund is:
- To achieve a return on Fund assets which is sufficient, over the long-term, to meet the funding strategy objectives on an ongoing basis.
3. **Investment Strategy and Beliefs**
- 3.1 The Fund has built up assets over the years and continues to receive contribution and investment income. Any Fund money which is not needed immediately to make payments from the Fund must be invested in a suitable manner; the way in which this is done is referred to as the **investment strategy**. The Fund ensures it has parameters around its investment strategy by setting a Strategic Asset Allocation, which at a primary level indicates how much the Fund will allocate to each asset class (i.e. equities, fixed income, property, alternatives and cash). This primary level is often sub-divided further by geography, type of investment and manager allocations.
- 3.2 The Fund shares a set of common **investment beliefs** which it thinks about when setting its investment strategy. These have recently been updated to incorporate the Fund's beliefs about Responsible Investment. These are:
- A long-term approach to investment will deliver better returns and the long-term nature of LGPS liabilities allows for a long-term investment horizon.
 - Liabilities influence the asset structure; Fund's exist to meet their obligations.
 - Asset allocation is the most important factor in driving long term investment returns. Diversification across investments with low correlation improves the risk / return profile. Inefficient markets mean there is a place for both active and passive management.
 - Risk premiums exist for certain investments, which together with secure and growing income streams can help to recover funding deficits and underpin the ability to meet the Fund's future pension liabilities.
 - The fees of investment managers and the remuneration policies of the companies in which the Fund invests should be aligned with its long-term interests. Value for money is more important than the minimisation of cost.
 - Responsible investment can enhance long-term investment performance across all asset classes and should be integrated into all investment processes.

Staffordshire Pension Fund Investment Strategy Statement

- A strategy of engagement, rather than exclusion, is more compatible with fiduciary duty and more supportive of responsible investment. The opportunity to influence through stewardship is waived with a divestment approach.
 - Financial markets could be materially affected by climate change. Responsible investors should proactively manage this risk through stewardship activities in partnership with like-minded investors where feasible.
 - Asset managers and investee companies with robust governance structures will be better positioned to handle future events. Decision making and performance are improved when there are diverse individuals involved.
- 3.3 The Pension Fund's **Strategic Asset Allocation (SAA)** is formulated in consultation with the Fund's investment advisors, Hymans Robertson, with all the Fund's objectives in mind. A full SAA review was carried out alongside the work for the Actuarial Valuation as at 31 March 2019. It was determined with reference to:
- The likelihood that it will deliver a return that, in conjunction with the contribution strategy, will achieve the Fund's long-term funding target; and
 - The likelihood that any shortfall from the funding target, in the event of adverse investment outcomes, will be within acceptable levels.
- 3.4 In order to do this, Hymans Robertson use their proprietary Economic Scenario Service (ESS) model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling (sometimes called stochastic modelling), there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or investment returns might be, which leads to likelihoods of the assumption being higher or lower than a certain value. Ultimately, however, Hymans are looking for any combination of investment strategy and contribution rate strategy that has a given likelihood of achieving the desired funding level (i.e. 100%) in 20 years' time.
- 3.5 The modelled scenarios also test that a modest variation of the SAA, of up to 5%, can be tolerated without the likelihood of the funding level being compromised; albeit the Fund currently operates in ranges of plus or minus 3% around the major asset classes.
- 3.6 The 2019 Actuarial Valuation of the Fund, showed a funding level of 99% (an increase from 78% as at 31 March 2016). This means that at the 31 March 2019, the Fund was almost fully funded. However, it should be acknowledged that this is a single point in time and that the long term aim is for the Fund to remain fully funded for the next 20 years and beyond. In order to achieve this, the Fund still needs to ensure that the value of its assets, relative to its liabilities, continues to grow significantly and the SAA aims to achieve this, therefore, through a relatively large allocation to growth assets (i.e. equities, property and alternatives). This is balanced to some degree by allocations to stabilising assets (i.e. fixed income and cash) to closely match the liquidity demands of the Fund.
- 3.7 Currently, the contribution income from employing bodies and employees is roughly equal to the benefit payments to pensioners. This is important as it means the income generated from assets can be reinvested in the Fund. However, at some point over the next 10 years or so, the valuation indicates that outgoing payments will exceed income by 10%. It is expected that the investment income (e.g. dividends, interest and rental income) generated by the current asset allocations will be enough to cover this.

