

**Minutes of the Pensions Committee Meeting
held on 24 September 2021**

Attendance

Philip Atkins, OBE	Mike Sutherland (Chairman)
Mike Davies (Vice-Chairman)	Stephen Sweeney
Colin Greatorex	Samantha Thompson
Derrick Huckfield	Mike Wilcox
Phil Jones (Co-Optee)	

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

Apologies: Nigel Caine (Co-optee), 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 25 June 2021

RESOLVED – That the minutes of the meeting of the Pensions Committee held on 25 June 2021 be confirmed and signed by the Chairman.

3. Minutes of the Pensions Panel held on 9 July 2021

RESOLVED – That the minutes of the meeting of the Pensions Panel held on 9 July 2021 be received.

4. Staffordshire Pension Fund Investment Performance 2020/21

The Committee received a presentation from Nick Kent of Portfolio Evaluation Limited (PEL) giving an overview of the performance of the Staffordshire Pension Fund for the period ending 31 March 2021. The key points arising from the presentation were as follows:

- The Fund has outperformed its benchmark for the year ended June 2021.
- The Fund has outperformed the PE LGPS Information Service average return over the one, three, five year, ten and twenty year periods.

- The positives impacting the Fund were primarily:
 - Private Equity (very strong performer in 2020/21)
 - Private Debt
 - The active global equity mandates of
 - JPMorgan – sector and stock selection
 - Longview – stock selection
 - LGPS Central Global Equity sub-fund – due to Harris and their value style and stock selection.
- The negative contributors were:
 - Property
 - Infrastructure (minimal investment to date but no material impact on the Fund)
 - Cash (the Fund remains overweight cash, which is a relatively low performing asset class)
- The Fund continues to transition assets to LGPSC Central due to Pooling.
- Total risk remains low and active risk is at a level that is consistent with the structure of the Fund. Risk has increased over the year due to the impact of the pandemic.

In response to a question from Cllr Greatorex concerning the Fund's investment principles, Mr Kent indicated that although his presentation looked back at the performance of the Fund, it showed investment styles, where investments were held and the attitude to risk, and that these factors could be analysed against the Fund's investment principals.

In response to a question from the Director for Corporate Services regarding the various investments held by the Fund and whether there was anything "missing", Mr Kent indicated that, in his opinion, the Fund was under-invested in infrastructure, although the Fund has begun to invest in this asset class recently.

Cllr Greatorex referred to LGPS Pooling and enquired about the validity of the data on manager performance over a 20-year period. In response, Mr Kent indicated that even though Pooling was relatively recent, PE held data on the historic performance of Fund Managers within Pools.

Cllr Sutherland referred to the Key Questions contained in Mr Kent's presentation (i.e. has the Fund and the portfolios met their objectives; and is the Fund and its portfolios being managed as expected) and enquired as to

whether Mr Kent felt that the answer to both of those questions was “yes”. In response, Mr Kent confirmed that he believed that to be the case.

Cllr Sutherland also enquired as to how long the Fund would need to wait before it saw positive returns from its investments in Infrastructure. In response, Mr Kent indicated that it was normal to start seeing positive returns after a period of three to four years.

RESOLVED – That Mr Kent be thanked for his presentation.

5. Staffordshire Pension Fund Annual Report and Accounts 2020/21

The Committee received a report and a short presentation by the Director for Corporate Services on the Staffordshire Pension Fund Annual Report and Accounts 2020/21. The presentation covered the following matters:

- Accounts for year ended 31 March:
 - Contributions and Benefits
 - Management Expenses
 - Return on Investments
 - Net assets of the Fund

- Staffordshire Pension Fund 2020/21 Investment Report:
 - Percentage breakdown by asset class at 31 March 2021
 - Fund Performance at 31 March 2021
 - Performance versus inflation and earnings
 - Asset class returns for year ended 31 March 2021
 - Fund performance at 30 June 2021 (market value £6.5bn)

The Committee were informed that, under Regulations, the Pension Fund must publish an annual report, which includes the accounts, by 1 December. The external auditors were also obliged to issue an Independent Auditor’s Statement on the accounts.

