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Pensions Committee

Friday 24 June 2022

10:00

Oak Room, County Buildings, Stafford

John Tradewell
Director of Corporate Services
16 June 2022

A G E N D A

PART ONE

1. **Apologies**
2. **Declarations of Interest**
3. **Minutes of the meeting held on 25 March 2022** (Pages 1 - 8)
4. **Minutes of the Pensions Panel held on 8 June 2022** (Pages 9 - 14)
5. **Appointment of Pensions Panel**

Oral report of the Director for Corporate Services.
6. **Staffordshire Pension Fund Business Plan Outturn 2021/22** (Pages 15 - 32)

Report of the Director for Corporate Services.
7. **Staffordshire Pension Fund Risk Register and Risk Management Policy** (Pages 33 - 52)

Report of the Director for Corporate Services

PART TWO

8. **Exclusion of the Public**

The Chairman to move:

'That the public be excluded from the meeting for the following items of business which involve the likely disclosure of exempt information as defined in the paragraph of Part 1 of schedule 12A of the Local Government Act 1972 indicated below'

9. **Exempt minutes of the meeting held on 25 March 2022 (Exemption Paragraph 3)** (Pages 53 - 60)
10. **Exempt minutes of the Pensions Panel meeting held on 8 June (Exemption Paragraph 3)** (Pages 61 - 70)
11. **LGPS Regulations - Admission of New Employers to the Fund (Exemption Paragraph 3)** (Pages 71 - 74)

Report of the Director for Corporate Services
12. **LGPS Central Limited Company Update (Exemption 3)** (Pages 75 - 122)

Presentation by LGPS Central Limited

(Quarterly Financial Shareholders Report at 31 March 2022 attached for information)

Membership	
Mike Allen (Co-Optee)	Bob Spencer
Philip Atkins, OBE	Mike Sutherland (Chairman)
Nigel Caine (Co-Optee)	Stephen Sweeney
Mike Davies (Vice-Chairman)	Samantha Thompson
Colin Greatorex	Michael Vaughan (Co-Optee)
Derrick Huckfield	Mike Wilcox
Phil, Jones (Co-Optee)	

Note for Members of the Press and Public

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Minutes of the Pensions Committee Meeting held on 25 March 2022

Present: Mike Sutherland (Chairman)

Attendance

Philip Atkins, OBE	Stephen Sweeney
Nigel Caine (Co-Optee)	Samantha Thompson
Derrick Huckfield	Michael Vaughan (Co-Optee)
Phil, Jones (Co-Optee)	Mike Wilcox
Bob Spencer	

Also in attendance: John Mayhew

Apologies: Mike Davies and Colin Greatorex

PART ONE

Ukraine

The Chairman referred to the war in Ukraine and asked the Committee to stand in a minute of reflection.

22. Declarations of Interest

There were no declarations of interest on this occasion.

23. Minutes of the meeting held on 11 February 2022

RESOLVED – That the minutes of the meeting of the Pensions Committee held on 11 February 2022 be confirmed and signed by the Chairman.

24. Minutes of the Pensions Panel held on 1 March 2022

The Director for Corporate Services referred to minute no. 43, Resolution B and informed the Committee that the Pensions Panel members wished the Fund's Investment Managers to be made aware that they were of the view that, whilst not an instruction to divest, until such a time as reasonably practicable, they wished to use their inference to strongly discourage any further investment in Russia and Belarus for the foreseeable future.

On behalf of the Chair of the Pensions Panel, Officers sent a letter to relevant Investment Managers that may have exposure in Russia, expressing the Panel's desire to not invest further in this area. Similarly, a letter had been received from the Secretary of State for Levelling Up, Housing and Communities asking Funds to take whatever action they thought necessary within the bounds of fiduciary duty/responsibilities. The majority of the

Fund's exposure to Russia had been removed by index providers (such as FTSE) removing Russian stocks from their indices. There was an estimated residual exposure of 0.05%, within Private Markets, which the Fund would continue to explore the practicalities of divestment with relevant Investment Managers. A statement had been included on the Staffordshire Pension Fund website and would also be included on the next Employer Focus Newsletter on this matter. LGPS Central had also issued a statement and put a message on its website to similar effect.

A further question was asked by Cllr Huckfield regarding the actual amount of investment in Russia. This was confirmed as an estimated £7m out of the £7bn Fund, equating to c0.1% exposure.

RESOLVED – That the minutes of the meeting of the Pensions Panel held on 1 March 2022 be received.

25. Staffordshire Pension Fund Business Plan 2022/23

A report relating to the Staffordshire Pension Fund Business Plan 2021/22 was presented to the Pensions Committee for consideration and approval.

It was noted that, as well as continuing to do the 'day job', and the increasing challenges that this continued to present, the majority of the Treasury & Pensions Team faced additional challenges as they predominantly worked from home for a second year. The Committee were informed that morale remained high across the Team, which enabled the ongoing delivery of a high level of service provision to all stakeholders. Several Key Development Activities from the 2021/22 Business Plan had been achieved, including:

- Tendering for an Administration System provider, to incorporate an external hosting platform service, and testing and implementing the new system within the same 12-month timeframe. The "Go live" date for this was the 16 March 2022, which was significantly ahead of the date anticipated.
- An exercise relating to the under / overpayment of Guaranteed Minimum Pensions (GMP) had been completed.
- A Covenant Monitoring Process had been put in place which brought together key pieces of financial information, about any Employer in the scheme, where there were concerns around their ongoing participation in the Fund.
- A Strategic Asset Allocation and Investment Strategy review had been undertaken ahead of the 2022 Actuarial Valuation.

There were several activities planned to take place in 2020/21 that were delayed as a result of the Covid-19 pandemic. These were due to be delivered in 2021/22, but as they were dependent on the outcome of the

Administration System provider procurement, these would be picked up in 2022/23. These included:

- Living as Stated/Address Tracing Exercise;
- Task Design in Altair for Deaths and Concurrency;
- Use of the interactive dashboard or alternative provision in Altair Insights; and
- Promotion of My Pension Portal (MPP) to Retired Members.

Full details would be included in the final outturn report to be presented to the Pensions Committee at the meeting in June 2022.

The Committee noted that, throughout 2021/22, the Treasury & Pensions Teams had made excellent progress in meeting the competing demands across the service. The change in working arrangements had continued to emphasise the need to review all processes and 2021/22 had been no exception with reviews of the Transfers In / Transfers Out process and the Death Grants process being completed.

The Committee were informed that, as in previous years, the Business Plan for 2022/23 was split into two distinct sections. The first section dealt with Key Development Activities, which aimed to make the way the service worked more efficient and effective. The second section dealt with the activities that the team needed to undertake as part of the day job, but which impacted significantly at certain points in the year or which happened as a by-product of another activity e.g., finalising the year end data. Once again, several of last year's development activities had now been re-categorised into Business-as-Usual activity, including the Employer Covenant Monitoring and the Employer Practitioner Workshops, which had been held virtually on several days throughout the year.

Several areas that the Treasury & Pensions Team had identified as Key Development Activities in 2022/23 include:

- Continuing to collect retrospective data from Employers and plan for the implementation of remedial action arising from the McCloud / Sergeant judgement (& possibly Goodwin);
- Dealing with the additional data and checking requirements arising from the 2022 Actuarial Valuation;
- Embedding the new Pensions Administration System & preparing for the Department of Work & Pensions new Pensions Dashboard;
- Developing a Cyber Security Policy; and
- Implementing the new Investment Strategy following the review of Fund's Strategic Asset Allocation.

The Committee were informed that, subject to approval of the Investment Strategy, the key development activities for the Pensions Investment Team

throughout 2022/23 would be focussed on a Strategic Asset Allocation Review and Implementation.

The Committee also noted that the primary risks to the continued delivery of a pension's administration, accounting and investment monitoring service to the high standards achieved were;

- Having a team of staff, sufficiently resourced, with the right experience to cope with changes to Government Legislation E.g., McCloud and the Pensions Dashboard;
- 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;
- The current geopolitical and inflationary environment; and ultimately
- The need to ensure that the correct Pensioner Members are paid on time with the correct amount.

These, and other risks, were further analysed in the Pension Fund's Risk Register, the latest version of which would be presented in full to the Committee at the June 2022 meeting.

In response to a question from Nigel Caine on the subject of the risk of compensation claims relating to the Guaranteed Minimum Pension, the Director explained that the action taken involved not asking for overpayments to be paid back by an individual, but instead the pension was being put back to the position it would be, at the current value of that pension, so no individual, in terms of arrears owed, would be worse off. Ongoing the individual would be in the position they would've been. This information had been communicated to members. Work has been undertaken with HMRC to ensure records of all Guaranteed Minimum Pensions aligned, and where there was a liability, they had been investigated.

In response to a question asked by Cllr Wilcox, relating to priority of the key development activities and timelines for delivery, the Director explained that the Actuarial Valuation was the prime priority with a view to having the information finalised ahead of budget setting for 2023/24, when the new contribution rates would begin.

In response to a question by Cllr Huckfield relating to the Cyber Security Policy and the guarantee of protection for pensions, it was confirmed that LGPS Pension benefits were guaranteed. It was also explained that the team were working to better understand exactly what was involved in Cyber Security and how best to prevent issues occurring, prior to the development of the Cyber Security Policy.

Committee members heard that the Pension Fund currently had 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).

Some of these were difficult to anticipate for example, costs for investment advice and legal support varied depending on the level of activity. Investment Management fees varied dependent of the value of assets under management (AUM) and the level of manager performance, impacting on the payment of performance related fees.

CIPFA reporting guidance stated that it was good practice to produce a three-year budget and the Table below illustrates indicative costs of the Fund's likely budget costs for the period commencing 2022/23. The Committee noted that the indicative costs had been produced using the information available at the time, with reasonable assumptions made about growth in AUM and levels of activity.

Cost Heading	2022/23	2023/24	2024/25
	£000	£000	£000
Pensions Administration	3,000	3,060	3,130
Governance*	1,500	1,580	1,660
Audit	90	90	100
Actuarial Fees	250	80	200
Legal Fees	260	260	270
Investment Advice	90	90	100
Investment Management Fees**	18,660	19,910	20,680
Property Expenses (ex-legal)	4,620	4,760	4,900
Monitoring and Custody	70	70	70
Other expenses	410	420	430
Total	28,950	30,320	31,540

**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.*

In response to a question from Cllr Sutherland regarding the different levels of Actuarial fees over the three-year period, the Director informed the Committee that the "peaks and troughs" of this cost reflected the level of work that was undertaken in preparation for and in carrying out the Actuarial Valuation during those particular time periods.

In response to a question from Cllr Wilcox relating to "other expenses" costs, the Committee was informed that 90-95% of "other expenses" were made

up of cost associated with the quarterly Portfolio Evaluation Fund Performance reports that were received by the Pension Panel; and property valuations, which were undertaken quarterly.

Cllr Sutherland paid tribute to the sterling work the Pensions Team had undertaken over last 12 months to install the new system whilst working remotely.

RESOLVED – That the Staffordshire Pension Fund Business Plan for 2022/23 be approved and that the key challenges be noted.