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- 3.8 The SAA is reviewed and approved by the Pensions Committee, every three years, as part of setting the funding strategy and to take account of developments in the investment environment. It is monitored more frequently at quarterly meetings of the Pensions Panel.
- 3.9 The arrangements for the Fund's investments changed with the advent of LGPS Central Limited on 1 April 2018. Staffordshire is one of 8 Partner Funds and over the next few years, an increasing amount of the Fund's investments will be managed by LGPS Central Limited. However, the decision making around the Fund's SAA, which is recognised to be the primary driver of investment returns, will be retained by the Pensions Committee.
4. **The requirement to invest money across a wide range of investments and an assessment of the suitability of particular investments and investment types.**
- 4.1 The Pensions Committee receives advice on investments from its appointed Investment Consultants. The issues that the Committee takes into account when considering different investments (or asset classes) include;
- Legality – is it excluded by any regulation?
 - The nature and type of return (e.g. is the asset 'real'?)
 - The expected level of return
 - The expected variability of return (volatility)
 - The relationship of returns between asset classes
 - The long-term track record of the asset class
 - Liquidity
 - Credit Risk (i.e. risk of loss)
 - Leverage
 - Currency risk
 - Complexity
 - Use of active management where it can add value
 - Responsible Investment

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- 4.2 Following the Actuarial Valuation of the Fund as at 31 March 2019, the Pensions Committee agreed that the following asset classes were appropriate for the Fund to invest in.

| Asset Class | |
|--------------|----------------------------------|
| Equity | UK |
| | Global |
| | Private Equity |
| | *LGPS Central Limited |
| Fixed Income | Gilts |
| | Index Linked Gilts |
| | Investment Grade Corporate Bonds |
| | Private Debt |
| | *LGPS Central Limited |
| Cash | |
| Property | |
| Alternatives | Hedge Funds |
| | Infrastructure |

*The Fund invests in the regulatory capital of LGPS Central Limited.

- 4.3 The Fund's SAA is set to ensure that the Fund invests in a wide range of asset classes. This diversification of assets reduces risk and aims to help meet the Fund's funding objectives. Whilst the SAA sets the framework for the Fund's portfolio of assets over the long-term, many more detailed decisions have to be taken to build the portfolio of assets; these include aspects such as the characteristics of the equity portfolio (e.g. passive (v) active management, geographical spread), the fixed income bonds to be held (e.g. government bonds or corporate credit) and the alternative assets in which the Fund should invest (e.g. Hedge Funds and Infrastructure etc).
- 4.4 These 'structural' aspects are the subject of ongoing monitoring by Officers and Advisors and a 'Strategic Benchmark Review and Monitoring' report is presented quarterly to the Pensions Panel for its consideration. From time to time, when markets dislocate, 'tactical' moves between asset classes may be deemed appropriate. However, the Pensions Panel will only agree to make any such switches, following clear advice and recommendations from their Advisors.
- 4.5 Furthermore, in order to ensure that 'tactical' switches are not affected unnecessarily, the Pensions Panel monitors the actual SAA of the Fund, subject to the tolerances versus the target SAA of the Fund. The current and long-term target SAA target, and permitted tolerance ranges, are provided in Appendix A.
- 4.6 The Fund categorises assets between return-seeking assets and defensive assets, with the defensive assets being those which aim to remove some of the volatility and risk in the investment strategy (e.g. if equity markets fall in value, other asset classes may rise in value). The balance between return-seeking assets and defensive assets must be such that some of the volatility can be managed, but that the investment strategy is still capable of returning the level of growth required in the long term; as per the assumptions made by the Actuary in the triennial valuation.