The Director for Corporate Services explained that there had not been the same challenges in the audit of the 2020/21 accounts that were experienced during the audit of the 2019/20 accounts and the Pension Fund’s external audit had been predominantly completed as planned. However, additional, and last-minute assurances in relation to the IAS19 actuarial valuation processes, that were being sought by auditors nationally, had meant that EY now had some additional testing to complete, that they had not originally planned for. This in turn had delayed their ability to issue the ISA260 and their Independent Auditors Statement for the Pension Fund. The Committee discussed how this additional testing was impacting on the District and Borough Councils and how this situation was not of the Pension Fund’s making.

The Committee noted that the Pension Fund's accounts were included within the County Council's Statement of Accounts, which are due to be presented to the County Council's Audit and Standards Committee on 26 October 2021, and would include EY's final audit opinion which was likely to be 'unqualified'. Once the main audit work has been completed, EY would undertake a final review of Staffordshire Pension Fund's Annual Report and Accounts for 2020/21 and issue an Independent Auditors Statement; which would confirm that the accounts included in the Annual Report and Accounts of the Pension Fund were consistent with those included within Staffordshire County Council's Statement of Accounts for the year ended 31 March 2021.

EY would also provide their Audit Results Report (ISA260). Any matters highlighted in the ISA260 would be drawn to the Chair's attention and reported back to Pensions Committee should they be considered of significance or material importance.

With regard to the Annual Report, the Committee noted that, in March 2019, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued Guidance for Local Government Pension Scheme Funds on Preparing the Annual Report. To date changes following on from this guidance had been incorporated into the report, on a 'best endeavours' basis, particularly in relation to the various information and metrics on Local Government asset pooling, until such time that more consistent data was available to be included.

Although the report had not yet missed the 1 December publishing deadline, delaying approval to the next meeting of the Pensions Committee on 17 December would be too late. The Committee were asked to note that, following conclusion of the audit by EY, there may still be minor amendments required to the document, such as 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 publishing such on the Staffordshire Pension Fund's website.

Cllr Greatorex referred to the KPI's on workflow contained within the Annual Report and enquired as to whether the Director for Corporate Services was content with the direction of travel. In response, the Director outlined several recent improvements in achievements across the KPI suite, despite increases in volumes in some instances and added that performance levels were discussed by Senior Fund Officers each month, so that any resourcing and service implications could be addressed.

RESOLVED – (a) That the draft Staffordshire Pension Fund Annual Report and Accounts for 2020/21, attached at Appendix 2 to the report, be approved and that the potential need for minor amendments, pending the conclusion of the external audit of the Pension Fund accounts by Ernst and

Young (EY), including an updated Independent Auditor's Statement on page 73, be noted; and that the final version of the Staffordshire Pension Fund Annual Report and Accounts 2020/21 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 it be noted that, following the conclusion of the external audit, 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 2021", will be presented to the Council's Audit and Standards Committee at its meeting on 26 October 2021, alongside Staffordshire County Council's Annual Report and Accounts for 2020/21 and their own ISA260.

6. Good Governance in the Local Government Pension Scheme (LGPS) and the Good Governance Project

The Committee were informed that the origins of the good governance project could be traced back to the Shadow Scheme Advisory Board established in 2012 to assist in the design of the new 2014 scheme. The then Board agreed to consult on proposals to separate the pensions function from administering authorities, to resolve the perceived conflict of interest of elected members acting in the best interest of their local authority, rather than scheme members.

The separation project was put on hold while asset pooling was in its initial stages in 2015. However, in June 2018 the Scheme Advisory Board agreed to its re-commencement as the Good Governance Project. The objective was to identify both the issues deriving from the current scheme administrative arrangements and the potential benefits of further increasing the level of separation between host authority and the scheme manager role.