26. Staffordshire Pensions Committee Training Needs Analysis and Training Policy 2022/23

A report relating to the Staffordshire Pensions Committee Training Needs Analysis and Training Policy 2022/23 was presented to the Pension Committee for consideration and approval.

The Committee were informed that Section 248A of the Pensions Act 2004, as amended by the Public Services Pensions Act 2013, required that trustees of occupational pension schemes should be trained and have knowledge and understanding of the law relating to pensions, the role of trustees, the principles of scheme funding and investment, and the management and administration of pension scheme benefits.

The Committee noted that the CIPFA Knowledge and Skills Framework identifies eight core technical areas where Pensions Committee Members were expected to have a general awareness and understanding of the key elements in each area.

The eight core areas were:

- Pensions Legislation and Guidance
- Pensions Governance
- Funding Strategy and Actuarial Methods
- Pensions Administration and Communications
- Pensions Financial Strategy, Management, Accounting, Reporting and Audit Standards
- Investment Strategy, Asset Allocation, Pooling, Performance and Risk Management
- Financial Markets and Products
- Pension Services Procurement, Contract Management and Relationship Management.

All Pensions Committee Members, Local Pensions Board Members and Senior Fund Officers were asked to complete a Training Needs Analysis (TNA) during November 2021. The results of the TNA for the Pensions Committee, the Local Pensions Board and Senior Fund Officers showed a generally good level of collective knowledge across all 8 areas. Senior Fund Officers results

reported significant levels of knowledge across all areas of activity. The results of the TNA would be used to inform the delivery of general and specific, targeted, training in the future and a review would take place again in late 2022.

It was explained to the Committee that, as with all training plans, some flexibility in terms of times and methods of delivery would be required. Where appropriate, training would be incorporated into scheduled Committee and Board meetings in June, September, December and March and two dedicated training sessions for both Committee and Board members would be held in July and November. The Committee were provided with a proposed training scheme for 2022/23, derived from the detailed results of the 2021/22 TNA.

It was explained to the Committee that it is best practice, and a further demonstration of good governance, to set out the Pension Fund's approach to the training of all individuals charged with the oversight of the Fund. A revised version of the Staffordshire Pension Fund's Training Policy was presented to the Committee. This incorporated the requirements of the updated CIPFA Knowledge and Skills Framework, including a set of seven statements which the Pensions Committee was asked to formally adopt.

Cllr Sutherland referred to the online training which he had found to be a helpful tool and suggested that Committee members work through the modules and use it to refresh their knowledge.

RESOLVED - (i) That the results of the 2021/22 Training Needs Analysis at Appendix 2 in relation to the requirements of the CIPFA Knowledge and Skills Framework, be noted.

(ii) That the resultant 2022/23 Training Plan in paragraph 11 of the report, be approved.

(iii) That the Staffordshire Pension Fund's revised Training Policy, attached at Appendix 4 to the report, be approved.

27. 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.

28. Exempt minutes of the meeting held on 11 February 2022

29. Exempt minutes of the Pensions Panel held on 1 March 2022

30. Local Government Pension Scheme Regulations - Debt Write-off

- 31. Local Government Pension Scheme Regulations - Admission of New Employers to the Fund**
- 32. LGPS Central Limited 2022/23 Business Plan & Budget and Chair's Update on the LGPS Central Ltd General Meeting held on 22 February 2022**
- 33. Strategic Asset Allocation and Investment Strategy Review 2022**
- 34. Actuarial Valuation 2022**

Chairman

Minutes of the Pensions Panel Meeting held on 8 June 2022

Present: Mike Sutherland (Chairman)

Attendance	
Mike Davies	Stephen Sweeney
Colin Greatorex	

Apologies: Philip Atkins, OBE

Also in attendance: Carolan Dobson (Independent Advisor) and Philip Pearson (Hymans Robertson)

PART ONE

49. Declarations of Interest

There were no declarations of interest on this occasion.

50. Minutes of meeting held on 1 March 22

The Director for Corporate Services referred to **Minute 41** and confirmed that, following a concern raised on the Annual Investment Strategy relating to the Section 151 Officer making decisions to change counterparty limits and to add new counterparties, this had been discussed and clarified with both the Section 151 Officer and the Director for Corporate Services. Both agreed that, as the decisions affected operational arrangements, they had sufficient statutory authority to approve the limits and make the changes to counterparties.

The Director for Corporate Services also referred to **Minute 43** and confirmed that, following the Pensions Panel agreement that a letter should be sent to the Fund's investment managers discouraging any further investments in Russia and Belarus, a letter had been sent out in the name of the Chair to all Fund Managers regarding this request. An announcement was also placed on the Pension Fund website and Employers were informed via the Employer Focus newsletter.

RESOLVED – That the minutes of the Meeting of the Pensions Panel held on 1 March 2022 be confirmed and signed by the Chairman.

51. Dates of Future Meetings

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

- Tuesday 6 September 2022
- Tuesday 6 December 2022
- Tuesday 7 March 2023

Note: All meetings are scheduled to start at 9.30am at County Buildings, Stafford unless indicated otherwise.

52. Staffordshire Pension Fund Performance and Portfolio of Investments as at 31 March 2022

The Director for 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 March 2022.

The Panel were informed that the Fund had a market value of £6.8 billion at 31 March 2022, down slightly on the previous quarter.

Over the quarter the Fund returned -1.6%, which underperformed Fund's Strategic Asset Allocation benchmark return (-1.3%) by 0.3%.

The best performing asset class relative to its benchmark was Private Debt, returning 3.4% versus a 3.1% benchmark return over the quarter. Property, Global Sustainable Equities, Private Equity, and Infrastructure were detractors from performance during the quarter.

Despite the underperformance in the quarter, the Fund had outperformed its Strategic Asset Allocation benchmark return over a 3, 5 and 10-year period. Annualised returns over 10 years were 9.9% per annum, well above the investment return assumptions used by the Actuary as part of the triennial valuation.

RESOLVED – That the Pension Fund investment performance and the portfolio of investments for the quarter ended 31 March 2022 be noted.

53. Responsible Investment & Engagement Report Quarter 1 2022

The Director for Corporate Services submitted a summary of activity during the quarter 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 explained that following the production of the Climate Risk report by LGPS Central Ltd, which was presented to the Pensions Committee in March 2021, Fund Officers had produced a 2021/22 Climate Stewardship Plan. The Plan had been a working document, and the final version detailing

the engagement carried out in 2021/22 (attached at Appendix 1 to the report) was presented to the Panel.

The Panel received the new Climate Stewardship Plan for 2022/23 which had been approved by the Pensions Committee, alongside the Fund's Climate Change Strategy, in February 2022 (Appendix 2 to the report). Engagement activity for 2022/23 would be reported against the 2022/23 Climate Stewardship Plan as part of future RI&E reports to the Panel.

The Director explained that, as the Fund appointed external investment managers, engagement with individual companies was delegated to these managers and the investment managers of pooled funds, in which the Fund also invested (e.g. LGPS Central Funds) and jointly as part of LAPFF. Information on manager engagement and voting was requested routinely, as part of the quarterly reporting the Fund received from each of the managers. In Q1 2022 engagement topics included:

- Meeting with a Pharmaceutical company to discuss board diversity and inclusivity in the workplace.
- Meeting with a Telecommunications company to discuss carbon neutrality and targets for reducing Scope 1 and 2 emissions.
- Writing to Oil companies on emissions reporting and emissions reduction plans.
- Engaging with policy makers worldwide on Sustainable Green Finance and ESG policies.
- Engagement with Banks on decarbonisation targets for financing of high emission-sectors.

The Director also submitted the quarterly report of the Local Authority Pension Fund Forum (LAPFF) (Appendix 3 to the report). The Director highlighted an article that focused on investment in Russia from an Environmental (the World's reliance in fossil fuels), Social (Sanctions and Human Rights aspect of the invasion) and Governance (Russian Government unable to operate within the framework of the law) point of view.

The Panel received the LGPS Central Ltd Annual Stewardship Report for 2021 (Appendix 4 to the report). This report had been produced instead of the usual Quarterly Stewardship Report in Quarter 4 2021 and was a wider document which would also be used as evidence to support the Company's Statement of Compliance with the UK Stewardship Code.

The Panel also received the LGPS Central Ltd Quarterly Stewardship Report Q1 2022 (Appendix 5 to the report). This report highlighted the work LGPS Central and its appointed voting and engagement partners did in engaging with organisations on behalf of the eight Partner Funds.

In response to a question from Cllr Greatorex relating to a reference to the 30% Club, it was confirmed that it referred to the aim of achieving a

minimum of 30% female representation on the Boards of FTSE100 companies and was established in 2010 to promote diversity within Boards.

RESOLVED - That the content of the Responsible Investment (RI) report, including the final 2021/22 Climate Stewardship Plan (Appendix 1), the 2022/23 Climate Stewardship Plan (Appendix 2), the Local Authority Pension Fund Forum (LAPFF) Quarterly Engagement Report (Appendix 3) and the LGPS Central Annual Stewardship Report 2021 and Quarterly Stewardship Update (Appendix 4 and 5), be noted.

54. Competition and Markets Authority - Investment Consultant Objectives

The Panel were reminded that, at its meeting on 3 December 2019, they received a briefing paper from Hymans Robertson LLP (Hymans) advising of the findings of the December 2018 report of the Competition and Markets Authority (CMA), and their subsequent Order, in respect of the need for Pension Scheme Trustees to set annual objectives for their investment consultants.

In response to the CMA Order, the Panel agreed a high-level set of objectives with Hymans for 2020/21 which were developed further to incorporate more focussed objectives and detail about how the objectives were to be measured. These objectives were signed off by the Panel at the meeting in July 2021.

It was agreed that the Panel would assess / measure and report on the performance of the Investment Consultant against the objectives set, by way of a collective annual review.

All objectives, bar one, were fully achieved. The partially achieved objective referred to the "*enhancement of arrangements for monitoring implementation of its investment strategy*". It was explained that whilst the Pensions Panel received a quarterly Strategic Asset Allocation update with any potential market impact on the Fund's strategy highlighted, the intention was to develop an investment dashboard to help focus the Panel on key issues and potential remedies.

One assessment remained outstanding, and the Panel was requested to confirm its assessment of the objective '*Pensions Committee and Panel are satisfied with the quality, presentation and content of any training requested*'. The Panel were in agreement that the level of service and training provided was of a satisfactory level.

It was explained to the Panel that, with regard to the setting of objectives for 2022/23 (included at Appendix 2 of the report), many of the objectives set would remain high level, reflecting the long-term nature of the Fund's Investment Strategy and they would not change year on year. Following their re-appointment to the role of Investment Consultant, Hymans

suggested it would be appropriate to be more specific with the focus of the objectives, and where possible to link them to the workplan for the year ahead.

Two minor proposed changes to the objectives were highlighted but given the workplan for 2022/23 was concerned with the implementation of the recommendations from the Strategic Asset Allocation Review and the Funds' Climate Change Strategy, these were the only changes to the previous years' focussed objectives.

