Minutes of the Pensions Committee Meeting held on 25 June 2021

Attendance	
Philip Atkins, OBE	Mike Sutherland (Chairman)
Nigel Caine (Co-optee)	Stephen Sweeney
Mike Davies	Samantha Thompson
Derrick Huckfield	Mike Wilcox
Phil Jones (Co-optee)	

Also in attendance: Rob Birch and Corrina Bradley (Pensions Board Members).

Apologies: Colin Greatorex, Bob Spencer and Michael Vaughan (Co-optee).

PART ONE

1. Declarations of Interest

There were no declarations of interest on this occasion.

2. Minutes of the meeting held on 26 March 2021

The Director of Corporate Services referred to paragraph no. 15 and informed the Committee that no comments were received on the draft Funding Strategy Statement (FSS) and accordingly the finalised document had been published on the Fund's website.

RESOLVED – That the minutes of the meeting of the Pensions Committee held on 26 March 2021 be confirmed and signed by the Chairman.

3. Appointment of Pensions Panel

RESOLVED – That the following Members be appointed to serve on the Pensions Panel for the 2021/22 municipal year:

- Philip Atkins
- Mike Davies
- Colin Greatorex
- Mike Sutherland
- Stephen Sweeney

4. Staffordshire Pension Fund Audit Plan 2020/21

The Committee were informed that the audit of the Staffordshire Pension Fund would be undertaken by Ernst and Young (EY) who were also the County Council's auditors. Although the Fund would be audited as part of the County Council's accounts, EY would issue a separate opinion on the Fund and produce a Fund specific Audit Findings Report (ISA260). This would be reported to both the Pensions Committee and the Audit and Standards Committee in due course.

The work the Auditors intended to undertake would provide the Fund with the following:

- The Auditor's opinion on whether the financial statements of the Staffordshire Pension Fund gave a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2021; and

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

The Director of Corporate Services indicated that there had been no change in focus for the Audit Plan compared with 2019/20 and that the Plan had identified the following "significant" risks and the action to be taken by the Auditors to mitigate those risks:

- Misstatements due to fraud or error
- Investment income and assets – Investment Journals
- Valuation of unquoted investments
- Going concern disclosure
- Valuation of directly held properties

The Committee noted that, for the purposes of determining whether the financial statements were free from material error, the Auditors had determined that overall materiality for the financial statements of the Pension Fund was £47.4 million based on 1% of the value of the net assets of the Fund. The Committee were also informed that EY would report back on all uncorrected misstatements relating to the primary statements (Net Assets Statement and Pension Fund Accounts) with a value greater than £2.4 million.

In response to a question by Cllr Sutherland, the Director indicated that the Audit Fee had yet to be finally confirmed but was likely to be around £80,000, which was similar to the fee charged for 2019/20, albeit this fee was still subject to approval by the Public Sector Audit Association (PSAA).

RESOLVED – That the external auditor's plan for the audit of the Staffordshire Pension Fund (the Fund) for the 2020/21 financial year be noted.

5. Staffordshire Pension Fund Business Plan Outturn 2021/21

The Committee considered the final outturn position for the financial year 2020/21 together with a summary of the key achievements against that Business Plan.

The Director of Corporate Services indicated that due to the extensive move to home working, in response to the Covid-19 pandemic, 2020 proved to be a challenging year in many ways. In line with the recommendations of the Pensions Regulator, business critical and business as usual activity had to take priority, with key development activities being of secondary order. Whilst the final position against the plan was not as favourable as would have been liked, it still demonstrated continued progress and development in several areas.

It was noted that as well as continuing with a high standard of service delivery, key achievements during 2020/21 included:

- Continuing to implement i-Connect with the Fund's larger Employers and developing new working practices with Third Party Payroll Providers following the introduction of i-Connect (both now moved to BAU activity);
- Promoting the use of Member Self Service / My Pension Portal (MPP) ahead of issuing most of the 2020 Annual Benefit Statements electronically;
- Demonstrating further improvement in Service Standards and Key Performance Indicators;
- Preparing for and successfully managing the transition of UK Equities to Impax Asset Management (Global Sustainable Equity) and LGPS Central Limited (Global Factor Based Equity); and
- Appointing an Investment Consultant to the Pensions Panel.