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Expected Return on Investments

- 4.7 In carrying out the 2019 Actuarial Valuation of the Fund, the Fund's Actuary agreed several financial assumptions with the Pensions Committee. One of these related to the likely level of investment returns the Fund could expect over the long term.
- 4.8 Considering the output from the Economic Scenario Service and the Fund's current SAA, the Actuary determined that the likely Total (net) Investment Return for the Fund over the next 20 years was estimated to be **3.9%**. Again, it should be acknowledged that this is a calculation at a single point in time and a number that best represents the likelihood of the Fund achieving a 100% funding level in 20 years' time. The following table details the assumptions made about the expected long-term returns (net of fees) from each of the main asset classes, which were used in the SAA modelling work and the 2019 Actuarial Valuation. The table also provides the annual expected volatility of those returns as at 31 March 2019.

| | | Expected net Rate of Return (p.a.)(20 years) | Volatility of Return in Year 1 (p.a.) |
|--------------|--------------------|--|---|
| | | 31 March 2019 | 31 March 2019 |
| Equity | UK | 5.7% | 17.0% |
| | Overseas | 5.8% | 17.0% |
| | Private Equity | 6.8% | 28.0% |
| Bonds | Long-dated Gilts | 1.0% | 10.0% |
| | Index-linked Gilts | 0.3% | 7.0% |
| | Corporate Bonds | 1.9% | 11.0% |
| | Private Debt | 5.4% | 6.0% |
| Cash | | 2.4% | 0% |
| Property | UK Commercial | 4.3% | 14.0% |
| Alternatives | Hedge Funds | 3.8% | 13.0% |
| | Infrastructure | 6.0% | 20.0% |

- 4.9 For investment return assumptions for time periods in excess of 20 years, the Actuary's investment return assumption was based on the expected return from a long term 'risk-free' asset, (i.e. a government bond) as at 31 March 2019, added to which is a prudent assumption for the excess return the Fund might get for investing in riskier assets (i.e. equities) over the long term. This is known as the Discount Rate.

Discount Rate = Long Term Gilt Yield + Asset Outperformance Assumption (AOA)

$$3.1\% = 1.5\% + 1.6\%$$

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- 4.10 Any asset class / investment is assessed on its individual merits and on the potential it offers to improve the overall balance of risk and return for the Fund as a whole. The numbers given in the previous table are indicative of the characteristics sought. The expected return from alternatives is not required to match those of equities, if they offer a more stable pattern of returns and a degree of diversification from equities.
- 4.11 The portfolios making up the Fund's assets are managed on both an active and a passive basis with the active portfolios expected to outperform their respective benchmarks over the long term. As a result, the investment return achieved by the Fund is expected to exceed the expected return on gilts (a proxy for the expected growth in liabilities) by a greater margin than that assumed by the Actuary in the 2019 Valuation. Details of the managers, their respective investment benchmarks and investment performance targets are included in Appendix B for information.
- 4.12 The Fund's investment portfolio is monitored quarterly by the Pensions Panel, which receives a report on performance. This covers the total Fund performance, in terms of returns received compared to the benchmark, the performance of individual asset classes and the performance of individual investment managers and LGPS Central pooled products, versus their individual targets. The Pensions Panel use this information to help them assess the ongoing suitability of the Fund's investment strategy and SAA.
- 4.13 The Fund has very recently made commitments to two **Infrastructure** funds, in line with the agreement of the Pensions Committee, as part of the July 2016 submission to Government on Asset Pooling. i.e. that it would endorse the LGPS Central Pool's proposal for a minimum 5% target for investment in infrastructure, on the proviso that suitable investments could be found that were consistent with the Fund's SAA. As part of the 2019 SAA Review, a 1.0% allocation to Infrastructure was included with the expectation that this rises to 5.0% over time (see Appendix A).

5. Other considerations:

5.1 Realisation of investments

5.1.1 The majority of stocks held by the Fund's Investment Managers are quoted on major stock markets and may be realised quickly if required. Property, Private Equity, Private Debt and Hedge Fund investments, which are relatively illiquid, currently make up a modest proportion of the Fund's assets.

5.2 Stock Lending

5.2.1 Since May 1999, the Pension Fund has been part of its Custodian's stock lending arrangement, whereby securities held by the Pension Fund are loaned to a third party in return for a fee that helps the Pension Fund meet its funding objectives.

5.2.1 There are risks in stock lending, but the Pensions Panel considers that these are well managed by the custodian through its lending program. They are also satisfied that there are appropriate collateral arrangements in place which reflect current market practice.

5.2.3 Overall, the Pensions Panel considers that the income from stock lending is beneficial to the Fund and that the risks are understood and well managed. Furthermore, they have agreed to place reliance on the co-ordinated actions of the national Financial Regulators in relation to the lending of certain bank, insurance and financial stocks. The policy will be kept under review with periodic reports to the Pensions Panel.

