

Pensions Board

Friday 31 March 2023

14:00

Oak Room, County Buildings, Stafford

County Buildings, Stafford

DDI 01785 276150

Please ask for Chantelle Denham

Email:

chantelle.denham@staffordshire.gov.uk

John Tradewell
Deputy Chief Executive and Director of Corporate Services
23 March 2023

Agenda

1. **Appointment of Chairman and Vice Chairman of the Pensions Board**
2. **Apologies**
3. **Declarations of Interest**
4. **Minutes of the meeting held on 16 December 2022** (Pages 1 - 4)
5. **Matters arising from:**
 - a) Pensions Committee - Minutes of the meeting held on 16 December 2022 (Pages 5 - 10)
 - b) Pensions Committee - held on 31 March 2023
6. **Data Quality Scores and Data Improvement Plan** (Pages 11 - 18)
Report of the Director of Finance
7. **Staffordshire Pension Fund Risk Register - Investments** (Pages 19 - 26)
Report of the Director of Finance

8. Dates of Future Meetings

- Friday 30 June 2023
- Friday 29 September 2023
- Friday 15 December 2023

9. 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 paragraphs of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended) indicated below’.

Part Two

10. Exempt Minutes from the meeting held on 16 December 2022 (Pages 27 - 28)

(Exemption paragraph 3)

11. Exempt matters arising from

(Exemption paragraph 3)

a) Pensions Committee - Minutes of the meeting held on 16 December 2022 (Pages 29 - 32)

b) Pensions Committee - held on 31 March 2023

12. Internal Audit Reports - Recommendations Progress Log (Pages 33 - 34)

(Exemption paragraph 3)

Report of the Director of Finance

13. LGPS Central Pool - Local Pensions Board Chairs meeting of 27 March 2023

(Exemption paragraph 3)

Oral report of the Chairman

| Membership | |
|--------------------------------------|-------------|
| Rob Birch (Chair) Corrina Bradley | John Mayhew |

Notes for Members of the Press and Public

Recording by Press and Public

Recording (including by the use of social media) by the Press and Public is permitted from the public seating area provided it does not, in the opinion of the chairman, disrupt the meeting.

Minutes of the Pensions Board Meeting held on 16 December 2022

Present: Rob Birch (Chair)

John Mayhew

PART ONE

158. Apologies: Corrina Bradley

159. Declarations of Interest

There were no Declarations of Interest on this occasion.

160. Minutes of the meeting held on 30 September 2022

Resolved: That the minutes of the meeting held on 30 September 2022 be confirmed and signed by the Chairman.

161. Pensions Board - Appointment of Board Members

Members were informed that a resignation had been received from the Board member representing the Trade Unions. Emails had already been sent to Trade Union colleagues in an attempt to find a new representative; a response was yet to be received.

Officers continued to work together to recruit to the vacant positions of Elected Member and Larger Employer representatives. Communications will be sent to local district and borough councils to try and find an Elected Member representative. However, local elections are scheduled to take place in May 2023, so it is unlikely any representatives will be put forward at this time. Emails will be sent out early in the new year and post-election to promote the opportunity.

Consideration was also being given to the overall make-up of the Board, and whether it might work better if it consisted of two employer representatives and two scheme member representatives rather than the current set-up of three representatives of each category. Consideration was also being given to the possible introduction of an Independent Board Chair.

Resolved: That the work being undertaken by officers to recruit additional representation to the Board be noted.

162. Matters arising from:

a) Pensions Committee - Minutes of the meeting held on 30 September 2022

There were no comments on the minutes from 30 September 2022.

b) Pensions Committee - held on 16 December 2022

In response to a query relating to the mechanisms used when an employer leaves the Fund, it was explained that cessation applied when an employer no longer had any active members participating in the Pension Fund – this primarily applied to organisations such as housing associations and other partnership organisations who are classed as “Community Admission Bodies” (CABs).

It was further explained that if a CAB elected to leave the Fund, they could do so providing they could leave enough assets in the Fund to pay off any deficit and to cover the cost of future pension liabilities. Cessation calculations are currently linked to Government bond yields which have increased dramatically this year, and as this reduces the potential cost of future liabilities, this has made it an ideal time for CABs to leave the Fund. The proposed corridor approach which had been suggested by Hymans recommended that the cessation calculation should not just rely on Government bond yields but should be more closely linked to the Fund’s wider asset allocation return expectations and a higher probability of achieving the full funding level. This proposal offers advantages for the employer, as well as the Fund, as it reduces the risk of volatility.

163. Staffordshire Pension Fund Risk Register - Funding

The Board were informed that a risk register meeting took place on 18 November 2022 where the Officer working group reviewed the risk area of Funding. It was noted that a member of the Board was unable to attend this meeting. In the last review period, many of the Funding risks had been increased due to fact the Fund was entering into the Actuarial Valuation period. At this most recent meeting the risks were able to be reduced because the output from the Actuarial Valuation was known and the impact hadn’t been as strong as it might have been. The Board heard that one risk area relating to the failure to monitor the funding position during the inter-valuation period remained high risk. There were nine areas of medium risk highlighted. These related to:

1. the procurement of the Actuary with the current contract due to expire;
2. ensuring contribution rates are appropriate and affordable for each employer;
3. the Funding Strategy Statement which has been revised as part of the actuarial valuation process and is out for consultation with stakeholders; and
4. the Fund’s investment strategy which has been reviewed in tandem with the actuarial valuation and needs to remain appropriate for the long-term financial stability of the Fund.