The Committee were also informed that there had been several Staffordshire Internal Audit Service reviews across the two Teams throughout the year:

(i) the Pension Fund Governance Audit received 'substantial' assurance, for the fourth year in a row;
(ii) the Pensions Administration Audit maintained its 'substantial' assurance rating for the third year in a row; and
(iii) the Pension Fund Investment Audit, focussing on Property Investment Management, also received a 'substantial' assurance rating.

With regard to performance, the Committee noted that:

- 2018/19 shows that a 90% performance target was achieved in 8 of the 11 published standards.

- 2019/20 shows that a 90% performance target was achieved in 13 of the 15 published standards.

- 2020/21 shows that a 90% performance target was achieved in 12 of the 15 published standards.

The three published standards where the performance target was not achieved in 2020/21 related to distinct areas of activity:

(i) Divorce Settlement – Details of Sharing Order
There were very few of these cases fortunately but there was some ambiguity around when the 4 months / 50 working days to legally implement the court order should begin. Unfortunately, the existing workflow process was not sufficiently detailed to monitor this aspect correctly. A manual check of the cases processed in 2020/21, revealed

that all were completed well within the deadline, and the workflow process would be updated for 2021/22 to enable accurate reporting going forward.

(ii) Transfers In – Send Transfers In Quote.
A Transfer Value (TV) was the payment that arose when a scheme member elects to move their pension benefits between Employer schemes or alternative insurance-based schemes. The current value of the individuals pension benefits effectively followed them, and an appropriate payment was made to or from an LGPS Fund. For TV's from other public sector pension schemes and from within the LGPS, the options now available to members were more complex to process, and communicate, than for transfers from external schemes. Whilst there had been some improvement in achievement, since last year, the internal processing deadlines were being reviewed to reflect the new requirements. 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.

(iii) Deaths – Notify Dependents Pension.
Sadly, but not unsurprisingly, there had been a 25% increase in the number of deaths reported across the Fund in 2020/21. The fact that the Fund was only marginally under target was again testament to the hard work and the dedication of the various teams in working together to provide Members and their dependents with the courtesy and sympathy that they deserved at such a difficult time.

The Committee were also informed that the Fund would shortly be requesting data from its 500+ Employers, as part of the preparations for the 'McCloud' project. It was anticipated that 54,000 scheme member records across the Fund would be in-scope for the re-calculation of benefits going back to 1 April 2014, but until the Government's response to the consultation was issued, delivery timescales were still unknown and the impact that this would have on service standards was a cause for concern.

The Director also indicated that unforeseen changes in Regulations also had an impact on workload of the Pensions Team. The recently revoked Public Sector Regulations 2020, which limited an exit payment to £95,000, where an Employee was made redundant or their employment was terminated for reasons of business efficiency were expected to return in some revised form soon.

The Director informed the Committee that it was reported to their meeting on 26 March 2021, that whilst the contract with the Fund's existing administration system provider was not due to end until late 2022, structural changes within the IT infrastructure at the County Council, meant that there would be a need to move to an externally hosted service (whereby the software was held on servers outside of the Council) before then. Given the time that needed to be factored in, should there be a change in the administration system provider, and the working practices that stem from that, it was considered prudent to mitigate any risk of having to do so, at relatively short notice, by bringing forward the procurement process into 2021. Work had therefore begun on the procurement process, which would be carried out using the 'National Framework'; a procurement framework, set up by the Norfolk LGPS for the wider LGPS. As part of scoping the tender, the estimated cost of the system, over the initial 7-year period, would be in the region of £5 million and by way of good governance it was considered important to bring this to the Committee's attention as a significant but necessary cost.

The Committee were also informed that, with regard to performance of the Fund, in 2020/21, the Fund's investment return was +26.9% versus its strategic benchmark return of +24.4%, an outperformance of +2.5%. This was in stark contrast to the investment return for 2019/20 at -5.7%. The Fund's longer-term annualised performance numbers, at 31 March 2021, were in excess of 8%, which was well ahead of the long-term investment return assumptions used by the Actuary in the triennial valuation.

The Director of Corporate Services also informed the Committee that there had been a £2.0m budget 'overspend' in 2020/21 which was attributable to expenditure on Investment Management Fees, being £2.7m more than the budget estimate provided in March 2020.