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5.2.4 The manager(s) of pooled funds may undertake a certain amount of stock lending on behalf of unit holders. Where a pooled fund engages in this activity, the extent to which it does is disclosed by the manager. Although the Pensions Panel has no direct control over stock lending in pooled funds, it is comfortable that the extent and nature of this activity is appropriate to the risk being taken.

5.3 Pension Fund Cash

5.3.1 Cash management in the Pension Fund comprises two elements:

(i) Cash held centrally in Pension Fund cash accounts (i.e. bank and money market funds); and

(ii) Cash held in the Custodian's bank account.

5.3.2 The Pension Fund has a 1.0% strategic allocation to cash which is primarily used for fulfilling the daily liquidity needs of the Fund. The cash is managed by Staffordshire County Council's Treasury and Pension Fund team in accordance with the Pension Fund's Annual Investment Strategy for cash, approved by the Pensions Panel before 31 March each year.

5.3.3 Each investment manager in the Fund with a segregated mandate will have a cash account with the Pension Fund's custodian for £ sterling and foreign currency. Again, cash in these accounts is held primarily for the managers day to day liquidity needs but will fluctuate due to the timing issues of trade settlement, dividend income etc. Also, maximum cash limits are agreed with each manager as part of the Investment Management Agreement and so occasionally cash may increase in line with the managers' views on investment markets.

5.3.4 All cash balances held with the custodian are swept on an overnight basis into highly credit rated (AAA) money market funds, attracting an appropriate rate of interest.

6. The Fund's attitude to risk, including the measurement and management of risk.

6.1 The main strategic risk to the Fund is failing to meet its primary objective of having sufficient funds to meet its liabilities when they become due for payment. This particular risk is managed through the Funding Strategy, which models the likelihood of a range of possible outcomes occurring (known as monte carlo simulation). The primary reason for the high variability (risk) in outcomes derives from the high proportion of the Fund invested in return seeking assets, particularly equities. However, in the long term this is considered to deliver returns that are commensurate with the risk and this helps to keep employer contributions lower than they would otherwise be. It also relies upon the strong covenant of the major employing bodies in the Fund which allows for a long-term perspective to be taken.

6.2 Risks are inherently reported to the Pensions Panel/Committee as part of routine reporting. However, there is a separate risk register, which has been developed to categorise risk across 4 main areas of focus: Funding, Administration, Governance and Investment. Some key risks from each of the areas, and the way in which they are mitigated, are highlighted in the following paragraphs.

6.3 Funding

6.3.1 **Inflation** - future payments the Fund has to make to pensioners are linked to inflation. Therefore, increases in the rate of inflation will increase the value of

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payments to pensioners. The Fund invests in assets, such as index-linked gilts, which are linked to inflation. This reduces risk as it matches the return on these assets to actual increases in inflation.

6.3.2 Longevity - future life expectancy is an area which is difficult to forecast accurately but, as people are living longer, the cost to the Fund increases. The Fund has made assumptions on longevity with allowances for future increases. The Fund Actuary also has access to information on the experiences of other local authority pension funds. A substantial portion of this risk has been transferred to employees under LGPS 2014, with the linking of the scheme retirement age to state pension age.

6.3.3 Changes in the maturity profile of the Fund - the Fund will mature as the ratio of pensioners and deferred pensioners to active employees grows. This is growing as an issue due to structural changes affecting employers in the Fund. Over time it is possible to amend the investment strategy to better match this change but it may result in higher contribution rates for Fund employers.

6.4 Administration

6.4.1 Maintaining an appropriate level of staffing and resources – risks are mitigated through monitoring workloads, or backlogs and benchmarking staff numbers. Management also review staffing and resourcing levels taking into account output from performance conversations, customer feedback results and complaints monitoring.

6.4.2 Maintaining complete and accurate records – risks are mitigated through the use of internal contribution control and financial systems. Other controls include actuarial data checks, scheme of delegation, record keeping checks, actuarial calculation.

6.5 Governance

6.5.1 Advisors – there is a risk of failing to have proper arrangements in place to ensure the Fund receives appropriate advice. There is also a need to ensuring there are appropriate processes for the procurement and performance monitoring of advisors. A main investment consultant, for whom clear objectives have been set and an independent Advisor have been appointed and regularly attend Committee/Panel meetings with Officers. Their performance is monitored by Members on an ongoing basis and ultimately through the performance of the Fund.