RESOLVED – a) That the Panel's concurrence with the view of the Director for Corporate Services; that the desired outcomes from the Investment Consultant Objectives for 2021/22 have been met, where these can be considered in the short term, be noted;

b) That the Pensions Panel agreed that the level of service and training provided was of a satisfactory level in their assessment of the objective '*Pensions Committee and Panel are satisfied with the quality, presentation and content of any training requested*'; and

c) That the Investment Consultant Objectives provided in Appendix 2 to the report be approved, and the specific focus for the 2022/23 financial year be noted.

55. 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.

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

56. Exempt Minutes of the Meeting held on 1 March 2022

Exemption Paragraph 3

57. Staffordshire Pension Fund Performance and Manager Monitoring for the quarter ended 31 March 2022

Exemption Paragraph 3

58. Property Approvals

Exemption Paragraph 3

59. Strategic Asset Allocation review and monitoring

Exemption Paragraph 3

60. Environmental, Social and Governance tilted Indices

Exemption Paragraph 3

61. Currency Hedging Policy

Exemption Paragraph 3

Chairman

PENSIONS COMMITTEE – 24 JUNE 2022

Report of the Director for Corporate Services

Staffordshire Pension Fund Business Plan 2021/22 Outturn

Recommendation of the Chairman

1. That the Pensions Committee approves the outturn position of the Staffordshire Pension Fund Business Plan for 2021/22.

Background

2. At the beginning of each financial year, the Pensions Committee is asked to approve an annual Business Plan for the Staffordshire Pension Fund. This report details the final outturn position for the financial year 2021/22 and summarises the key achievements against that Business Plan, provided in Appendix 2.
3. As the world of pensions settled into its relatively new normal, so did business as usual, albeit now in a significantly more digitalised form, as the Team continued to work predominantly from home. In line with the previous recommendations of the Pensions Regulator, our business critical and business as usual activity continued to take priority, with key development activities being of secondary order. And so, whilst there are planned activities for 2021/22 that have been deferred to 2022/23, the continued high levels of Service Standards throughout 2021/22 demonstrate that the high quality of service to our scheme Members and Employers has been maintained. We have also continued to make progress and deliver our planned development activity in several areas.
4. Once again, where we have made progress with development activities, some have now been re-classified as 'business as usual' activities and several 'key development' activities which require further work, or ongoing activity, have been carried forward into the 2022/23 Business Plan.
5. As well as continuing with a high standard of service delivery, key achievements during 2021/22 include:
 - (i) Pensions Administration Team
 - Tendering for an Administration System provider, to incorporate an external hosting platform service, and testing and implementing the new system within the same 12-month timeframe;
 - Completing the long running Guaranteed Minimum Pensions (GMP) exercise with HMRC;
 - Finalising the development of an Employer Covenant Monitoring Process and implementing regular funding reviews, through the use of Hymans' online funding tool, HEAT, financial metrics etc
 - Development of a series of regular / shorter **virtual** Employer Practitioner Workshop(s) e.g Breaches, Ill-health retirement;

- Undertaking a Training Needs Analysis and producing a Training Plan for Pensions Committee and Local Pensions Board Members in 2022/23; and
 - Although not included on the original Business Plan for 2021/22, the Team have taken the Pensions Pledge and implemented the regulatory changes required in relation to Transfers.
- (ii) Pensions Investment Team
- Developing a Pension Fund Climate Strategy and Climate Stewardship Plan;
 - Developing investment reporting in line with the Task Force for Financial Disclosure (TCFD) requirements; and
 - Reviewing the ongoing appropriateness of the Fund's Investment Strategy and Strategic Asset Allocation, ahead of the 2022 Actuarial Valuation & in line with the Pension Fund's new Climate Strategy.

Audit

6. There have been two Staffordshire Internal Audit Service reviews across the Teams throughout the year:
 - (i) the Pensions Administration Audit maintained its 'substantial' assurance rating for the fourth year in a row; and
 - (ii) the Pension Fund Investment Audit, focussing on Investment Performance Reporting, and which tied in with similar themed Audits at LGPS Central, also received a 'substantial' assurance rating.
7. As well as providing assurance that the necessary controls are in place, this re-affirms the hard work and effort of the Teams, and their ongoing commitment to the Fund, despite the increasing complexities of delivering the service and having to work remotely.
8. As well as Audits being carried out on the LGPS Central pool (as part of the wider Audit Assurance Framework developed by the Auditors of the 8 Partner Funds that make up LGPS Central) it is anticipated that the Company itself, LGPS Central Limited, will continue to receive an unqualified AAF 01/20 Internal Control Report, for the second year running.

Pensions Administration – Service Standards

9. The Pensions Administration Team's Service Standards for 2021/22 are attached at Appendix 3. The activities reflect the third year of the new set of standards, introduced in 2019, by the Chartered Institute of Public Finance and Accountancy (CIPFA), which introduced common reporting standards for the LGPS; these also provide for more granularity in certain areas.
10. The Committee are asked to note the consistent level of performance versus the standards over the last three years and the number of performance targets achieved in 2021/22. A summary of the position is as follows:

- 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.
 - 2021/22 shows that a 90% performance target was achieved in 14 of the 15 published standards.
11. The only published standard where the performance target was not achieved in 2021/22 is in a distinct area of activity relating to Transfers In. A Transfer Value (TV) is the payment that arises when a scheme member elects to move their pension benefits between Employer schemes or alternative insurance-based schemes. The current value of the individuals pension benefits effectively follows them, and an appropriate payment is made to or from an LGPS Fund.
 12. TV's have become increasingly complex to process and communicate with scheme members about. 2021/22 saw an internal review of the TV process and internal reporting deadlines, to ensure that it was made as efficient as possible. Incredibly, 2021/22 also saw the average number of monthly TV cases processed increase from 68 to 185 (a c300% increase) so it is real testament to the Transfer Team that, despite the increase, they only marginally underperformed the 90% target. Even then, the strict statutory deadlines, prescribed within the various Pensions Schemes Acts, were still met, often well within the prescribed statutory timescales.

Ongoing workloads and impact on Service Standards

13. Whilst the Service Standards for 2021/22 are excellent and something of which the Teams should be extremely proud, it is important to remind the Committee, that the Scheme continues to become ever more complex and the number of Employers and their arrangements for continuing to participate in the Scheme are in themselves becoming more creative as a result. Going forward old challenges remain and new ones continue to come to the forefront.
14. 2020/21 has seen the Technical Team busy requesting data from our 500+ Employers, as part of our preparation for the 'McCloud' project. Over 54,000 scheme member records, across our Fund, are in-scope for the re-calculation of benefits going back to 1 April 2014, but until we have the Government's response to the consultation, our delivery timescales are still unknown and the impact that this will have on our service standards is a cause for concern. The software providers continue to work with the Department for Levelling Up, Communities and Housing (DLUHC) and the LGPS Actuaries, to ensure that we will have the appropriate Administration Systems to assist us, by the time the legislation is expected to be in place on 1 April 2023.
15. Unforeseen changes in Regulations also have an impact on workload that needs to be accommodated:

- The revoked Public Sector Regulations 2020, which limited an exit payment to £95,000, where an Employee is made redundant, or their employment is terminated for reasons of business efficiency are expected to return in some revised form, soon;
 - Summer 2022 sees us expecting the Pensions Regulators new Single Code of Practice to be laid before Parliament;
 - The recent Government consultation on Pensions Dashboards sets an expectation that LGPS Funds will connect to the dashboard's ecosystem by 30 April 2024; and
 - The long awaited revised 2016 guidance on LGPS Asset Pooling is yet to be finalised by DLUCh.
16. Unlike on previous occasions, we hope that the corresponding LGPS Regulations are put into place at the same time as any changes, thus ensuring that any uncertainty for administrators and scheme members is removed. Again, the need for software development will be paramount, to avoid a return to manual calculations.

Other considerations

17. Not all administration processes are benchmarked but most are usually complex and time-consuming areas of work for example:
- Combining pension records for re-joining members known as aggregation.
 - Concurrent employment cases.
 - Data cleansing.
 - Software upgrades & testing ICT infrastructure.
 - Record maintenance, including year-end member data.
 - Issue of Annual Benefit Statements.
 - Attending retirement sessions and sessions to support members being made redundant.
 - Communication projects for example Academy training sessions.
 - Introducing new software to Employers for the monthly transmission of data to the pension system and onboarding (i-Connect).
 - Pensions Increase exercise
 - Admitting new Employers to the Fund and agreeing Admission Agreements.
 - Production of HR costing data for Employers.
 - Regulatory and legal support to Employers and the monitoring of Employee and Employer Contributions.

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

Pensions Administration Team Resource

18. Due to the complex nature of the LGPS, recruiting experienced team members is always difficult and so the focus continues to be on training and 'growing our own'. Over the last two years, the Teams have remained fairly stable and whilst several experienced members of the Team have

retired, the opportunity has been taken to promote some of the younger and newer team members.

19. Over the last 24 months, our intention has always been to increase the resources across the Teams, to assist us in dealing with projects such as McCloud and the introduction of the Pensions Dashboard, whilst continuing to maintain our consistently high Service Standards. However, following the post-pandemic return to relative normality, recruitment has become increasingly difficult for us; and the wider LGPS, as evidenced by a recent LGA Survey. Given that we are now also experiencing an increase in turnover, this means that we are in a situation where we are recruiting to maintain our current resource, as opposed to increasing it. As at 31 March 2022, the number of full-time equivalent members of the Team stood at 43.35 FTE and whilst this is the result of a gradual and measured increase in staff from 37.50 FTE over the last 7 years, it is less than the 44.93 FTE at 31 March 2021, which illustrates the point made previously.
20. Clearly, if we are to maintain our Service Standards going forward, there is a need for recruitment to continue at pace and the Team has also committed to explore other recruitment options, such as Apprenticeships.
21. The Teams are also working on several projects which utilise the additional functionality of the updated Administration System. These include the ongoing review and streamlining of processes where possible and an increased self-service offering through the My Pension Portal, where there is minimal risk of error, and it is considered reasonable to do so. E.g. Notification of a Death.
22. Whilst there is inevitably a direct cost implication of any increase in staff numbers, this will always be proportionate and measured. The process of recruiting 1 or 2 entry grade team members, with their training on the more routine activities being delivered by more experienced team leaders, will ultimately facilitate the release of resources, at a more senior level, to work on more complex cases and project work.
23. Despite the current difficulties, we do still feel that continuing to recruit in this way is the right approach. Our aim is to deliver a cost-effective service that continues to prepare us to face any new challenges upfront. Whilst we will endeavour to ensure that performance against published service standards does not decline significantly, we acknowledge that this may become challenging over the next 1-2 years, but our focus will remain on delivering a service to the end user i.e. the Scheme Member, that is not sub-standard and in direct contravention of the Pensions Regulators Disclosure requirements.