Members questioned whether there were any additional risks associated with the failure to procure to the role of Actuary, it was confirmed that many of the Fund’s systems were currently integrated with Hymans’ systems, specifically in relation to the provision of data and a change in Actuary would require a longer transfer time for such data. It was also noted that a new Actuary may make different assumptions to Hymans, in combination these could have an impact on the management of the Fund.

In response to a question asking if there was an item in the risk register relating to the risks of asset pooling, particularly in reference to the issue of the costs and returns from

LGPS Central impacting the Fund it was confirmed that it was included in the risk register and could be found in both the Investment and Governance sections.

Resolved: That the risks, relating to Funding, from the current Staffordshire Pension Fund Risk Register, as presented in Appendix 2 to the report, be noted.

164. Dates of Future Meetings

The following dates for meetings of the Pensions Board were provided.

- Friday, 31 March 2023
- Friday, 30 June 2023 (provisional)
- Friday, 29 September 2023 (provisional)

Resolved: That the dates for meetings of the Pensions Board be noted.

165. 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 pf Part 1 of schedule 12A of the Local Government Act 1972 indicated below'

PART TWO

166. Exempt Minutes from the meeting held on 30 September 2022 (Exemption Paragraph 3)

167. Exempt matters arising from: (Exemption Paragraph 3)

- a) Pensions Committee - Minutes of the meeting held on 30 September 2022
- b) Pensions Committee - Held on 16 December 2022

168. Internal Audit Reports - Recommendations Progress Log (Exemption Paragraph 3)

169. LGPS Central Pool - Local Pensions Board Chairs Meeting of 24 October 2022 (Exemption Paragraph 3)

Chairman

Minutes of the Pensions Committee Meeting held on 16 December 2022

Present: Mike Sutherland (Chair)

| Attendance | |
|--------------------------|----------------------------|
| Philip Atkins, OBE | Bob Spencer |
| Mike Davies (Vice-Chair) | Stephen Sweeney |
| Derrick Huckfield | Michael Vaughan (Co-Optee) |
| Phil Jones (Co-Optee) | |

Also in attendance: Rob Birch, Simon Humble and John Mayhew

PART ONE

1. Apologies: Mike Allen, Nigel Caine, Colin Greatorex, Samantha Thompson and Mike Wilcox

2. Declarations of Interest

There were no declarations of interest made on this occasion.

3. Minutes of the meeting held on 30 September 2022

Resolved: That the minutes of the meeting of the Pensions Committee held on 30 September be confirmed and signed by the Chairman.

4. Staffordshire Pension Fund Investment Cost Benchmarking 2021/22

The Committee were informed that the Staffordshire Pension Fund had taken part in an annual investment benchmarking exercise with the international company CEM Benchmarking Inc. The Fund was compared on several cost and performance metrics to a global peer group of 16 pension funds that had a median size of £7.1bn versus the Fund's £6.5bn market value. The benchmarking report provided an independent assessment of value-for-money, the results of the survey were attached at Appendix 2 of the report. It was explained that a straightforward comparison of investment returns and costs, as publicly reported by pension funds would not produce a meaningful benchmarking exercise. There are several variables which would also need to be considered to obtain a like for like comparison, such as assets under management, strategic asset allocation, implementation style, etc. The survey undertaken by CEM adjusted for these variables and provided the Pensions Committee with more clarity on investment return and cost.

The Committee received a presentation which provided more detail of the annual investment benchmarking exercise undertaken by CEM Benchmarking Inc. The presentation focussed on Cost, Performance, Risk, and Value for Money. The key take aways of the presentation were:

Cost

- The Fund's investment cost of 56.9 bps was above the benchmark cost of 52.3 bps.
- In aggregate, the Fund had a higher cost implementation style.
- In aggregate, the Fund paid less than peers for similar assets.

Cost trend

- The Fund's costs had increased from 55.8 bps in 2014/15.

Returns

- The Fund's 8-year net total return was 9.4%. This was above the LGPS median of 8.8%.
- The Fund's 8-year benchmark return was 9.4%. This was above the LGPS median of 8.7%.

Funding and Risk

- The Fund's funding level of 112% on the standard Scheme Advisory Board basis in 2019 was the same as the LGPS median of 112%.
- The Fund's strategic asset allocation suggests that it takes more risk relative to its liabilities than LGPS peers.

Value added

- The Fund's 8-year net value added was 0.0%. The LGPS median was 0.1%.
- The Fund's cumulative 8-year net value added has added £70 million to the funding level of the scheme.

Cost effectiveness / value-for-money

- The Fund's 8-year performance return placed it in the positive value added, high-cost quadrant of the Value for Money chart.

It was suggested that, as a result of the Investment Managers performance fees, the Fund was considered high cost, however, it was explained that the Fund had a belief in active management and, whilst this investment strategy had high fees, it added value to the Fund over a longer period of time. Anecdotally the Committee heard that the performance of the Fund over an eight-year period was strong compared to the 16 pension funds it was benchmarked against by CEM.

Resolved: That the information presented by CEM Benchmarking UK Ltd, provided at Appendix 2 of the report, be noted

5. Actuarial Valuation 2022 - Employer Results and Draft Funding Strategy Statement

The Committee received a presentation from Hymans Robertson (Hymans) which focussed on the results of the Actuarial Valuation of the Fund at 31 March 2022 and the impact on the contribution levels for the different types of Employers in the Fund. It also highlighted the review of the current Funding Strategy Statement (FSS) that had been undertaken as part of the 2022 Actuarial Valuation.