6.5.2 Custody – there are significant implications of failing to have appropriate custody arrangements in place, for both liquid markets and illiquid investments (including property). The Fund has appointed a global Custodian for this purpose and the contract contains detailed provisions for safekeeping of assets. The Custodian's credit rating is monitored. Arrangements are reviewed regularly with stock lending subject to a separate agreement and strict controls. The Council's Legal Services keep all property records. And, Limited Partnership agreements for illiquid investments and other documents are held by manager's custodians.

6.6 Investments

6.6.1 Investment in equities - a large proportion of the Fund is invested in equities which are expected to provide better returns than government bonds over the long term. The risk with this strategy is that equity values fall significantly in the short term and they fail to outperform bonds in the long term. This risk is managed through reliance on the funding strategy which details the positive cash flows of the Fund and

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the long-term agreement of the main employing bodies. This then allows the Fund to take a long-term investment perspective and maintain a high exposure to equities over time, for them to deliver the expected investment returns.

6.6.2 Interest rates - changes in interest rates will affect the level of the Fund's liabilities and the value of the Fund's investment in bonds. Little can be done in relation to the change in liabilities; this is a fundamental part of having a Pension Fund. To mitigate the risk of capital loss on bonds from interest rate changes, the Fund's strategic asset allocation allows scope to adjust the bond exposure.

6.6.3 Pension Fund investment managers underperform their target benchmarks – as the majority of the Fund is invested through external investment managers, this risk is partially managed by keeping a substantial share of the Fund invested passively and by ensuring that the active managers have complementary styles allied to regular monitoring. Each manager has an investment management agreement in place which sets out the relevant investment benchmark, investment performance target, asset allocation ranges and any investment restrictions. This constrains the investment managers from deviating significantly from the intended approach, while permitting sufficient flexibility to allow the manager to reach their investment performance target.

- 6.7 In terms of investment risks, the Pensions Committee receives an annual report from the Fund's independent performance measurer to show both performance and risk, where risk is measured as the variability of returns, both against liabilities and against equity or other benchmarks. The Pensions Panel receives reports which monitor such risks quarterly.
- 6.8 Most of the Fund is invested in liquid investments. Risks are also managed through diversification. For example;
- across asset classes e.g. equities, fixed income, property, private equity, private debt, hedge funds and cash;
 - across managers and styles, geographical areas e.g UK, Overseas, Emerging Markets; and
 - through ensuring managers maintain a diversified portfolio of investments within their mandate.
- 6.9 Overseas **currency** risk is not currently hedged. The long term open nature of the Fund means that it can cope with any volatility from foreign currency and the impact that has on market valuations, in the short term.
- 6.10 The risks associated with **asset pooling** and the creation of LGPS Central Limited, are addressed in the Fund's risk register. As a company regulated by the Financial Conduct Authority (FCA), LGPS Central Limited is required to have a professional risk and compliance function which reports directly to the Company's Audit, Risk and Compliance Committee.

7. The authority's approach to investment pooling

- 7.1 Staffordshire County Council, as the administering authority of the Staffordshire Pension Fund, is one of 8 shareholders in LGPS Central Limited (the Company); the other 7 shareholders being the Local Authority Pension Schemes managed by Cheshire West and Chester Council, Derbyshire County Council, Leicestershire County Council, Nottinghamshire County Council, Shropshire Council, Wolverhampton City Council and Worcestershire County Council.