Pensions Investment Team

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

- Working with the Fund's appointed Investment Consultant, Hymans Robertson, the Team developed a Pension Fund Climate Strategy, which was approved by Pensions Committee in February 2022. This now sits alongside the Fund's annual Climate Stewardship Plan for 2022/23, which focusses the Teams' engagement with those portfolio Companies and Investment Managers across the Fund, who currently have the greatest carbon footprint.
 - Aligned with the development of the Climate Strategy and in preparation for the 2022 Actuarial Valuation, the Team also worked with Hymans to review the Fund's Strategic Asset Allocation. The output from this, which sees a move away from public equity markets into asset classes across private markets, was approved by the Pensions Committee, in March 2022, and will be implemented gradually over the next few years.
 - 2021/22 and early into the new financial year, saw the Team continue to carry out due diligence on Infrastructure funds, with 5 new commitments being made by the Fund, including a £60m commitment to the LGPS Central Infrastructure Fund.
 - The Team continues to be involved in the development of the LGPS Central pool and the various Officer Working Groups, to ensure the right products are being developed for the Fund to invest in.
25. In 2021/22, the Fund's investment return was +12.2% versus its strategic benchmark return of +11.9%, an outperformance of +0.3%. Whilst this was significantly less than the investment returns across markets in 2020/21, it demonstrated a return to more expected levels of investment return, following the negative investment returns in 2019/20.
26. The Fund's longer-term annualised performance numbers, at 31 March 2022, remain in excess of 8%, which is well ahead of the long-term investment return assumptions used by the Actuary in the triennial valuation.
27. The Committee will receive a presentation from the Fund's independent performance measurer, Portfolio Evaluation Limited, on the detail of the Fund's investment performance in 2021/22, at a future meeting.

Pension Fund Budget and Costs

28. At previous Pensions Committee meetings, Members were asked to note that instead of setting an annual budget and relying on budget monitoring to manage costs, the Committee should also place reliance on cost comparisons, benchmarking and trends, where these are available, to ensure that value for money is consistently delivered.
29. The headline budget reported to Pensions Committee for 2021/22, as part of the Business Plan versus the headline Actual Outturn position is provided in the following table. A comparison to 2020/21 is also provided.

	2020/21	2021/22
	£000	£000
Initial Budget forecast	20,960	22,120
Actual Outturn position	22,988	25,650
Under (Over) spend	(2,028)	(3,530)

30. The £3.5m headline budget 'overspend' in 2021/22 is again attributable to expenditure on Investment Management Fees and vacant property costs. Budgeting for this area of expenditure is particularly difficult and recognising that this has been the reason for the budget overspend in each of the last two years, the budget in this area has been reviewed and significantly increased going forward. Paragraph 38 onwards provides more detail.
31. The tables that follow break the Actual Outturn position down into more detail, as per CIPFA's reporting classification in the annual accounts. They also provide comparisons to previous years' expenditure and income, to highlight any significant changes or trends.
32. The following table shows this year's **Administration Costs** compared to the last two years:

	2019/20	2020/21	2021/22
	£000	£000	£000
Pensions administration	2,601	2,314	2,897
Legal costs	97	53	65
Other costs	161	90	46
Income	(37)	(39)	(53)
Total Administration Costs	2,822	2,418	2,955

33. Total administration costs have increased from 2020/2021 by around £0.5m. This is due to two main areas of increased cost, a further c£0.1m on salaries and an additional c£0.3m for the new Pensions Administration 'Altair' software system.
34. Using the latest data available (for 2020/21), we can compare the cost per scheme member of our Pensions Administration Team to those of the 89 other Funds who have submitted their SF3 scheme return (as opposed to other benchmark data from just 21 funds using the CIPFA benchmarking service). The 2019/20 costs are provided in brackets for reference.

2020/2021	Administration Costs per scheme member	
	SCC	Average
CIPFA benchmarking - pensions administration	£19.65 (£23.37)	£31.95 (£30.25)

35. Whilst the Fund's administration costs were below the group average for 89 funds, it should be noted there are some significant outliers within the group, with the costs per scheme member ranging from £1.08 to £158.29. However, when looking at similar authorities (County Councils), administration costs for Staffordshire Pension Fund are generally comparable. The reduction from 2019/20 is due to an accounting adjustment which overstated Information Technology Costs; this has been corrected in 2020/21 and returns the Fund closer to previously reported levels (2018/19 being £18.57 per scheme member).
36. The following table shows this year's **Oversight and Governance Costs** compared to the last two years:

	2019/20	2020/21	2021/22
	£000	£000	£000
Audit Fees	19	89	43
Actuarial Advice	232	71	197
Investment Oversight fees	170	253	292
LGPS Central costs	947	1,046	1,064
Other	224	172	205
Total Oversight & Governance costs	1,592	1,631	1,801

37. Total Oversight and Governance costs have increased generally in 2021/2022 with the only notable increase being in Actuarial fees, which reflect the work being done in preparation for the 2022 Triennial Valuation.
38. The following table shows this year's **Investment Management Costs** compared to the last three years:

	2019/20	2020/21	2021/22
	£000	£000	£000
Investment managers	13,077	15,971	16,942
Property costs	3,158	2,890	3,842
Custody costs	110	56	71
Other	74	23	39
Total investment costs	16,419	18,940	20,894

39. Investment Managers' fees have increased overall in 2021/22. Whilst there was a reduction in private equity fees (c£1.2m), due to lower performance fees charged versus 2020/21, this was more than offset by higher global active equity fees due to increased assets under management and also as the mandate with Impax (Global Sustainable Equities) became active from April 2021. Vacant property costs have also been c£1m higher in 2021/22, as the sector continued to struggle post-pandemic, with difficulties in letting vacant property and collecting previously unpaid rents.
40. The recovery in asset values after the Covid-19 pandemic continued in 2021, with the market value of the Fund's assets reaching an all-time high at 31 December 2021 and just breaking the £7 billion level. However, markets fell in the first quarter of 2022 due to the Russian invasion of

Ukraine and inflation fears. The following table shows, that although the Fund has paid more out in Investment Management fees in 2021/22, as a percentage of assets under management, the average Investment Management Fee has fallen by 0.01%.

	2019/20	2020/21	2021/22
	£000	£000	£000
IM Fees	13,077	15,971	16,982
Fund value at 31/3	4,731,370	6,125,859	6,830,486
Average Fee level (%)	0.28	0.26	0.25

41. Over the last couple of years, the Fund has seen the impact of increasing its investment in private market asset classes, principally private debt, in the cost benchmarking data (see following section). Due to the outcome of the recent Strategic Asset Allocation review, where further allocations will be made to private market asset classes (private equity, private debt, infrastructure and property) over the next few years, investment management costs of the Fund are expected to rise further. Over the long-term, however, as the economies of scale from asset pooling are achieved, it is anticipated that these costs will stabilise before eventually reducing. As always, these costs are largely dependent on the Fund's Strategic Asset Allocation and should always be justifiable on a 'net return' basis.

Cost Benchmarking

42. To seek further reassurance about cost, Staffordshire Pension Fund continues to take part in a benchmarking exercise with international company CEM Benchmarking. CEM benchmark 300+ global pension funds with total assets of £8.1 trillion (average £26bn, median £6bn) to help institutional investors better understand their costs versus peers and the wider market.
43. The results of the 2020/2021 benchmarking exercise were reported to the Pensions Committee by CEM in December 2021. CEM grouped Staffordshire Pension Fund with 16 LGPS and international funds ranging in size from £3.7bn to £9.3bn (a median size of £6.2bn versus the Fund's total value of £6.1bn at that time). After adjusting for asset mix, the Fund's costs of 51.1 basis points (bps) (or 0.511%) was 5.8bps (0.058%) above the benchmark of 45.3bps (0.453%).
44. The Fund's costs are above benchmark predominantly because of the way it invests in private markets, such as Private Equity. Many of the Fund's investments use a 'Fund of Fund' approach, where there are multiple layers of fees payable. However, Private Equity has been a strong performing asset for the Fund over the period and has delivered returns well above its benchmark return. This illustrates the point that whilst cost is an important consideration, it must be viewed versus any outperformance it delivers.
45. Measuring trends is also important and the Fund's costs have decreased from 55.8bps in 2014/15 to 51.1bps in 2020/21. Whilst the Fund has

increased its allocation to private markets as described above, which has had the effect of increasing the Fund's costs, over the period since 2015 the Fund's costs have fallen overall. This is due to the Fund still retaining a large amount of passive global equities versus the start of the period but also due to the costs of global equity management coming down significantly over the period, in part due to the impact of LGPS asset pooling.

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Background Documents: None

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

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

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

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

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

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

Area of Service	Key Development Activity	Progress
LGPS Pensions Administration	Undertake an external review of Additional Voluntary Contribution providers	Partially Achieved Recommendations from external provider received. Review and implementation of recommendations 2022/23
	Commence a Living as Stated / Address Tracing Exercise to improve the accuracy of deferred & pensioner membership data	Deferred to 2022/23 Activity put on hold pending outcome of tender for Administration System
	Undertake soft market testing for 3 rd party postal arrangements & providers	Deleted as an Activity Post has continued to reduce post pandemic and lower volumes unlikely to result in cost or efficiency savings.
	Planning for the implementation of remedial action arising from the McCloud / Sergeant judgement (& possibly Goodwin) to include collection of retrospective data from Employers	Partially Achieved DLUHC McCloud consultation response for LGPS pending. Internal Project team set up and data collection from Employers ongoing
2022 Actuarial Valuation	Agree timing of key decision-making milestones & detailed delivery plan with Actuary (plus appropriate Training)	Achieved in 2021/22 New key-decision making / input milestones to be determined for 2022/23 as part of Actuarial Valuation process
Pensions Administration System	Tender for Administration System provider, to incorporate external hosting platform service *	Achieved in 2021/22 System go-live 16 March 2022
	*Subject to tender, review task design (in Altair) for Deaths & Concurrency	Deferred to 2022/23 following successful implementation of externally hosted Administration System
	*Subject to tender, review use of interactive dashboard (in Altair)	Deferred to 2022/23 following successful