Employer Contribution Levels

The presentation focussed on:

- Whole Fund results
- Employer level results
- Factors causing diversity in results
 - Funding profile
 - Membership experience
 - Membership profile
 - Contributions being paid
- Specific focus on different employer groups
 - Councils, Police and Fire
 - Generally freezing rates (as % of pay) with some increases
 - Town & Parish Councils
 - Rate will drop by 3% in stabilised 1% of pay reductions each year
 - Colleges and Universities
 - Rate will move by maximum of 1% of pay each year (average. 25.7% of pay)
 - Academies
 - Rates reducing by 1% of pay p.a. for most. Option to opt out of stabilisation and see a bigger decrease at this valuation (average. 24.2% of pay)
 - Housing Associations
 - Contributions reflect own funding position as well as the risk associated with longevity
 - Consider the fact the employer may or may not be heading to cessation
 - Employers may be able to provide some form of security which gives assurance to the Fund
 - Contractors
 - Contribution reductions likely to apply (possibly £nil rate resulting)
 - If “pass through” then no change in contribution rate

Funding Strategy Statement Review

As required by Regulation, a full review of the current FSS had been undertaken as part of the 2022 Actuarial Valuation. Whilst there had been no significant changes to the funding strategy as part of the 2022 Actuarial Valuation of the Fund, the opportunity to make some changes to the FSS, recommended by the Actuary, had been taken. The new draft FSS included separate and updated policies on:

- Academy funding (Appendix E of the draft FSS);
- Passthrough arrangements for Admission Bodies (Appendix F of the draft FSS); and
- Cessations, including a revised ‘risk-based’ corridor approach where applicable (Appendix H of the draft FSS).

Other main changes highlighted included:

- An increase in the time horizon allowed for Academies to reach full funding (2.2 of the draft FSS). This was now in line with that of local authorities and had changed from 15 years to 20 years

- Minor changes to the passthrough admissions process (Appendix F of the draft FSS)
- the fact that climate-related risks had been considered and documented when setting the funding strategy (C3 of Appendix C of the draft FSS).

The new draft FSS was open for a period of consultation with all stakeholders and interested parties until 31 January 2023. Employers had been advised of the revised FSS when results schedules were distributed, but a reminder had been sent directly to all Employers and a further note would be included in the Employer Focus Newsletters for December and January 2023. The Committee was asked to approve that the final version of the FSS be signed off by the Director of Finance (Under the new Senior Leadership Team structure, in effect from 12 December 2022), in consultation with the Chair. Members were informed that should there be any significant changes required because of the consultation, these would be presented to the Pensions Committee for approval at the meeting on 31 March 2023 before the final FSS is published.

Resolved: a. That the content of the presentation from Hymans Robertson, attached at Appendix 2 of the report, outlining the results of the Actuarial Valuation of the Fund at 31 March 2022, and its impact on the contribution levels for the different groups of Employers in the Fund, be noted.

b. That the draft Funding Strategy Statement (FSS), attached as Appendix 3 of the report, and the revisions to the format and content of the FSS, outlined in this report and referred to by Hymans in their presentation, be noted.

c. That it be agreed that, subject to there being no significant comments received as part of the consultation with stakeholders, the Final version of the FSS be signed off by the Director of Finance (Under the new Senior Leadership Team structure, in effect from 12 December 2022), in consultation with the Chair.

6. Staffordshire Pension Fund Draft Annual Report and Accounts for the year ended 31 March 2022

Members were reminded that the audit of the Fund's 2020/21 accounts was substantially complete but could not be formally concluded because the Fund accounts were included within the wider County Council Statement of Accounts for 2020/21, which were yet to be finalised.

Members were informed that the audit of the Fund's 2021/22 accounts was also substantially complete, however, the external audit of the County Council's Statement of Accounts for 2021/22 had also not been completed before the deadline of 30 November 2022. The Fund would only receive its concluding Audit Results Report when the County Council's Statement of Accounts for 2021/22 were finalised and the external audit could be completed. It was hoped that this would be received in time to be presented to the 31 March 2023 Pensions Committee.

The statutory deadline for Pension Fund's to publish Annual Reports and Accounts is the 1 December each year. Although the Fund's accounts had not yet been formally signed off for 2021/22, the draft versions had been published on the Fund's website. When the 2021/22 audit process concludes an Independent Auditor's Statement would

need to be included in the Fund's Annual Report and Accounts before they were finalised. Once this Statement has been included, and any remaining drafting issues have been corrected, a final version of the Annual Report and Accounts for both 2020/21 and 2021/22 would be presented to the Chair of the Pensions Committee for final sign off. Following this they would be published on the Fund's website.

Resolved: a. That the delayed conclusion of the external audit of the Staffordshire Pension Fund Accounts for 2020/21, be noted.

b. That the publication of the Staffordshire Pension Fund Draft Annual Report and Accounts for 2021/22, be noted.

7. Exclusion of the Public

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

8. Exempt minutes of the meeting held on 30 September 2022 (Exemption paragraph 3)

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

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

Chairman

LOCAL PENSIONS BOARD – 31 MARCH 2023

Report of the Director of Finance

LOCAL GOVERNMENT PENSION SCHEME (LGPS) REGULATIONS

Data Quality Scores and Data Improvement Plan

Recommendation of the Chair

1. That the Local Pensions Board notes the Staffordshire Pension Fund's Data Quality Scores for 2022 and the comparison of both to 2021. These are reported as:
 - (i) a Common Data Score of 96.8% (97.1% in 2021); and
 - (ii) a Scheme Specific Data Score of 96.35% (96.3% in 2021).
2. That the Local Pensions Board notes the existence of a Data Improvement Plan; a summary of which is provided in Appendix 1.