Following a procurement exercise, the Board appointed Hymans Robertson in January 2019 to examine the effectiveness of current LGPS governance models and to consider alternatives or enhancements to existing models which could strengthen LGPS governance going forward. This resulted in the Phase 3 Final Report and the Action Plan published on 23 February 2021. The Phase 3 report built on the key proposals from the Phase II report (published February 2020) and provided further detail on the ways in which the proposals might be implemented. The key proposals were:

- an 'outcomes-based' approach to LGPS governance with minimum standards rather than a prescribed governance model.

Critical features of the 'outcomes based' model should include:

- (a) robust conflict management including clarity on roles and responsibilities for decision-making;

- (b) assurance on sufficiency of administration and other resources (quantity and competency) and appropriate budget;
 - (c) explanation of policy on employer and scheme member engagement and representation in governance; and
 - (d) regular independent review of governance - this should be based on an enhanced governance compliance statement which should explain how the required outcomes are delivered.
- The need for enhanced training requirements for S151 Officers and S101 Committee Members (requirements for S101 should be on a par with Local Pension Board members).
 - The need to update relevant guidance and provide better sign-posting. This should include the 2014 CIPFA guidance for S151 Officers on LGPS, the 2014 CIPFA guidance for S151 Officers on LGPS responsibilities and the 2008 statutory guidance on governance compliance statements. All this guidance pre-dated the involvement of the Pensions Regulator and Local Pension Boards in the oversight of the LGPS and also LGPS investment pooling.

In addition to the Phase 3 report, the SAB also published an Action Plan. The agreed Action Plan comprised:

- (a) Those matters that would fall to MHCLG to implement, either by amending scheme regulations or producing statutory guidance:
- (b) Those matters that would fall to the SAB and other bodies to implement - subject to the actions in (a) being taken by MHCLG; and
- (c) Actions to identify and promote existing best practice that the SAB could take forward regardless of the outcome of the above.

The Director for Corporate Services informed the Committee that Staffordshire Pension Fund was proud of its governance arrangements and had for the last three years received substantial assurance on such from Staffordshire Internal Audit Services. A range of policies existed that were regularly reviewed and kept up to date and Elected Members and the Local Pensions Board engaged in regular Training activities.

The Committee noted that the Phase 3 report introduced a number of new concepts and made several recommendations that did not currently form part of scheme wide LGPS governance arrangements. Some of the more fundamental changes included:

- LGPS Senior Officer – each administering authority must have a single named officer who was responsible for the delivery of all LGPS related activity for that fund.
- Governance Compliance Statement (GCS) – each administering authority must publish an annual GCS that sets out how they comply with the governance requirements for all LGPS funds as set out in the Guidance. This statement must be co-signed by the LGPS Senior Officer and the S151.
- Independent Governance Review (IGR) - each administering authority must undergo a biennial IGR and, if applicable, produce the required improvement plan to address any issues identified. IGR reports would be assessed by a SAB panel of experts.

The Committee considered, at Appendix 2 to the report, a gap analysis of the various recommendations from the Phase 3 report and how the Staffordshire Pension Fund currently complied with the proposed arrangements. Setting aside any future potential resource implications, it was reassuring that the gap analysis indicated that there no areas of real concern. Whilst there were several areas where some review work could commence, other areas would need to wait for more formal guidance to be issued.

One such set of updated guidance was the revised CIPFA Knowledge and Skills Framework, which was published in August 2021, in response to the Phase 3 report recommendations. This would be reviewed by Fund Officers and any recommendations addressed as part of the Fund’s Training Policy, which was to be the subject of a separate report to a future meeting of the Committee.

RESOLVED – (a) That the content of Hymans Robertson’s’ Good Governance: Phase 3, Report to the Scheme Advisory Board dated February 2021 be noted; and

(b) That the Gap Analysis provided for the Staffordshire Pension Fund, in relation to the recommendations of the Good Governance Project, provided at Appendix 2 to the report, be noted.

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. Exempt minutes of the meeting held on 25 June 2021
(Exemption paragraph 3)

9. Exempt minutes of the Pensions Panel held on 9 July 2021
(Exemption paragraph 3)

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

Chairman