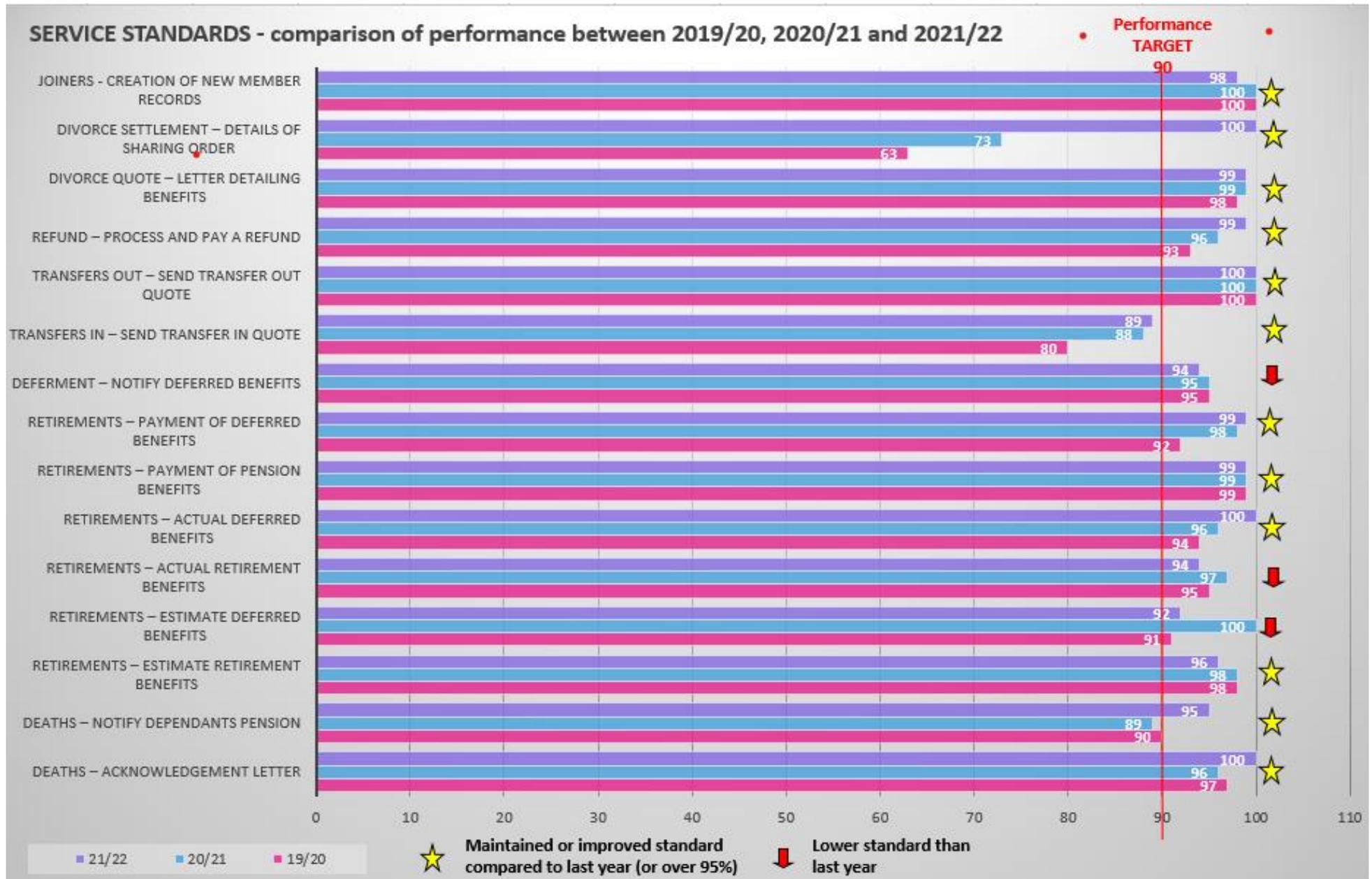
Area of Service	Key Development Activity	Progress
		implementation of externally hosted Administration System
Contracting Out Reconciliation	Finalise under/overpaid pensioner members following responses to enquiries with HMRC	Achieved in 2021/22 Over / underpayments finalised and adjustments made for all affected scheme members
Governance	Undertake Training Needs Analysis and produce Training Plan for Pensions Committee and Local Pensions Board Members	Achieved in 2021/22 Planned and just-in-time Training delivered plus subscribed to Aspire the Hymans' On-line learning platform, Aspire. 2022/23 TNA carried out versus new CIPFA Knowledge & Skills Framework
	Assess the output from the Scheme Advisory Board's Good Governance Review and consider implementation of any actions identified.	Partially Achieved Gap Analysis presented to Pensions Committee in September 2021. Awaiting further implementation Guidance from CIPFA / SAB
	Tender for external Legal Services provider	Partially Achieved Legal Services Unit unable to provide additional resource to support tender process in 2021/22. SPF to be founder member of new LGPS Legal Services Framework in 2022/23 and tender thereafter.
	Finalise development of Employer Covenant Monitoring Process and implement regular funding reviews, through use of Hymans online funding tool, HEAT, financial metrics etc	Achieved in 2021/22 Moved to BAU Activity 2022/23 onwards

Area of Service	Key Development Activity	Progress
Communications – Scheme Members	Promote and encourage the use of Member Self Service / My Pension Portal (MPP) to Retired Scheme Members (with the aim of issuing the majority of P60s and payslips electronically)	Deferred to 2022/23 following successful implementation of externally hosted Administration System. Internal MPP working group to be established
Communications - Employers	Develop a series of regular / shorter virtual Employer Practitioner Workshop(s) e.g Breaches, Ill-health retirement, IDRPs & consider targeted workshops for different Employer Groups	Achieved in 2021/22 Moved to BAU Activity 2022/23 onwards
Pension Fund Investment	Appoint Independent Investment Advisor to Pensions Panel	Deferred to 2022/23 Wider review of Advisory structure pending
	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	Achieved in 2021/22 Moved to BAU Activity 2022/23 onwards
	Develop a Pension Fund Climate Strategy and Climate Stewardship Plan	Achieved in 2021/22 Annual updates 2022/23 onwards
	Develop investment reporting in line with the Task Force for Financial Disclosure (TCFD) requirements	Achieved in 2021/22 Annual updates 2022/23 onwards
	Retain Tier 1 UK Stewardship Code signatory status	Partially Achieved Application being prepared for submission to FRC prior to 30 April / 30 October 2022 deadlines.
	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)	Deferred to 2022/23 To be confirmed, subject AUM > £5bn and application to LGPS

Area of Service	Key Development Activity	Progress
	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	Achieved in 2021/22 Review carried out with implementation of recommendations from 2022/23 onwards
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	1 April – 31 March
	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	1 April – 31 March

Area of Service	Key Development Activity	Progress
	Continue to develop the role of the Employer Focus Peer Group and the Employer Focus Newsletters	1 April – 31 March
	Review Employer compliance with Administration Strategy	Ongoing
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
	Maintain common and conditional data scores	1 April – 31 March
	Maintain and review Breaches Log and improve reporting to tPR	1 April - 31 March
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 and LGPS Asset Pooling



Local Members Interest	
Nil	

PENSIONS COMMITTEE – 24 JUNE 2022

Report of the Director for Corporate Services

**STAFFORDSHIRE PENSION FUND RISK REGISTER
& RISK MANAGEMENT POLICY**

Recommendations of the Chairman

1. That the Pensions Committee notes 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 respectively.
2. That the Pensions Committee notes the content and recommendations of the Local Pensions Board review of the Staffordshire Pension Fund Risk Register, attached at Appendix 2, and considers asking the Local Pensions Board to continue to play an active role in the ongoing review process.
3. That the Pensions Committee approves the Risk Management Policy of the Staffordshire Pension Fund, attached at Appendix 5.

Background

4. CIPFA Guidance recommends the production and monitoring of a Risk Register for Local Government Pension Scheme (LGPS) funds. Risk management is being increasingly recognised as an element of good corporate governance and it is widely considered best practice to maintain and regularly review a Risk Register for the Pension Fund. The Risk Register also forms a key part of the Pension Fund’s Risk Management Policy attached for approval by the Pensions Committee at Appendix 5.
5. At their meeting in June 2021, 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.

Risk Register

6. Risk management is central to the management of the Pension Fund, as reflected by the coverage of risk in several key documents, such as the Funding Strategy Statement and the Investment Strategy Statement.

7. The Risk Register brings together all the Fund's risks in a single document. It continues to be based on the 4 key areas of activity within the Fund: Governance, Funding, Administration and Investment.
8. The detailed risk register matches high-level risks, under each of the 4 areas of activity, to the Fund's high-level objectives. Each of the detailed risks has been given an impact score and a likelihood score before any controls are applied. These have then been combined to give an overall pre-control risk score, which has been assigned a Red – Amber - Green (RAG) rating.
9. Controls that are currently in place to mitigate risks and additional sources of assurance are then considered to provide a post control impact and likelihood score. Again, these have been combined to give an overall post control risk score which has been assigned a RAG rating. All risks are given a review date, risk owner and any future actions to be taken are noted.
10. Officers review 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 attend the review meetings and take an active role in the discussions. They have also begun to discuss the specific area under review each quarter at their formal board meetings in an effort to widen the general understanding of each area. The Board's comments on the Risk Register and the review process are attached at Appendix 2. The Committee may wish to consider asking members of the Local Pensions Board to continue with their role in the ongoing review process.

Summary and review of high-level risks

11. A summary of the high-level risks associated with the objectives is attached at Appendix 3. This summarises the highest score of the detailed risks associated with each of the high-level risks and provides a summary of the controls and sources of assurance currently in place. This is intended to give the Committee an overview of the main risks the Pension Fund needs to consider and the controls in place to mitigate them.

Emerging risks

12. As part of the annual review it was agreed that the Pensions Committee would review emerging risks to the Fund. It is important to recognise that some of the greatest risks faced by the Pension Fund arise from change. Several transitional areas are reflected in Appendix 4; this provides more detail on the emerging risks perceived to be faced by the Pension Fund. The same scoring process and assignment of RAG ratings has been applied.

Risk Management Policy

13. The Pension Regulator's Code of Practice recommends that a Pension Fund has a Risk Management Policy in place and that this is reviewed periodically. The risk management policy covers key areas such as:

- The Fund's attitudes to, and appetite for risk;
- Aims;
- Risk measurement and management; and
- Responsibility

The updated Risk Management Policy for the Staffordshire Pension Fund is attached for approval at Appendix 5.

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Background Documents:

CIPFA-Managing Risk in the Local Government Pension Scheme,
The Pensions Regulator Code of Practice,
Staffordshire Pension Fund Investment Strategy Statement ISS,
Staffordshire Pension Fund Funding Strategy Statement FSS.

Appendix 1

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

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

Resource and Value for money implications: The main resource implications have not been explicitly assessed but arise directly from either any mitigating actions or from the impact of the risk identified.

Risk implications: The main topic of this report is risk assessment.

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.

Staffordshire Pension Fund Risk Register

Report by the Local Pensions Board to the Pensions Committee

24 June 2022

Observations of the Local Pensions Board

1. The Risk Register is a robust and comprehensive register of risks that faces the Pension Fund.
2. The procedure for reviewing the Register is carried out regularly with each risk being evaluated and updated as required.
3. The Officer Working Group that conduct these reviews have ownership of the individual risks and the whole Register and take their responsibility seriously.
4. The Board considers that there is value in continuing to attend meetings of the Officer Working Group.

Background

The Pensions Committee at its meeting on 7 July 2017 decided to ask the Local Pensions Board “to undertake a more detailed review of the Pension Fund Risk Register and report back to the Pensions Committee on any issues or areas of concern arising from the review.” The Board has continued to carry out that task and reports as follows.

‘The Pensions Board agreed to continue to conduct its review through individual Board Members attending, as observers, a series of meetings of the Officer Working Group where the Risk Register was discussed in line-by-line detail. They observed each risk being evaluated on both a qualitative and quantitative basis and the RAG rating either being amended or maintained.

The Pensions Committee at its meeting in June 2021, accepted the content and recommendations of the Board’s review of the Pension Fund Risk Register carried out during 2020/21 and requested the Board to continue to play an active role in the ongoing review process.

The Board continues to believe that the Officer Working Group manages the whole process through an appropriate procedure, has ownership of both the individual risks and the whole register and take their responsibility seriously’.