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- 7.2 The 8 Partner Funds have a regional identity but welcome wider collaboration with other LGPS pools. Whilst, one fund, one vote, is an overriding principle of the pooling arrangement, LGPS Central Limited recognises that Funds have different funding levels and deficit recovery profiles; the company's structure will aim to meet each Fund's needs in this respect.
- 7.3 The 8 Partner Funds of LGPS Central Limited outlined their key characteristics in forming the company, whereby:
- Assets will be managed by both internal and external investment managers with the split between internal and external management varying over time, as the internal investment resource and resilience is developed;
 - Knowledge and expertise will be shared and Partner Funds will be open to challenge and change;
 - Partner Funds will listen and be constructive;
 - Strong governance, based on openness and transparency, between the Partner Funds and the company will be paramount;
 - Costs will be actively managed, be transparent and will be shared fairly between Partner Funds;
 - Responsible investment will be an integral part of the investment process.
- 7.4 LGPS Central Limited was approved by the FCA as an Alternative Investment Fund Manager (AIFM) in December 2017. There is a robust governance structure in place which will provide the 8 Partner Funds and their stakeholders with assurance around the management of their investments and the investment process.
- 7.5 A Shareholders Forum, comprising one elected Member from each of the 8 Partner Funds will act as the supervisory body of LGPS Central Limited and will fulfil the shareholders' role in ensuring that the company is managed efficiently and effectively. A Joint Committee, set up in accordance with the provisions of the Local Government Act 1972, will be the forum for dealing with common investor issues and for the collective monitoring of the performance of LGPS Central Limited against its objectives (set out in the business case submission). To support the Joint Committee and the Shareholders' Forum, there is also a Practitioners Advisory Forum, consisting of Officers from each of the 8 Partner Funds. This Forum will provide day to day oversight of the company and will monitor its investment performance and investment costs. The Forum will also act as the customer, monitoring levels of customer service and the delivery of wider investor services such as responsible investment and voting.
- 7.6 With the exception of a working cash balance, to ensure liabilities can be paid as they fall due, a significant proportion of the Fund's assets, will eventually be invested through LGPS Central Limited. The movement of assets into LGPS Central will take several years to achieve. In February 2019, the Fund transitioned its first assets into the LGPS Central Multi Manager Active Global Equity Fund. February 2020 saw assets transitioned into the LGPS Central Global Active Investment Grade Corporate Bond Multi Manager Fund and in January 2021, assets were transferred into the LGPS Central ACS Global Multi-Factor Equity sub-fund. A range of reporting processes have been developed to keep key stakeholders informed (which include an annual report on the progress of asset transfers).

8. The Fund's policy on social, environmental and corporate governance considerations.

- 8.1 Responsible Investment (RI) is the belief that, over the long term, financial performance can be enhanced through the integration of environmental, social and corporate governance (ESG) considerations into investment management processes and active ownership practices.
- 8.2 The Pensions Committee / Panel seeks to ensure that, as far as possible, Responsible Investment (RI) factors (corporate governance, environmental and social factors) are incorporated, together with financial factors, into the investment process across all relevant asset classes. Non-financial factors are considered as part of investments to the extent that they are not detrimental to the investment returns. Social impact may be considered, but financial return is the primary concern.
- 8.3 The Pension Fund operates a policy of engagement with companies it is invested in, rather than divestment. The Fund believes, that over time, this allows for better social outcomes and ultimately enhanced financial returns.
- 8.4 To assist them in doing this, the Fund:

8.4.1 endorses the United Nations Principles of Responsible Investing (UNPRI) and seeks to encourage its active equity managers, and all other managers as far as practicable, to sign up to them in order to fully incorporate RI issues into their investment process.

The 6 principles are:

- we will incorporate Environmental Social and Governance issues into investment analysis and decision-making processes;
- we will be active owners and incorporate Environmental Social and Governance issues into our ownership policies and practices;
- we will seek appropriate disclosure on Environmental Social and Governance issues by the entities in which we invest;
- we will promote acceptance and implementation of the Principles within the investment industry;
- we will work together to enhance our effectiveness in implementing the Principles; and
- we will each report on our activities and progress towards implementing the Principles.

As at April 2020, all the Fund's active equity managers (including those within the LGPS Central Limited Multi Manager Active Global Equity Fund) were signed up to UNPRI.

8.4.2 The Fund has been a member of the Local Authority Pension Fund Forum, since 1 April 2013. LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting social responsibility and high standards of corporate governance at the companies in which they invest. Formed in 1990, the Forum brings together a diverse range of 88 local authority pension funds and their pooling companies with combined

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assets of over £300 billion. The Pensions Panel receives a copy of the LAPFF quarterly engagement report as part of its meeting papers. LGPS Central Limited is also a member of LAPFF, alongside its 8 Partner Funds.