Introduction and Background

3. In 2015, the Pensions Regulator (TPR) assumed responsibility for all Public-Sector Pension Schemes. Prior to this, in 2010, the TPR had issued guidance on the approach that they considered to be good practice for measuring the presence and accuracy of Scheme Member data across all UK pension funds and accordingly post 2015, the LGPS was required to comply.
4. TPR set specific targets for two types of Scheme Member data, which they deemed as 'common' and 'scheme specific' data and both areas must be reported. TPR set targets of 100% accuracy for data created after June 2010 and 95% accuracy for data created beforehand.
5. **Common Data** relates to core data items that are applicable to all pension schemes for example Name, NI Number, Data of Birth, Addresses etc.
6. **Scheme Specific Data** (also known as Conditional Data) depends on the scheme structure or type. So, for the LGPS this includes pension service history, pensionable earnings, Career Average Revalued Earnings (CARE), transfer in service etc. These test the interdependency of data in different fields within a member's record and report inconsistencies where data is either missing where it should be present or is present when it shouldn't be.

2022 Data Scores

7. The Fund, using the new "Insights" reporting tools provided by its software provider Heywood Pension Technologies Ltd., has completed a review of the "Common and Scheme Specific Data" in line with TPR guidelines. The data

extractions used for the annual report to TPR were produced in November 2022. The results are reported as:

- a Common Data Score of 96.8% (97.1% in 2021); and
 - a Scheme Specific Data Score of 96.35% (96.3% in 2021).
8. The new “Insights” reports highlight possible ‘Data Correction’ issues where potentially incorrect data may need to be addressed. These reports are used to inform the full data cleansing operation performed each year within Pension Services.
 9. The marginal increase in compliance for “Scheme Specific Data” is a result of improvements of data received from Scheme Employers and the data cleanse exercise for the Fund’s 2022 valuation project. There has been a decrease in the “Common Data” score mainly because of an increased number of addresses held now being incorrect. Rectification of this will be considered as part of the Fund’s wider project to comply with onboarding to the National Pensions Dashboard program.
 10. The results and findings have been discussed in detail by the Pensions Services Management Team. A summary of the DIP is included at Appendix 1, together with a comparison of the data scores from 2021.

Data Improvement Plan (DIP)

11. The DIP is a document which examines and quantifies all identified data issues and sets out the method of correction, how the data issues will be resolved and who will be responsible. It also provides expected delivery timescales.
12. The main elements of focus in the 2022 DIP are:
 - Common Data – Address. This will be the focus of a “Data Readiness” project to be started 2023/24;
 - Scheme Specific Data – HMRC. Data quality has reduced since 2021 and additional work to check this area is needed. This may be due to different reporting parameters used than in 2021 and further investigation is required.
 - Scheme Specific Data – Contracted Out. Further Improvements have been made during 2022, however a final alignment of HMRC records to the Altair database will take place during 2023 which should improve this result further.
13. It is intended that progress of the DIP will be discussed and monitored, on a regular basis, and will be a key focus for the new Pensions Systems and Data Manager; data quality improvements continuing as a priority objective for the Systems and Data Team.

Rob Salmon
Director of Finance

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| Contact: | Melanie Stokes, Assistant Director for Treasury & Pensions |
| Telephone No. | (01785) 276330 |

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

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

Resource and Value for money implications: An appropriate level of resource needs to be allocated to this area of activity and this may mean diverting resource from another area of the business in the short term. There are no direct value for money implications arising from this report.

Risk implications: The risk implications are considered in the body of the report.

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

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

The Pensions Regulator (TPR) - Data Quality Results 2021 and Summary Data Improvement Plan (DIP)

Common Data results

The overall Common Data TPR score for 2022 is 96.8% compared to a score in 2021 of 97.1% (a decrease of 0.3%)

A breakdown of scores for each data category within the 'Common' data definition are shown in the table below

| TPR score 2021 | TPR score 2022 | Data category | Comments | DIP Follow-up Action | Target Date |
|----------------|----------------|---|---|---|--|
| 99.9% | 99.9% | NI Number | There are a residual number of historic records where the member no-longer has an interest in the Fund (i.e. they have opted out, transferred their pension to another scheme, or died) where there are temporary NI numbers or NI numbers that are incorrect in format. These records account for the small percentage that is preventing 100% of the TPR score being met. | 199 records have been identified which count towards the TPR data score, a reduction in the number of cases reported in 2021. Some further analysis of these records is required. | 31 December 2023 |
| 100% | 100% | Name | No comment | Maintain 100% accuracy | ongoing |
| 100% | 100% | Sex and Date of Birth | No comment | Maintain 100% accuracy | ongoing |
| 100% | 100% | Date commenced and normal retirement date | No comment | Maintain 100% accuracy | ongoing |
| 100% | 100% | Scheme status | No comment | Maintain 100% accuracy | ongoing |
| 97.1% | 95.1% | Address | There has been a noticeable decrease in cases not passing this test compared to 2021. The reason the score is less than 100% is mainly | In 2022 the Fund planned to engage an external tracing agency to search for missing addresses and following this to update member records where | Ongoing with Tracing Exercise completed by |

| | | | | | |
|--|--|--|---|--|----------------------|
| | | | <p>due to a significant number of members with deferred benefits who have not notified their change of address details after leaving the Pension Fund. This is a common issue across all Local Authority Pension Funds.</p> | <p>the search had successfully found a current address.</p> <p>Due to resource demands on the section to complete the 2022 Actuarial Valuation and also the expiry of the Data Tracing (Member Data Services) on the national LGPS Framework, progress was halted in this area.</p> <p>Member address verification is now being considered in the wider context of the “Data Readiness” project to comply with on boarding to the National Pensions Dashboard.</p> | <p>31 March 2024</p> |
|--|--|--|---|--|----------------------|