APPENDIX 3

Objective	High Level Risk	Pre-control Risk Score	Controls	Source of Assurance	Post-control Risk Score
Governance					
1 To meet the highest standards of Governance and demonstrate key principles of accountability and transparency through clear responsibilities and reporting and an appropriate governance structure	Failure to meet the highest standards of Governance and demonstrate key principles of accountability and transparency through clear responsibilities and reporting	12	Fund objectives are defined, reviewed annually and approved by Pensions Committee as part of a comprehensive Performance Management Framework which includes KPI's and Risk Register	Reports to Pensions Committee and Pensions Board, Total Performance Management Framework	9
1.1 To ensure the Fund has an appropriate governance structure	Failure to have an appropriate Governance structure in place including appropriate policies e.g. Conflicts of Interest	16	Governance is implemented in accordance with the Governance Policy Statement which sets out the roles and responsibilities of all parties. Officers monitor and are aware of changes to regulations.	Governance Policy Statement, Pensions Board, DCLG.	9
1.2 To ensure that all Elected Members and officers have appropriate Knowledge and skills	Failure to ensure that Elected Members and Senior Managers have the required skills or qualifications to perform their function effectively, and are supported by an ongoing programme of training	16	Adoption of CIPFA Training and Skills Framework, Training policy, Training Log	Training records log, Pension Board, Qualifications and experience of senior officers, MPCs, appointment process.	6
1.3 To ensure the Fund has appropriate financial, investment and actuarial advice	Failure to have proper arrangements to receive appropriate advice; including appropriate procurement and monitoring of performance of advisors	16	Services of several advisors are procured, contracts in place and performance monitored.	Attendance and reports to Pensions Committee, Panel and Board. Procurement team and regulations.	12
1.4 To ensure assets are safeguarded and properly accounted for and reported upon.	Failure to have appropriate custody arrangements in place for liquid markets and illiquid investments (Inc. property)	12	Custodians with high credit ratings are in place, their records monitored against managers records. Stocklending subject to strict controls and reported to pensions panel.	Custodian agreements, Audit assurance, Collateral in place for all stocklending. Legal Services hold records (Property).	10
1.5 To ensure that the Fund makes all information it is required to make available to stakeholders and that the information is easy to understand. To meet best practice standards wherever possible	Failure to publish all documents required by legislation including statutory accounts and annual report and key documents comprising Governance Strategy, ISS, FSS. Communications Policy	12	Key documents list is maintained and all key documents are completed, reviewed regularly and published	Documents published, regulations, CIPFA guidance, TPR codes of practice, Pensions Board, Pensions Committee, Internal Audit, external audit	9
1.6 To comply with all legislation relating to Local Government Pensions.	Failure to adhere to relevant statutory regulations including updates to LGPS	20	Regular review and reporting of changes, training of staff and implementation of changes.	Pensions Board, Pensions Committee, Audit and Audit report and LGA	15
1.7 To ensure the Fund has a risk register that is comprehensive, linked to objectives and regularly reported and reviewed	Failure to have comprehensive risk management arrangements, including a Fund risk register in place; failure to regularly review, update, and identify controls to mitigate significant risks, including risk of fraud, and management assurance arrangements to ensure key controls are operating effectively and consistently	16	Comprehensive Risk Register in place and reviewed regularly, Controls are regularly tested. New risks are identified by regular review of changes (informed by advisors, LGA, press, conferences etc.)	Risk register exists and is regularly reviewed and updated. Pension Committee report. Pension Board	9
1.8 Participation in LGPS Central Pool of Funds	Failure of Pool to have proper Governance arrangements in place.	12	Joint Committee, Shareholders Forum and Practitioners advisory forum exist, have clear terms of reference and defined membership. CIPFA guidelines. FCA regulation. Company law. LGPS Central company and pool risk register exist - LGPS Central Joint Committee review company risk register	Staffordshire members regularly attend meetings of Joint Committee, Shareholders Forum and Practitioners Advisory Forum, and that decisions are reported back to Pensions Committee. Audit Assurance Framework	4

Objective	High Level Risk	Pre-control Risk Score	Controls	Source of Assurance	Post-control Risk Score
Investment					
2.1 The <u>actual</u> return of the Funds 'neutral' and / or 'tactical' Strategic Asset Allocation is capable of exceeding the return assumption (i.e. the Discount Rate / AOA) of the Actuary used in the triennial valuation.	Failure of the Strategic Asset Allocation (SAA) to meet the level of return underpinning the setting of contribution rates as determined in the valuation OR to take more risk than the level of risk assumed by the Actuary in setting contribution rates	15	Strategic Asset Allocation is set to meet the assumptions used by the actuary. Ensuring the Actuary and Investment Consultant understand each others assumptions. Using stochastic modelling to show a range of outcomes and reporting and consulting on the assumption through the Funding Strategy. Use of Stabilisation policy	Pensions committee reports from Actuary and consultant. Pensions Board	8
2.2 The return of the 'actual / tactical' Strategic Asset Allocation (determined by the Pensions Panel) exceeds the return of the 'neutral' Strategic Asset Allocation	The actual/ tactical investment strategy (determined by the Panel) fails to exceed the return of the neutral SAA	12	Actual/ tactical SAA position is monitored, updated and reported to Pension Panel quarterly. Performance measurer reports.	Pensions Panel receives quarterly SAA report/ Valuation. Pensions Board. Fund Performance report.	8
2.3 To achieve performance above the return of the 'neutral / tactical' strategic benchmark return, through the appointment of active managers, where appropriate.	Failure of active managers to deliver outperformance (net of fees)	20	Active managers are appointed through robust competitive process. Their performance is regularly reviewed and reported to the Pension Panel and in the Annual Report. Termination of managers contracts is carefully considered and reported to Pensions Panel.	Consultant advice, manager meetings, Performance measurer, Panel reports, manager presentations.	15
2.4 To ensure that asset classes and managers are understood together with their returns and correlations to each other	Failure to understand the relationships between asset classes, managers and their correlations to each other.	20	Asset class correlation, Managers strategies are understood to ensure overlap is minimised. This is understood by those responsible for the strategic asset allocation.	Quarterly strategic review, Consultant comments, Pension Panel, Pension Board	12
2.5 To ensure the Fund takes account of Responsible Investment (RI) factors in its investment decisions.	Failure to take account of RI factors in investment decisions	12	FRC UK Stewardship Code complied with. All fund managers signed up to UNPRI. RI report to Panel each quarter detailing managers voting and company engagement. Member of LAPFF and LGPS Central	Policy in ISS, Pension Board. Manager reports. Member of LAPFF	10
2.6 To minimise fee levels and total expense ratios consistent with performance targets i.e. active / passive	Failure to minimise manager fees and expenses commensurate with performance target	9	Competitive tender process, monitoring and benchmarking of fees. Transparent reporting of fees.	CEM benchmarking, Total expense ratio, Peer Benchmarking, CIPFA rules, Audit, Pension Committee, Pension Board, advisors views taken account of.	6
2.7 Understand and consider the difference between the liability benchmark and the 'neutral' SAA	Failure to understand the changes in the liability benchmark of the Fund and adjust the 'neutral' SAA accordingly	12	Cash flows of the fund are monitored and understood. The fund operates on a liability aware basis.	Actuarial Valuation, annual change in the Funds liability benchmark are reported to the Pensions Panel.	9
2.8 Ensure the efficient transfer of assets to, set up and running of LGPS Central	Operating costs of the pool exceed budget, staff impacted and anticipated savings do not materialise, impacting Fund performance	20	Budgets in place and monitored, cost sharing mechanism in place, other members of staff aware how to do all roles and are aware of work of LGPS central. Transition plans, senior management of LGPS Central, Shareholders Forum, Joint Committee and Practitioner Forum.	Programme Board, Staff Strategy and planning meetings, Shareholders Forum, Joint committee and Practitioners Forum. Reports to Pensions Committee	16

Objective	High Level Risk	Pre-control Risk Score	Controls	Source of Assurance	Post-control Risk Score
Funding					
3.1 To ensure the Fund has sufficient money to meet its financial commitments in the short term	Failure to ensure the Fund has sufficient money to meet its payment commitments including benefits, transfers, and investment decisions in the short term	15	Plan and monitor cashflows regularly, Appropriate Treasury management strategy, Treasury staff are qualified and trained, review of cashflows from actuarial valuation.	Cashflows exist and are monitored, Treasury Management Strategy report to Pension Panel, Audit, Actuarial valuation report to Pensions Committee	8
3.2 To ensure the solvency of the scheme i.e. to ensure the Fund has sufficient money to meet its benefit outflow (minimum 100% funded in long term)	Failure to ensure the solvency of the Fund i.e. to ensure it has sufficient money to meet its benefit outflow in the long term (minimum 100% funded in long term)	16	Actuarial Valuation by an independent Actuary, using prudent assumptions, monitoring of funding level in between valuations, Ensure that significant changes in staffing levels as a result of austerity do not result in less income from contributions.	Actuarial report, No issues identified by GAD in respect of actuarial or investment assumptions under their Section 13 analysis, Report to Committee, Pension Board, Pension Fund Annual Accounts, Funding Strategy.	16
3.3 To ensure the long term cost efficiency of the scheme	Failure to set contribution rates that ensure the long term cost efficiency of the scheme	16	Stochastic modelling of various financial scenarios demonstrates improved funding outcome from the valuation, Actuary certified funding strategy.	No issues identified by GAD, Funding Strategy Statement, Pension Board	12
3.4 It is desirable that contributions are as stable as possible	Failure to set contribution rates that are relatively stable in order to ensure that pensions do not unnecessarily disrupt Local Authority capacity to deliver local services (subject to achieving solvency and long term cost efficiency)	16	Use of Stochastic models to smooth out changes in contribution rates (stabilisation)	Consultation responses on Funding Strategy; meetings with employers;	16
3.5 It is desirable that contribution rates are affordable commensurate with risk and meeting the funding objective	Failure to set contribution rates that are affordable to employing bodies such that it disrupts their services or pushes them into receivership (commensurate with achieving solvency and long term cost efficiency)	16	Funding Strategy and Investment Strategy designed to keep contributions affordable (subject to return on assets matching actuarial assumptions), Consultation with Employing bodies	Strategic Asset Allocation documented in ISS and monitored quarterly by Pensions Panel, Investment consultant, Responses from employers to consultation on Funding Strategy.	16
3.6 To ensure that the existing and prospective liabilities arising from circumstances unique to different scheme employers are taken into account by the Actuary	Failure to identify, monitor and reflect the unique characteristics of employer's liabilities, for example maturity in setting contribution rates, including those employing bodies getting close to having no active members	20	Monitor data to ensure Actuary receives accurate scheme data, Report from the Actuary takes account employer characteristics	Reports produced for the Pensions Regulator, Actuarial statement of data quality and club VITA report, Acceptable Audit reports, Outcome and consistency of valuation reports	15
3.7 To ensure the Fund is protected from any employer failing to meet its liabilities to the Fund	Failure to protect the fund from an employer failing to pay any amounts due including contributions or cessation payments	16	Valuation identification, Covenant reviews, Bonds/Guarantees in admission agreements, Cessation valuations carried out whenever an employing body leaves the fund	Valuation risk analysis, Active member numbers reviewed annually, Standard Admission agreements include requirements for bonds/guarantees, Cessation valuation completed by Actuary.	12
3.8 To ensure ceding employers are protected from transfers	Failure to protect the Fund from inappropriate transfer of assets as part of bulk transfers	12	FSS includes appropriate policy on transfers out taking account of the existing funding level and amends transfer values accordingly	Documented in the Funding Strategy Statement	8
3.9 To ensure that the Strategic Investment Strategy meets the actuarial assumptions	Failure to ensure the Strategic Investment Strategy matches the Actuarial assumptions to achieve full funding in the long term	0	SEE SEPARATE INVESTMENT SECTION	n/a	0