8.5 The Fund has delegated voting and day to day engagement with investee companies to its investment managers. With LGPS pooling the responsibility for the selection of investment managers is transferred to LGPS Central Limited and agreements between LGPS Central Limited and investment managers set out how RI factors are taken into account. LGPS Central Limited has its own Responsible Investment & Engagement Framework, which all 8 Partner Funds were involved in helping create, and this can be summarised through the following beliefs:

- Long Termism: a long-term approach will deliver better returns and the long-term nature of LGPS liabilities allows for a long-term investment horizon;
- Responsible Investment: RI is supportive of risk-adjusted returns over the long term, across all asset classes. RI should be integrated into the investment process of LGPS Central Limited and its investment managers;
- Diversification, risk management and stewardship: Diversification across investments with low correlation improves the risk return profile. A strategy of engagement, rather than exclusion, is more compatible with fiduciary duty and more supportive of RI, because the opportunity to influence companies through stewardship is waived in a divestment approach. Even well-diversified portfolios face systemic risk. Systemic risk can be mitigated over the long-term through widespread stewardship and industry participation;
- Corporate governance and cognitive diversity: Investee companies and asset managers with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. There is clear evidence showing that decision making and performance are improved when company boards and investment teams are composed of cognitively diverse individuals;
- Fees and remuneration: The management fees of investment managers and the remuneration policies of investee companies are of significance for LGPS Central Limited's clients, particularly in a low-return environment. Fees and remuneration should be aligned with the long-term interests of clients, and value for money is more important than simple minimisation of costs;
- Risk and opportunity: Risk premia exist for certain investments; taking advantage of these can help to improve investment returns. There is a risk but also opportunity in holding companies that have weak governance of financially material ESG issues. Opportunities can be captured so long as they are aligned with LGPS Central Limited's objectives and strategy and so long as there is sufficient evidence based upon which to make an investment decision; and
- Climate change: Financial markets could be materially impacted by climate change and by the response of climate policy-makers. Responsible investors should proactively manage this risk factor through stewardship activities, using partnerships of like-minded investors where feasible.

8.6 Details of the Fund's individual investment managers' corporate governance and socially responsible investment policies, as well as details on the UK Stewardship

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Code and UNPRI are available at the Staffordshire Pension Fund website at www.staffspf.org.uk

LGPS Central Limited also has its own Responsible investment policies, which are available on their website

<https://www.lgpscentral.co.uk/responsible-investment/>

9. The Fund's policy with regard to stewardship of assets, including the exercise of voting rights.

9.1 The Fund believes that voting is an integral part of Responsible Investment and delegates much of the stewardship of assets and the exercise of voting rights to the its investment managers and LGPS Central Limited. Details of resolutions investment managers have voted on and any engagement they have had with companies is noted in the quarterly reports the investment managers and LGPS Central produce for the Fund.

9.2 The Pensions Panel receives regular updates from investment managers on details of votes cast on corporate resolutions as part of a quarterly RI report; any points of interest are also highlighted. The Fund also publishes a report on the voting activities carried out by Managers on its behalf as part of its annual report. This can be found in our annual report on the Pension Fund website

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

9.3 Where assets are managed by LGPS Central Limited, the exercising of voting rights in relation to our investments with them, is a matter for the company. The LGPS Central Limited Responsible Investment and Engagement Framework states that their approach will be as follows:

The Company votes all eligible shares in accordance with its agreed voting policies. This includes the voting shares of portfolios managed externally where those funds are held in segregated accounts. Voting decisions will relate to engagements undertaken during the period in review and a vote might be used as an escalation step in an engagement process, as detailed in the Company's Stewardship Code Compliance Statement. Voting decisions are executed by third party provider(s); the provider(s) also offer analysis and advice. Where the Company invests in externally managed pooled funds, the suitability of the manager's voting policy is assessed during due diligence, and ongoing disclosure is required. The Company will seek to co-file shareholder resolutions where beneficial to clients' long-term interests. The Company has a procedure to recall lent stock in order to vote on significant issues.

9.4 The Fund is a Tier 1 signatory of the Financial Reporting Council's UK Stewardship Code. Our statement of compliance against 7 key principles is available on the Fund's website. A new enhanced UK Stewardship Code was introduced in 2020, which the Fund aims to comply with fully, by becoming a Tier 1 signatory again, in 2021.