The Pensions Regulator (TPR) - Data Accuracy Results 2022 and Summary Data Improvement Plan (DIP)

Scheme Specific Data results

The overall Scheme Specific data TPR score for 2022 is 96.35% compared to a score in 2021 of 96.3% (an improvement of 0.05%)

A breakdown of scores for each Data category within the 'Specific' data definition are shown in the table below

| TPR score 2021 | TPR score 2022 | Data category | Comments | DIP Follow-up Action | Target Date |
|----------------|----------------|-----------------|--|--|---------------|
| 99.9% | 99.5% | Member Benefits | Data quality standards in this area have been largely consistent with a slight decrease mainly due to technical issues with the way data has been historically recorded. | Some areas notably the format of some transfer in records need further investigation and potential maintenance to member records in accordance with the Fund's Data Correction Plan | 31 March 2024 |
| 99.8% | 99.5% | Member Details | Data quality standards in this area have been largely consistent with a slight decrease in some areas | Further investigation is required however the issue appears to be connected to employers not providing timely termination information for casual contracts where the scheme member is no longer working in post. | 31 March 2024 |
| 95.3% | 96.1% | CARE Benefits | There has been a notable improvement in records passing this test since 2021. There will always be cases where a member joins at the very end of a financial year and will only receive CARE pay in the following year. This will appear on data report as missing data and be reflected in the | Improvements this year were largely the result of additional data correction work required for the 2022 Actuarial Valuation. Going forwards, the Fund's objective is to continue the implementation programme for i-Connect with the target for all scheme employers, to fully comply with monthly electronic | ongoing |

| | | | | | |
|-------|-------|----------------|--|---|------------------|
| | | | percentage score despite the record being correct. | transfer of CARE data at the earliest opportunity. | |
| 100% | 98.6% | HMRC | Data quality standards have decreased slightly in this area since 2021. | Issues identified are technical and appear to mainly relate to the Annual Allowance and Benefit Crystallisation records. The significant increase in these types of case may also be connected to a change in reporting parameters as 2022 is the first year the TPR compliance report has been produced using the “Insights” reporting tool. | Ongoing |
| 95.2% | 96.5% | Contracted Out | This area has shown an improvement since 2021 however further work is required to fully align HMRC data with that held on the Altair database. | <p>The improvement in this area has been the result of additional work on the GMP reconciliation project and training across the section on the importance of maintaining GMP records correctly.</p> <p>The final stage of the GMP load to match HMRC records will take place during 2023 as the module to upload data will not be available after the end of the calendar year. As a result, a further improvement in this area is expected.</p> | 31 December 2023 |

LOCAL PENSIONS BOARD – 31 MARCH 2023

Report of the Director of Finance

STAFFORDSHIRE PENSION FUND RISK REGISTER

Recommendations of the Chairman

1. That the Local Pensions Board ('Board') notes the risks, relating to Investment from the current Staffordshire Pension Fund Risk Register, as presented in Appendix 1.

Background

2. At their meeting in June 2022, the Pensions Committee noted the high-level risks identified within the Staffordshire Pension Fund Risk Register. The Committee also asked the Board to continue to undertake a regular detailed review of the risks identified and the process for maintaining the Risk Register, and report back to the Committee on any areas of concern.
3. To assist with their review, the Board requested that one of the four main risk areas (Governance, Funding, Administration, and Investment), be presented to them at each meeting, for their consideration. This was to align with the risk area considered by the Officer working group that quarter.
4. Board members have joined the Assistant Director for Treasury & Pensions and Senior Pensions and Investment Officers, forming the Officer working group, on a quarterly basis. Working through the detail of the individual risks, they collectively determine individual risk scores by considering the potential impact any one risk might have, together with the likelihood of that risk occurring. Members of the Board are invited to continue to attend these working groups if they so wish.
5. At a meeting on 10 February 2023, the Officer working group reviewed the risk area of Investments. Pre and post control ratings were re-assessed, considering any new controls or sources of assurance. New areas of potential risk were also considered.
6. Investment risks have been heightened generally this year due to the impact of the high inflation / high interest rate economic environment, although this also presents investment opportunities. A review of the Fund's Strategic Asset Allocation in tandem with the Actuarial Valuation of the Fund on 31 March 2022 also resulted in a range of changes to the Fund's investment structure and these present a range of risks, as assets are transferred from one asset class or investment manager to another. However, post control, Fund Officers believe there are two areas of high risk and thirteen areas of medium risk.
7. The two high-level risk areas are both related to the operating costs and the impact any significant increase in these may have on the potential savings arising from LGPS Central.

8. The thirteen areas of medium risk relate to several matters including:
- i) Appropriate processes being in place for the appointment and review of active managers, in particular those selected by LGPS Central;
 - ii) A lack of asset class and/or manager diversification;
 - iii) Approval of the Fund as a signatory to the UK Stewardship code;
 - iv) Risk of losing key personnel at the Fund and LGPS Central;
 - v) Risks associated with any updated pooling guidance; and
 - vi) Transition risks when legacy assets are transferred into LGPS Central Limited.

Whilst all the medium risk areas are deemed to be well managed and have appropriate controls in place, the scores have increased predominantly due to the likelihood of an event happening. E.g. implementation of changes in the Fund's Strategic Asset Allocation will result in an increased need to move assets.

9. The full list of the current Investment Risks is presented in Appendix 1 for the Board to discuss and / or note at today's meeting.