Objective	High Level Risk	Pre-control Risk Score	Controls	Source of Assurance	Post-control Risk Score
Administration					
4.1 Deliver a consistently high level of performance and customer service	Failure to deliver a consistently high level of performance and customer service	20	Performance reports presented to Pensions Committee and in the Annual Report and compared with benchmarking comparisons, internal control systems, schemes of delegation, Appropriate staffing levels, internal data checks, Actuarial data checks, Finance system.	Pensions Committee, Pension Board, Internal and external Audit reports, Management review, Actuarial certification.	16
4.2 To ensure data quality is accurate, secure and protected and critical systems are available at all times	Failure to ensure data quality is accurate, secure and protected and critical systems are available at all times	20	Aquilla Heywood AXIS / Altair system, Structured ICT control procedures, ICT control processes and mirror backup, schemes of delegation.	ICT audit reviews, Internal testing, Audit.	16
4.3 To Communicate to our key stakeholders in a clear informative style	Failure to Communicate to our key stakeholders in a clear informative style	16	There is a Communication strategy in place, Regular communications with employees, Web site for employers Employees, publicly available	Pensions Board / Committee reports Communications Strategy and regular review, All major communications subject to accessibility checks, Internal management review.	12
4.4 Ensure administration compliance with regulatory codes of practice and legislation.	Failure to comply with regulatory codes of practice and legislation.	20	Internal technical specialists, guidance from professional advisers, local and national working group, Staff Training, leadership and management, Administration strategy, TPR requirements	Audit, Regular Altair software updates encompass most regulatory changes, Employer sanction process and TPR breach reporting, Management controls.	15

Objective	High Level Risk	Detailed Risk	Pre-control Risk Score	Controls	Source of Assurance	Post-control Risk Score	Review Date	Actions Description	Outcome of Review /Changes made	Owner
1.1 To ensure the Fund has an appropriate governance structure	1.1 Failure to have an appropriate Governance structure in place including appropriate policies e.g. Conflicts of Interest	Failure to review Governance standards against suitable benchmark (Government guidance e.g. Code of practice 14)	16	Officers monitor and are aware of various governance standards and changes within them.	DLUHC, IPR, SAB, LGA,	9	Jul-22	Review following IPR revision of code of practice (from 15 codes to 1) and consider internal/external review.	0	All
		Failure of senior officers to have appropriate skills, or knowledge	8	Senior Officers can demonstrate appropriate knowledge, skills and experience	Qualifications and experience of senior officers, "we talk" appointment process, training and development log, CIPFA KSF, TNA	2	Apr-22	Impact of SAB Good Governance Review? Succession planning becoming more important in some areas.	add succession planning into new business plan	MS
1.6 To comply with all legislation relating to Local Government Pensions.	1.6 Failure to adhere to relevant statutory regulations including updates to LGPS	Failure to know about legislative change	20	Regular review of prospective changes through consultations; updates from LGA and intelligence from conferences and advisors	Pension Board, Altair system updates, LGA, Hymans, POGS, Eversheds.	15	Ongoing	Review impact of McCloud, Goodwin, cost cap, exit payment cap to be introduced laste 2021?	0	MS SJ JW
1.6 To comply with all legislation relating to Local Government Pensions.	1.6 Failure to adhere to relevant statutory regulations including updates to LGPS	Failure to implement changes to systems, processes and to document such as required by legislative change	16	Ensure any changes are implemented through changes to documents and procedures as required	Pension Board, Altair updates, communications working groups, CIPFA code and example accounts.	12	Ongoing	Software updates required to assist implementation of regulation changes, manual calculations-impact on resources, SCC ICT infrastructure now upgraded for compliance into 2022.	0	MS SJ JW
1.6 To comply with all legislation relating to Local Government Pensions.	1.6 Failure to adhere to relevant statutory regulations including updates to LGPS	Failure to train staff as required by the legislative change	16	Ensure staff are trained in changes as required.	Pension Board, Internal Audit, team meetings, targeted training, webinars, LGA training	12	Ongoing	need to train staff on impact and practical implementation of significant regulatory change	0	MS SJ JW
2.3 To achieve performance above the return of the 'neutral / tactical' strategic benchmark return, through the appointment of active managers, where appropriate.	2.3 Failure of active managers to deliver outperformance (net of fees)	Failure of SPF/LGPS Central to ensure managers in the same asset class are complimentary	16	Active managers in the same asset class are complimentary. Investment advisors review managers/funds in each asset class periodically.	Consultant involved in product development and due diligence process/PAF-IWG/LGPS Central Joint Committee. Investment advisors produce a suitability report prior to investment. Performance measurer report.	12	Quarterly, with a 5 year focus	LGPS Central agreed to involve Partner Fund representatives in oversight of appointment process (not decision)	0	Pensions Panel
2.3 To achieve performance above the return of the 'neutral / tactical' strategic benchmark return, through the appointment of active managers, where appropriate.	2.3 Failure of active managers to deliver outperformance (net of fees)	Failure of SPF/LGPS Central to consider whether active managers can add value and whether the benchmark and target level of performance allows sufficient scope to deliver their target	16	Active managers are appointed where it is clear they can add value and their benchmark and performance target allow them scope to deliver	Consultant involved in product development and due diligence process/PAF-IWG/LGPS Central Joint Committee/Pensions Panel/Pensions Board	12	Quarterly, with a 5 year focus	LGPS Central agreed to involve Partner Fund representatives in oversight of appointment process (not decision)	0	Pensions Panel
2.4 To ensure that asset classes and managers are understood together with their returns and correlations to each other	2.4 Failure to understand the relationships between asset classes, managers and their correlations to each other.	Failure of SPF/LGPS Central to consider and address the impact of manager correlation	16	Managers strategies are understood to ensure any strategy overlap is minimised	Manager fit is understood on appointment, Manager monitoring, Consultant comments, Performance measurement, Joint Committee, PAF-IWG	12	Quarterly	likelihood increased due to upcoming implementation of new SAA following review.	0	Pensions Panel
2.4 To ensure that asset classes and managers are understood together with their returns and correlations to each other	2.4 Failure to understand the relationships between asset classes, managers and their correlations to each other.	Failure to consider and address any systemic risk factors across the fund	20	Macroeconomic factors are understood, Manager awareness of global trends and potential risk areas. The fund has a long term investment strategy, diversification of investments	Quarterly strategic review, meetings with managers, Consultant comments, LGPS Central/Manager presentations to Pension Panel, Pension Board, PAF IWG.	12	Quarterly	Likelihood increased due to combination of current macroeconomic factors, eg inflation, energy prices, covid, geopolitical events.	0	Pensions Panel
2.5 To ensure the Fund takes account of Responsible Investment (RI) factors in its investment decisions.	2.5 Failure to take account of RI factors in investment decisions	Failure to comply with the FRC UK Stewardship Code	10	FRC UK Stewardship Code (Tier 1 signatory to 2016 code), as are all fund managers, working towards becoming signatory of 2020 revised code	2016 Investment regulations, ISS, LGPS Central, mangers contracts contain clause.	10	Annual / October 22	To become signatories of the 2020 FRC UK Stewardship Code, plus SAB guidance	0	TB