<https://www.staffspf.org.uk/Finance-and-Investments/Corporate-Governance-and-Responsible-Investment/Statement-of-Compliance-UK-Stewardship-Code.pdf>

LGPS Central Limited is also a Tier 1 signatory of the Financial Reporting Council's UK Stewardship Code.

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The Fund's UK equity investment managers are also current signatories to the Code

If you have any comments on this Investment Strategy Statement or require any more information on the subjects contained within it, please contact:

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Appendix A – Strategic Asset Allocation – 1 April 2021

| | Current Benchmark Target % | Long-Term Benchmark Target % | Permitted Tolerance |
|---------------------------|---|---|--------------------------------|
| UK Equities - Listed | 6.5 | 5.0 | |
| Global Equities - Listed | 58.0 | 55.5 | |
| Private Equity | 3.5 | 3.5 | |
| Total Equity | 68.0 | 64.0 | +/- 3% |
| Property | 10.0 | 10.0 | +/- 3% |
| Infrastructure | 2.0 | 5.0 | |
| Hedge Funds | 1.0 | 0.0 | |
| Total Alternatives | 3.0 | 5.0 | +/- 3% |
| Private Debt | 5.0 | 5.0 | |
| Gilts * | 0.0 | 5.0 | |
| Index-linked Gilts | 6.5 | 5.0 | |
| Corporate Bonds | 6.5 | 5.0 | |
| Total Fixed Income | 18.0 | 20.0 | +/- 3% |
| Cash | 1.0 | 1.0 | 3% maximum |
| Total | 100.0 | 100.0 | |

Notes:

The return seeking portfolio consists of total equity, property, alternatives and private debt. This equates to 86.0% under the current benchmark and 84.0% under the long-term benchmark.

The defensive portfolio consists of total fixed income (excluding private debt) and cash. This equates to 14% under the current benchmark and 16.0% under the long-term benchmark.

*The Fund divested from Gilts in 2012 due to their relatively high valuations. A tactical investment was made in Corporate Bonds pending gilt prices returning to an appropriate level, at which point the Fund's intention is to reinvest in Gilts.

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Appendix B - Investment Managers Benchmark Indices and Investment Targets

Active Portfolios

| | | | |
|--------------------------------|--------------------------------|---|---|
| JP Morgan Asset Management | Global Equities | MSCI All Countries World Index | 2.0% above benchmark over rolling 3-year periods |
| Longview Partners | Global Equities | MSCI All Countries World Index | 2.0% above benchmark over rolling 3-year periods |
| LGPS Central Limited | Global Equities | FTSE All World Index (Sterling) | 1.5% above benchmark (net of costs) over rolling 5-year periods |
| Impax Asset Management Limited | Global Sustainable Equities | MSCI All Countries World Index | 1.5% above benchmark (net of costs) over rolling 3-year periods |
| LGPS Central Limited | Global Equities – Factor Based | EDHEC Global High Factor Intensity Multi Beta Multi Strategy Index (6 Factor, 4 Strategy, Equally Weighted) | Match benchmark |
| LGPS Central Limited | UK Corporate Bonds | 50% ICE GBP Non-Gilt Index (ex EM)/50% ICE Global Corporate Index (ex GBP and EM), hedged to GBP | Outperform the benchmark (total return, in sterling) by 0.8% per annum (net of costs) over rolling 3 year periods |
| Colliers CRE | Property | MSCI UK Monthly Property Index | To outperform the benchmark |
| Various | Infrastructure | CPI+ 4.0-5.0% | Match benchmark |
| Goldman Sachs | Fund of Funds Hedge Fund | 3-month LIBOR | 6.0% above benchmark |
| Various | Private Debt | 3-month LIBOR | 5.0% above benchmark |
| Various | Private Equity | MSCI World Index + 2.0% (lagged by one quarter) | Match benchmark |

Indexed (Passive) Portfolios

| | | | |
|---------------------------------------|--------------------|--|-----------------|
| Legal & General Investment Management | UK Equities | FTSE All Share Index | Match benchmark |
| Legal & General Investment Management | Global Equities | FTSE All World Index | Match benchmark |
| Legal & General Investment Management | Index-linked Bonds | FTSE-A Over 5 years Index-Linked Gilts Index | Match benchmark |

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of Part 1 of Schedule 12A
of the Local Government Act 1972

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