Rob Salmon
Director of Finance

Contact: Melanie Stokes
Assistant Director for Treasury & Pensions
Telephone No. (01785) 276330

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

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

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.

| APPENDIX 1 | | | | | | | | | | | | | | |
|---|---|---|--------|------------|------------------------|--|--|--------|------------|-------------------------|-----------------------------------|--|---|--------------------|
| Investment Objective | High Level Risk | Detailed Risk | Impact | Likelihood | Pre-control Risk Score | Controls | Source of Assurance | Impact | Likelihood | Post-control risk Score | Review Date | Action Description | Outcome of Review /Actions made | Owner |
| 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. | 2.1 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 | Failure of the investment consultant to take account of the Actuarial assumptions in advising on the Strategic Asset Allocation | 5 | 3 | 15 | Strategic Asset Allocation review is being carried out in tandem with the funding strategy review to ensure the consistency of assumptions used by the actuary in setting contribution rates. Ensuring the Actuary and Investment Consultant understand each others assumptions and ensure they are consistent. Using stochastic modelling to show a range of outcomes and reporting and consulting on the assumption through the Funding Strategy | Pensions Committee receive report from consultant to demonstrate consistency and outcome from Asset Liability modelling. Additional paper producedby Hymans justifying asset outperformance assumption. No issues from Regulation 13 report, GAD. SAA review with investment consultant. | 4 | 2 | 8 | Mar-24 | Strategic asset allocation review as part of 2022 actuarial valuation has been carried out. | | Pensions Committee |
| | | Failure of the Actuary to model the impact of the Strategic Asset Allocation in setting contribution rates | 5 | 3 | 15 | Use of asset liability modeling to understand the range of possible outcomes. Use of stabilisation policy | Pensions Committee receive report from the Actuary, to demonstrate the output from modelling and use of stabilisation policy. Pensions Board | 4 | 2 | 8 | Mar-24 | SAA has been taken into account in setting contribution rates | | Pensions Committee |
| | | Failure to clearly explain the impact of the Strategic Asset Allocation in the Funding Strategy Statement (FSS) and failure to consult on the assumptions | 2 | 3 | 6 | Funding Strategy Statement clearly explains the impact. | Responses to consultation are taken into account. Pension Board, Pensions Committee, Appendix D in FSS | 2 | 1 | 2 | Mar-24 | Pensions committee were consulted on asumptions, FSS to be updated post valuation results. | | Pensions Committee |
| | | Failure of LGPS Cental to offer a suitable range of products to meet the requirements of the Fund's SAA | 3 | 4 | 12 | Other managers can be appointed to fulfill required SAA. PAF investment working group, project development protocol, decision tree. | Pensions Committee, LGPS cental joint committee, DLUHC draft regulations, range of LGPSC products available is increasing | 3 | 2 | 6 | ongoing | Review after DLUHC Formal Consultation due 2023 | | Pensions Panel |
| | | | | | | | | | | | | | | |
| 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 | 2.2 The actual/ tactical investment strategy (determined by the Panel) fails to exceed the return of the neutral SAA | Failure to monitor the actual/ tactical SAA using up to date market values | 4 | 3 | 12 | Actual/ tactical SAA position is monitored monthly and updated to the latest values regularly | Use of benchmark indices to value positions. Valuations from custodian and managers | 4 | 2 | 8 | Monthly | Up to date fund valuations are produced on the last day of each month, and periodically as required. No tactical positions taken currently, new SAA was approved March 22 with implementation to follow. | | MS |
| | | Failure to report the actual/ tactical SAA compared to the neutral SAA to the Pension Panel quarterly | 4 | 3 | 12 | Actual/ tactical SAA position is reported to Pension Panel quarterly | Pensions Panel receives quarterly SAA repot/ valuation. Pensions Board. Investment Consultants. | 4 | 2 | 8 | Quarterly | Pensions Panel reviews the SAA report and takes mitigating action where required | Panel recommends an amendment to actual/ tactical SAA | Pensions Panel |
| | | Failure to record the tactical positions, approved by the pensions panel, compared to the neutral SAA. | 4 | 3 | 12 | Any tactical positions taken by the Pension Panel are properly recorded and the outcome monitored | Pension Panel minutes. Pension Board. Investment consultants. | 4 | 2 | 8 | Quarterly | Working documents, custody records and performance records updated | No Tactical positions taken currently. | MS |
| | | Failure to monitor the impact of tactical positions against the neutral SAA | 4 | 3 | 12 | Performance measurer reports tactical returns vs neutral SAA returns benchmark | Fund performance reports to Pension Panel. Pension Board | 4 | 2 | 8 | Quarterly | | | 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 conduct a robust due diligence process in appointing active managers including where appropriate an open competition compliant with EU regulations | 4 | 4 | 16 | Active managers are appointed by SPF/LGPS Central through robust competitive process, where required | Use of appropriate procurement process compliant with EU regulations if relevant, including the use of consultant advice as appropriate (LGPS Central use private procurement process) | 4 | 3 | 12 | Quarterly, with a long term focus | LGPS Cental agreed to involve Partner Fund representatives in oversight of appointment process (not decision) | | Pensions Panel |