Objective	High Level Risk	Detailed Risk	Pre-control Risk Score	Controls	Source of Assurance	Post-control Risk Score	Review Date	Actions Description	Outcome of Review /Changes made	Owner
2.7 Understand and consider the difference between the liability benchmark and the 'neutral' SAA	2.7 Failure to understand the changes in the liability benchmark of the Fund and adjust the 'neutral' SAA accordingly	Impact of changes in inflation and its effect on liabilities is not taken into account when setting 'neutral' SAA	12	Cash flows of the fund are monitored quarterly and understood. The fund operates on a liability aware basis.	Actuarial Valuation, annual change in the Funds liability benchmark are reported to the Pensions Panel. Considered as part of the SAA. Asset Liability Modelling.	9	Annual		0	Pensions Committee/ Pensions Panel
2.8 Ensure the efficient transfer of assets to, set up and running of LGPS Central	2.8 Operating costs of the pool exceed budget, staff impacted and anticipated savings do not materialise, impacting Fund performance	Risk of SPF/LGPS Central losing key personnel and knowledge.	16	Ensure other members of staff know how to do all roles and are aware of work on going, including within LGPS Central	Regular strategy and planning meetings to schedule work and priorities, generic job descriptions, succession planning, PAF-IWG	12	Mar-23	LGPS turnover close to 20% Likelihood increased.	0	MS/Team
2.8 Ensure the efficient transfer of assets to, set up and running of LGPS Central	2.8 Operating costs of the pool exceed budget, staff impacted and anticipated savings do not materialise, impacting Fund performance	Failure to have appropriate transition arrangements in place to ensure the continued security of assets and efficient and cost effective transfer of assets into LGPS Central.	20	Transition manager is appointed by LGPS central/SPF, and transition advisor in place.	Procurement through LGPS transition framework. Assistance of Transition Advisor. Custody records and investment team reconciliations and LGPS Central Custodian. PDLG. External and internal audit working group assurance of transitions.	12	Ongoing		0	Joint committee, PAF, TB team
2.8 Ensure the efficient transfer of assets to, set up and running of LGPS Central	2.8 Operating costs of the pool exceed budget, staff impacted and anticipated savings do not materialise, impacting Fund performance	Regulatory Changes in relation to asset pooling impacting LGPS Central or SPF	10	Regulatory change is monitored and consultations are responded to.	DLUHC, Pensions Committee, Hymans, cross pool working groups.	10	ongoing	Review as a result of DLUHC formal consultation and statutory guidance	0	Pensions Committee
3.2 To ensure the solvency of the scheme i.e. to ensure the Fund has sufficient money to meet its benefit outflow (minimum 100% funded in long term)	3.2 Failure to ensure the solvency of the Fund i.e. to ensure it has sufficient money to meet its benefit outflow in the long term (minimum 100% funded in long term)	Failure to identify the extent to which assumptions for demography, pay, inflation or investment returns (including the impact of climate change) explain any funding deficit arising from the previous valuation and to consider whether the assumptions for the current valuation are prudent	16	Valuation assumptions are prudent. An assumptions paper was received from the Actuary for the 2019 Valuation, this compared the 2019 assumptions with those used in the 2016 Valuation.	No issues identified by GAD in respect of actuarial or investment assumptions under their Section 13 analysis, Pension Board, Club Vita. Actuarial assumptions paper presented to Pensions Committee.	16	Triennial	Increased likelihood due to pending 2022 valuation and current volatility in assumptions.	0	MS
3.2 To ensure the solvency of the scheme i.e. to ensure the Fund has sufficient money to meet its benefit outflow (minimum 100% funded in long term)	3.2 Failure to ensure the solvency of the Fund i.e. to ensure it has sufficient money to meet its benefit outflow in the long term (minimum 100% funded in long term)	Failure to document in the Funding Strategy Statement the basis on which the long term cost efficiency of the scheme will be achieved or to identify any exceptions	16	Actuary certified funding strategy is in place following the Triennial valuation, Funding Strategy is consulted on before implementation.	Funding Strategy Statement is up to date and reflects current practice and legislative change, Pension Board, Pensions Committee.	12	Triennial	May need to review FSS following triennial valuation.	0	MS
3.2 To ensure the solvency of the scheme i.e. to ensure the Fund has sufficient money to meet its benefit outflow (minimum 100% funded in long term)	3.2 Failure to ensure the solvency of the Fund i.e. to ensure it has sufficient money to meet its benefit outflow in the long term (minimum 100% funded in long term)	Failure to use stochastic modelling (or other smoothing methodology) to set contribution rates that are relatively stable to ensure the delivery of local services is not unnecessarily disrupted by significant changes in contribution rates	16	Use stochastic models (which take into account changes in assumptions) to smooth out changes in contribution rates (stabilisation)	Consultation responses on Funding Strategy; meetings with employers; Central government/Tax payer underpin	16	Triennial	Increase in likelihood due to upcoming 2022 valuation	0	MS
3.6 To ensure that the existing and prospective liabilities arising from circumstances unique to different scheme employers are taken into account by the Actuary	3.6 Failure to identify, monitor and reflect the unique characteristics of employer's liabilities for example maturity in setting contribution rates including those employing bodies getting close to having no active members	Failure to have a Covenant Monitoring process in place to take into account the long term financial stability of employers of the fund.	16	Online FLR in place, employer profiling system developed.	Annual review of employer covenants, Actuary, triennial valuation, employer profiling report	12	Dec-22	Fully introducing new system to review ongoing employer funding and risk levels, including review of external system providers		MS/JW
4.1 Deliver a consistently high level of performance and customer service	4.1 Failure to deliver a consistently high level of performance and customer service	Failure to monitor workloads, or backlogs or benchmark staff numbers	20	Staffing numbers are appropriate - monitor workloads; monitor backlogs; benchmark staffing numbers	Review of KPIs by Pensions Committee / Board, Review of published benchmark returns	16	ongoing, Aug 22	Significant amount of regulatory change and the need to implement such, may impact wider service delivery. Increased further by delays in software updates and systems, leading to increased manual calculations. In addition to recruitment and retention issues.		SJ/JW
4.2 To ensure data quality is accurate, secure and protected and critical systems are available at all times	4.2 Failure to ensure data quality is accurate, secure and protected and critical systems are available at all times	Failure to protect against increased physical or cyber threats	20	SCC and partner ICT policies and procedures, Mirror server operation, special environmental controls SCC ICT Policies, internal access controls and Altair security roles. Firewall and anti virus controls. Business Contingency and DR Plans	ICT Audit, DR Testing reviews. GDPR Impact assessment statement for MPP, evidence of current security arrangements held by software provider and security certification levels.	15	May-23	Consider cyber footprint to develop cyber policy. Review insurance in this area. Heywoods, Staffs ICT and Experian.	0	SJ/JW
4.2 To ensure data quality is accurate, secure and protected and critical systems are available at all times	4.2 Failure to ensure data quality is accurate, secure and protected and critical systems are available at all times	Failure of scheme employers to provide contractual hours and service break data, from 1 April 2014 in respect of Mcloud impact changes.	16	Internal project team, software providers update systems to collect data and identify any gaps. Regulatory requirement.	Software reporting.	16	May-23	Project team working effectively, software is being evolved.		JWS/JMS

Objective	High Level Risk	Detailed Risk	Pre-control Risk Score	Controls	Source of Assurance	Post-control Risk Score	Review Date	Actions Description	Outcome of Review /Changes made	Owner
		Failure to supply quality information to the National Pensions Dashboard from 2024.	16	Data Quality checks, Actuarial assesment of data quality, software solution.	Club Vita, CIPFA Benchmarking, NFI	9	May-23	Awaiting software solution	Need to step up data cleansing inadvance of dashboard launch.	0
4.4 Ensure administration compliance with regulatory codes of practice and legislation.	4.4 Failure to comply with regulatory codes of practice and legislation.	LGPS regulation changes in relation to fair deal, McCloud & Goodwin. Processing and funding issues (see duplicated on funding tab)	20	Systems updated and adequate staff resource and training in place	KPIs maintained at previous levels	15	May-23	Review and monitor legislative changes	0	SJJW

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Staffordshire
Pension Fund
Local Government Pension Scheme

Staffordshire Pension Fund

Risk Management

Policy

Issue Date 1 July 2022



Risk Management Policy

Introduction

This is the Risk Management Policy for the Staffordshire Pension Fund ("the Fund"), part of the Local Government Pension Scheme ("LGPS") managed and administered by Staffordshire County Council ("the Administering Authority").

Risk management is central to the management of the Pension Fund, as reflected by the coverage of risk in key documents such as the Funding Strategy Statement and the Investment Strategy Statement. It is an essential element of good governance in the LGPS. The Fund will aim to comply with the CIPFA Managing Risk publication and the Pensions Act and Pensions Regulator's Code of Practice for Public Service Pension Schemes as they relate to managing risk.

The Risk Management Policy details the risk management strategy for the Fund, including the following key areas:

- The Fund's attitudes to, and appetite for, risk;
- Aims;
- Risk measurement and management; and
- Responsibility.

The Fund's attitudes to, and appetite for, risk

The Administering Authority recognises that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, the Administering Authority can:

- demonstrate best practice in governance;
- improve financial management of the Fund;
- better manage change programmes and projects;
- minimise the risk and effect of adverse conditions on the Fund;
- identify and maximise opportunities that might arise;
- minimise threats; and
- support innovation and continual improvement in a changing environment.

The Administering Authority adopts best practice risk management, which supports a structured and focused approach to managing risks and ensures risk management is an integral part in the governance of the Fund, at a strategic and operational level.

The Administering Authority recognises that it is not possible or even desirable to eliminate all risks. Some risks can be mitigated by putting in place a simple control process whereas other risks will remain at a high level, despite any mitigating controls being put in place. Accepting and actively managing risk is therefore a key part of the risk management strategy for the Fund. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund's objectives, considering the Administering Authority's risk appetite, particularly in

relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, the Administering Authority will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained;
- adopt a system that will enable the Fund to anticipate and respond positively to emerging risks; and
- minimise loss and damage to the Fund and to other stakeholders who are dependent on the benefits and services provided.

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 and the way in which the contribution rate strategy and the investment strategy combine to deliver those outcomes (the particular method used by the Fund's Actuary is sometimes referred to as stochastic modelling, but there are others). The primary reason for the high variability (risk) in outcomes derives from the high proportion of the Fund invested in growth assets, in particular equities. However, in the long term this is expected 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.

The Administering Authority also recognises that risk management is not an end in itself; nor will it remove risk from the Fund or the Administering Authority. However, it is a sound management technique that is an essential part of the Administering Authority's stewardship of the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

Aims

In relation to understanding and monitoring risk, the Administering Authority aims to:

- raise awareness of the need for risk management by all those connected with the management and administration of the Fund (including Officers, Pensions Committee Members and the Local Pensions Board);
- integrate risk management into the culture and day-to-day activities of the Fund;
- anticipate and respond positively to change and emerging risks;
- minimise the probability of negative outcomes for the Fund and its stakeholders;
- identify control and review sources of assurance already in place to mitigate against risk and highlight areas requiring improvement; and
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk.

Risk measurement and management

Identifying Risks

Risks to the Fund are identified in a number of ways:

- Monitoring performance against the Fund's Annual Business Plan;
- Recommendation and findings of auditors and other professional advisors;
- Feedback from Local Pensions Board, employers and other stakeholders;
- Meetings of senior officers and staff involved in the management of the Fund; and
- Meetings with other organisations, regional and national associations and professional groups.

Risks are regularly reported to the Pensions Panel/Committee as part of routine quarterly reporting. There is a separate Risk Register, which has been developed to categorise risk across 4 main areas of focus:

- Funding
- Administration
- Governance
- Investment

The Pension Fund has a set of high-level objectives which cover all key aspects of the Fund under each of these areas. The greatest risks to the Fund are therefore those associated with not meeting the high-level objectives. The risk register details the risks associated with not achieving the Fund's objectives as a series of sub risks against those high-level objectives. This ensures a comprehensive coverage of all areas of the Fund.

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

Controls that are currently in place to mitigate risks, together with additional sources of assurance are listed and these are then taken into account to give a post control impact and likelihood score. Again, these have been combined to give an overall post control risk score which has been assigned a RAG rating. All risks are given a review date, risk owner and any future actions to be taken are noted.

Management and reporting of the Risk Management

Officers review emerging risks and one of each of the four distinct areas quarterly, together with risks where the review date is imminent. These reviews allow current controls to be assessed and analysed to ensure they are still in place and relevant. It also gives the opportunity to identify areas for improvement and additional controls required. New emerging risks are also discussed at these reviews and added into the Risk register.

The Pensions Committee have requested that the Local Pensions Board (LPB) take an active role in reviewing the Risk Register alongside Officers. Members of the LPB

work with Officers, at the quarterly meetings, to drill down into the detailed risks and gain an understanding of the controls in place and the various sources of assurance. Any areas of concern are brought to the attention of the Committee at their next meeting. An annual review of high-level risks is undertaken by the Pensions Committee, irrespective of the work of the LPB.

It is important to recognise that some of the greatest risks faced by the Pension Fund arise from change. The consideration of emerging risks will also form part of the Pensions Committee's annual review.

In addition to looking at the risks on the Risk Register, the LPB reviews the Fund's risk management process. It reports as part of its annual statement if it is satisfied that the Fund is adequately monitoring and managing risk. The LPB reports suggested improvements and areas of concern in the risk management of the Fund.

Risks associated with specific areas of the Fund are discussed as part of relevant Officers regular team meetings. Emerging risks in particular are highlighted as part of this process.

The Administering Authority's Internal Audit Service review the Fund's processes, including Governance, Administration and Investments, considering the associated risks and analysing the controls in place. They give an opinion to Officers of the Fund as to the effectiveness of current controls and advise on any improvements required.

Responsibility

This Risk Management Policy applies to all members of the Pensions Committee, Pensions Panel and the Local Pensions Board, including both scheme member and employer representatives. It also applies to the designated Director, S151 Officer and all other Officers involved in the management of the Fund.

Advisers and suppliers to the Fund are expected to be aware of this Policy, and assist the Officers, Committee and Local Board members as required, in meeting the objectives of this Policy. Responsibilities of the Pension Fund are detailed in the County Council's Constitution and Scheme of Delegation. This details in full the powers and responsibilities delegated to the Pensions Committee, Pensions Panel, Local Pensions Board, Director for Corporate Services and to other Officers of the Fund.

Further Information

If you require further information about anything in or related to this Risk Policy, please contact:

Melanie Stokes – Assistant Director for Treasury and Pensions

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Telephone: (01785) 276330

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