Total Administration Costs had decreased from 2019/2020 levels by £0.4m. This was attributable to 4 main areas: £0.135m related to a decrease in support service charges; £0.152m related to reduced CLASS charges; i-Connect software fees were £0.061m lower; and external solicitor costs were reduced by £0.062.

Total Oversight and Governance costs had increased slightly in 2020/2021. Due to an increased focus on the Fund's property and private market investments, External Audit costs increased by £0.070m. LGPS Central pooling costs increased by around £0.099m, which was offset by decreased Actuarial Fees of £0.161m.

The Committee were informed that to seek further reassurance about cost, Staffordshire Pension Fund continued to take part in an extended benchmarking exercise with international company CEM Benchmarking. CEM benchmarked 300+ global pension funds with total assets of £7.2 trillion (average £24bn, median £6bn). The 2019/2020 CEM 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 at that time). Based on a comparative cost base and considering embedded costs, Staffordshire's Fund's costs of 67.0 basis points (bps) was 7.3bps above the peer median of 59.7bps. This was predominantly because the Fund invested in Alternative asset classes, such as Private Equity, using a 'Fund of Fund' approach, where there were 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 above its benchmark return. This illustrated the point that whilst cost was an important consideration, it must be viewed versus any outperformance it delivered.

The Director also explained that measuring trends was also important and the Fund's costs had increased from 55.8bps in 2014/2015 to 67.0bbs in 2019/2020. The reasons for this were predominantly down to changes in strategic asset allocation and the way in which it was decided to implement those decisions. Over the last 5 years, the Fund had increased its allocation to active Global Equities (away from cheaper passive Global Equities) and to Private Debt. This was a new asset class introduced in 2017, and like Private Equity, Private Debt had been invested in via a Fund of Funds approach. Whilst relatively expensive, both these asset classes were currently performing ahead of benchmark and delivering 'net' positive returns. So, once again, cost was only one factor to be considered albeit, like performance, it would be closely monitored going forward.

Cllr Atkins and Cllr Sweeney extended their congratulations to the Pensions team on their continued performance, despite the impact of the Covid pandemic. Cllr Atkins and Cllr Huckfield also spoke about the need to reform the funding of Social Care, potentially through insurance schemes, although it was acknowledged that this was not a matter for the Pension Fund's direct consideration.

RESOLVED – (a) That the outturn position of the Staffordshire Pension Fund Business Plan for 2020/21 be approved.

(b) That the procurement of a Pensions Administration System, at an estimated cost of £5 million, over the initial 7-year contract period, be approved.

6. Staffordshire Pension Fund Risk Register and Risk Management Policy

The Committee considered a report of the Director of Corporate Services on the Fund's Risk Register.

They were informed that CIPFA Guidance recommended the production and monitoring of a Risk Register for Local Government Pension Scheme (LGPS) funds. At their meeting in September 2020, the Pensions Committee noted the contents of the Pension Fund Risk Register at that time and asked the Local Pension Board to continue to undertake a regular detailed review of the identified risks and the process for maintaining the Risk Register and report back on any areas of concern. It was also agreed that the Pensions Committee would continue to carry out an annual review of the high level and emerging risks identified from the Fund's Risk Register.

The Committee noted that the Risk Register brought together all the Fund's risks in a single document. It continued to be based on the 4 key areas of activity within the Fund: Governance, Funding, Administration and Investment.

The detailed Risk Register matched high-level risks, under each of the 4 areas of activity, to the Fund's high level objectives. Each of the detailed risks had been given an impact score and a likelihood score before any controls were applied. These had then been combined to give an overall pre-control risk score, which had been assigned a Red – Amber - Green (RAG) rating.

Controls that were currently in place to mitigate risks and additional sources of assurance were then considered to provide a post control impact and likelihood score. Again, these had been combined to give an overall post control risk score which had been assigned a RAG rating. All risks were given a review date, risk owner and any future actions to be taken were noted.

Officers reviewed the Risk Register every quarter, focusing in on the detail of one of the 4 areas, along with a review of any emerging risks. As part of their review, Members of the Local Pensions Board had attended the review meetings and had taken an active role in the discussions.