| Investment | | | | | | | | | | | | | APPENDIX 1 | | |
|--|---|--|--------|------------|------------------------|--|---|--------|------------|-------------------------|------------------|---|---|----------------|--|
| Objective | High Level Risk | Detailed Risk | Impact | Likelihood | Pre-control Risk Score | Controls | Source of Assurance | Impact | Likelihood | Post-control risk Score | Review Date | Action Description | Outcome of Review /Actions made | Owner | |
| 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 of SPF/LGPS Central to consider and address the impact of manager correlation | 4 | 4 | 16 | Managers strategies are understood to ensure any strategy overlap is minimised | Manager in is understood on appointment, Manager monitoring, Consultant comments, Performance measurement, Joint Committee, PAF-IWG, Investment advisors, 3 year review of LGPS | 3 | 4 | 12 | Quarterly | | likelihood increased due to upcoming implementaion of new SAA following review. | Pensions Panel | |
| | | Failure to consider and address any systemic risk factors across the fund | 4 | 5 | 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 mangers, Consultant comments, LGPS Central/Manager presentations to Pension Panel, Pension Board. PAF IWG. | 3 | 4 | 12 | Quarterly | | Likelihood inceased due to combination of current macroeconomic factors, eg inflation, energy prices, covid, geopolitical events. | Pensions Panel | |
| | | Failure to consider and address currency risk | 3 | 3 | 9 | Impact of Currency risk on fund value is understood (As a long term investor with no immediate need to sell assets short term fluctuations have a limited impact). Awareness of Currency market fluctuations. Appropriate currency hedging policy is in place if required. | Quarterly strategic review, Consultant comments, Pension Panel, Pension Board | 3 | 3 | 9 | Quarterly | No current requirement for Currency Hedging but need to consider process for implementing Currency Hedging if required in future (LGPS Central?), will be reviewed as part of SAA | | Pensions Panel | |
| | | Failure to consider and address risk from leveraged investment funds | 4 | 3 | 12 | Impact of leverage on the Fund is understood. Amount of leverage within investment funds is understood and limited. | Consultants, Manager due diligence, LGPS Central, PAF-IWG, information in fund prospectus | 3 | 2 | 6 | Ad hoc | | | Pensions Panel | |
| | | Failure for the SPF/ LGPS Central to have a policies on RI&E | 3 | 3 | 9 | Fund Policies in place and complied with. All fund managers signed up to UNPRI. All fund managers report quarterly on Voting and Engagement. Quarterly report to Pensions Panel. Investment beliefs include RI&E considerations. | Policy in ISS, Pension Board, LGPS Central Investment Director for RI, PAF-RI, Joint Committee, Climate Change Strategy and TCFD reports. | 2 | 3 | 6 | Annual / June 2 | Consideration to be given to actions arising from review of FRC UK Stewardship Code plus SAB guidance. | | TB | |
| | | Failure to comply with the FRC UK Stewardship Code | 2 | 5 | 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. | 2 | 5 | 10 | Annual / April 2 | To become signatories of the 2020 FRC UK Stewardship Code, plus SAB guidance | | TB | |
| | | Failure to have a Climate Policy and take into account the impact of climate change on the SAA and subsequent investment returns | 4 | 3 | 12 | Climate policy produed, Pensions Panel takes into account impact of cliamte change in its investment decisions and setting of SAA, through scenario analysis, RI factors are incorporated in investment beliefs. | Climate risk report, Climate Policy produced, TCFD reporting, Hymans, LGPSC, Scenario analysis, SAA review incorporates climate change roadmap, Climate Stewardship Plan. | 4 | 2 | 8 | Apr-24 | | | TB | |
| | | Failure to meet TCFD reporting requirements and understand the associated climate metrics | 3 | 3 | 9 | TCFD report is produced annually and metrics are monitored | Pensions Committee, Pensions Panel, Pensions Board, Hymans, LGPSC, SAB, DLUHC | 3 | 2 | 6 | Apr-24 | | | TB | |
| | | Failure to have all fund managers signed up the UNPRI Code of Practice | 3 | 3 | 9 | All fund managers signed up to UNPRI. | LGPS Central, manager contracts contain clause | 2 | 3 | 6 | Annual | | | TB | |
| | | Failure of LGPS Central/mangers to report engagement actions quarterly | 3 | 3 | 9 | All fund managers/LGPS Central report quarterly on Voting and Engagement. Quarterly report to Pensions Panel. | Manger reports, LGPS Central Investment Director for RI, LGPS Central Joint Committee (Hermes) | 2 | 3 | 6 | Quarterly | All public fund managers report quarterly, increasingly private market managers are too | | Pensions Panel | |