The Committee considered a summary of the high-level risks associated with the objectives (detailed in Appendix 3 to the report), together with emerging risks (detailed in Appendix 4 to the report).

Mr Birch informed Members that the Pensions Board would be content to continue to play an active role in the ongoing review process should the Committee wish.

The Committee also received the updated Risk Management Policy for the Staffordshire Pension Fund.

In response to a question from Cllr Sweeney concerning difficulties previously experienced in collecting payroll data from some employers within the Fund, the Director indicated that the roll out of iConnect had brought about improvements in this area.

RESOLVED – (a) That the summary of the high-level risks and emerging risks from the current Staffordshire Pension Fund Risk Register, as presented in Appendices 3 and 4 to the report, be noted.

(b) That the content and recommendations of the Local Pensions Board review of the Staffordshire Pension Fund Risk Register, attached at Appendix 2 to the report, be noted and that the Local Pensions Board be requested to continue to play an active role in the ongoing review process.

(c) That the Risk Management Policy of the Staffordshire Pension Fund, attached at Appendix 5 to the report, be approved.

7. Staffordshire Pension Fund Task Force for Climate Related Disclosures (TCFD) Report for 2020/21 and Climate Stewardship Plan 2021/22

The Committee were informed that, at their meeting on 26 March 2021, they received the Staffordshire Pension Fund Climate Risk Report together with a presentation from the authors of the report, LGPS Central Limited. The Climate Risk Report provided the Fund with an assessment of any material financial risks related to climate change and identified the most effective means to manage these risks. The Climate Risk Report was also consistent with the disclosures required by the Taskforce on Climate-Related Financial Disclosures (TCFD) and had allowed the Fund to produce the Staffordshire TCFD report.

The Committee noted that a key recommendation of the Climate Risk Report was for the Fund to develop a Climate Strategy and a Climate Stewardship Plan. The Fund’s Climate Strategy would be developed as part of a wider Strategic Asset Allocation review, which would consider all asset classes and the impact they would have on the Fund’s climate related risks. The results of this review, which was being undertaken with the help of the Fund’s Investment Advisers, Hymans Robertson, would be presented to Members later in 2021, at which time a Climate Strategy would also be presented for approval.

The Committee also received the Fund’s Climate Stewardship Plan, which monitored engagement by the Fund’s external investment managers, to whom much of the day-to-day responsibility for managing portfolio-level climate risk was delegated. Members noted that the Plan was a live working document, which would be updated as engagement with companies and investment managers occurred. This activity would be reported to the Pensions Panel as part of the Responsible Investment Report presented at their quarterly meeting. An updated Climate Stewardship Plan would also be presented to the Pensions Committee annually.

RESOLVED – (a) That the content of the Staffordshire Pension Fund Task Force for Climate Related Disclosures (TCFD) Report, attached as Appendix 2 to the report, be noted.

(b) That the content of the Staffordshire Pension Fund Climate Stewardship Plan, attached at Appendix 3 to the report, be noted.

8. Staffordshire Pension Fund Communication Policy Statement

The Committee were informed that Regulations stated, and best practice dictated, that a Pension Fund should have a range of written policies and procedures in place. Having such, not only proved regulatory compliance, but more importantly demonstrated good governance and provided a range of information to stakeholders.

Members noted that an audit by Officers, in 2018, found many policies needed a refresh and since then most policies had been reviewed and updated. The Pensions Committee had approved these policies where necessary and several had also been the subject of wider consultation with the Fund's many stakeholders.

The Director explained that the Communication Policy Statement was last reviewed in September 2018, so as well as a more general review, to reflect any changes in procedures since then, the opportunity to update the Policy to reflect more flexible ways of working and communicating, as a result of the COVID-19 pandemic, had also been taken. As there had been no significant changes, wider consultation was considered unnecessary.

In response to a question from Cllr Wilcox as to whether the Fund had other policies which needed to be updated, the Director indicated that the Fund's Administration Policy needed to be updated and it was anticipated that this would be completed by the end of the current financial year.

RESOLVED – That the revised and updated Communication Policy Statement, attached as Appendix 2 to the report, be approved.

9. 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:

10. Exempt minutes of the meeting held on 26 March 2021
(Exemption paragraph 3)

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

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

13. LGPS Central Limited Company Update
(Exemption paragraph 3)

Chairman