| Investment | | | | | | | | | | | | | | APPENDIX 1 | |
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| Objective | High Level Risk | Detailed Risk | Impact | Likelihood | Pre-control Risk Score | Controls | Source of Assurance | Impact | Likelihood | Post-control risk Score | Review Date | Action Description | Outcome of Review /Actions made | Owner | |
| 2.6 To minimise fee levels and total expense ratios consistent with performance targets i.e. active / passive | 2.6 Failure to minimise manager fees and expenses commensurate with performance target | Failure to report RI&E issues to the Pension Panel regularly | 3 | 3 | 9 | All fund managers/LGPS Central report quarterly on Voting and Engagement. Quarterly report to Pensions Panel. | Pension Panel reports, Pension Board | 2 | 3 | 6 | Quarterly | | | Pensions Panel | |
| | | Failure to collaborate on RI&E issues | 4 | 3 | 12 | Member of LAPFF, cross pool RI&E working group and LGPS Central. | Member of LAPFF, LGPS Central | 2 | 3 | 6 | Ongoing | | | TB/ Pensions Panel | |
| | | Failure to integrate Climate change and the transition to low carbon economy into the investment portfolio. | 4 | 3 | 12 | LAPFF, LGPS Central and fund managers liaise directly with companies on climate change issues | Member of LAPFF, Managers reports, officers member of PAF RI working group, LGPS Central Investment Director for RI (Hermes). Carbon Risk Metrics (MSCI) and Climate Scenario Analysis (Mercers) offered by LGPS Central. Climate Change Roadmap. SAA review takes account of Climate Change factors. | 3 | 2 | 6 | Ongoing | Review climate risk reporting output from LGPS central, Consider wider implications of Climate risk on the fund, eg funding, employers etc. Investment consultant climate roadmap. | | TB/ Pensions Panel | |
| | 2.6 Failure to minimise manager fees and expenses commensurate with performance target | Failure of SPF/LGPS Central to include fees as part of a competitive procurement process | 3 | 3 | 9 | Competitive tender process, use of framework, joint procurement | Procurement using EU rules and/or expert external advisor, consideration of performance net of fees | 2 | 2 | 4 | Ad hoc | | | Pensions Panel | |
| | | Failure to benchmark fees and expenses annually at fund level with appropriate benchmark | 3 | 3 | 9 | Benchmark fees/expenses at fund level | CEM benchmarking, including value add, Total expense ratio, Peer Benchmarking, CIPFA annual report guidance, consideration of performance net of fees | 2 | 2 | 4 | Annual | | | Pensions Committee | |
| | | Failure to account for fees or to report fees to the Pension Committee and in the Annual Report | 2 | 3 | 6 | Account for fees transparently, Report fees to Pension Committee and in Annual Report (open to scrutiny) | Accounts in accordance with CIPFA annual report guidance, Audit, Pension Committee, Pension Board | 2 | 3 | 6 | Annual | | | Pensions Committee | |
| | | Failure of SPF/LGPS Central to consider whether performance related fees may be appropriate | 3 | 3 | 9 | Performance related fees considered as part of competitive manager appointment | Fee basis based on individual or sub-fund level reported to Pension Panel, Advisors views taken, consideration of performance net of fees, legal due diligence | 2 | 2 | 4 | Ad hoc | | | Pensions Panel | |
| | | 2.7 Understand and consider the difference between the liability benchmark and the 'neutral' SAA | Impact of changes in interest rates and its effect on liabilities is not taken into account when setting the 'neutral' SAA | 4 | 3 | 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. | 3 | 3 | 9 | Annual | Investment adviser reviewing impact of rise in interest rates on SAA | | Pensions Committee / Pensions Panel |
| | | | Impact of changes in inflation and its effect on liabilities is not taken into account when setting 'neutral' SAA | 4 | 3 | 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. | 3 | 3 | 9 | Annual | Investment adviser reviewing impact of rise in inflation rates on SAA, increase was included in ALM | | Pensions Committee / Pensions Panel |
| | | | 2.8 Ensure the efficient transfer of assets to and the running costs of LGPS Central | 2.8 Operating costs of the pool exceed budget, staff impacted and anticipated savings do not materialise, impacting Fund performance | Risk that the operating costs of the pool are too high and impact on the return of the Fund | 4 | 4 | 16 | Budgets for operating costs are in place, monitored and there is a cost sharing mechanism in place. | Shareholders approve annual budget (based on inflationary uplift), with additional products requiring additional approval. Quarterly budget monitoring reported to PAF | 4 | 4 | 16 | Mar-24 | |

| Investment | APPENDIX 1 | | | | | | | | | | | | | | |
|------------|-----------------|---|--------|------------|------------------------|--|---|--------|------------|-------------------------|-------------|--|--|--------------------|-------------------------------|
| Objective | High Level Risk | Detailed Risk | Impact | Likelihood | Pre-control Risk Score | Controls | Source of Assurance | Impact | Likelihood | Post-control risk Score | Review Date | Action Description | Outcome of Review /Actions made | Owner | |
| | | Risk of SPF/LGPS Central losing key personnel and knowledge. | | | | 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 | | | | | LGPSC turnover close to 20% Likelihood increased. | | MS/Team | |
| | | Failure of LGPS Central to deliver the services set out in their Buisness Plan and within agreed timescales to provide SPF with expected level of service for BAU and development. | 4 | 4 | 16 | There is a business plan and budget approved by shareholders, FCA oversight, Senior manager regime, LGPSC board. | Pensions Panel monitoring, LGPSC joint committee, PAF, budget monitoring, shareholders forum | 3 | 4 | 12 | Mar-24 | | LGPSC trunover close to 20% could impact service delivery. | | Pensions Committee /MS |
| | | Risk that the forecast savings from pooling do not materialise, impacting the performance of the fund. | | | | Transition plans are in place, senior management team of LGPS central will monitor fees and have processes in place. SPF input via shareholders forum, LGPS central joint committee and practitioners advisory forum. Cost savings model is used for monitoring. | Shareholders forum, LGPS central joint committee and practitioners advisory forum. Savings are reported. CEM are in place for Benchmarking, use of transition advisor and transition manager. | 4 | 3 | 12 | ongoing | | reflect on use of pool and the cost savings model | | Sharehold ers Forum |
| | | 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. | 4 | 4 | 16 | Transition manager is appointed by LGPS central/SPF | Procurement through LGPS transition framework. Assistance of Transition Advisor if appointed. Custody records and investment team reconciliations and LGPS Central Custodian. PDLG. External and internal audit working group assurance of transitions. | 4 | 4 | 16 | Ongoing | | | | Joint committee, PAF, TB team |
| | | Regulatory Changes in relation to asset pooling impacting LGPS Central or SPF | 5 | 4 | 20 | Regulatory change is monitored and consulatations are responded to. | DLUHC, Pensions Committee, Hymans, cross pool working groups. | 4 | 3 | 12 | Ongoing | Review as a result of DLUHC formal consultation and statutory guidance | | Pensions Committee | |
| | | Potential for concentration of asset management services at LGPS Central | 5 | 2 | 10 | Northern trust depository, segregation of assets, diversified SAA, Regulatory business plan. | Shareholders forum, FCA, Northern Trust as Custodian, Internal/External Audit, AAF/0106 | 5 | 2 | 10 | ongoing | | | Pensions Committee | |
| | | Divergence of another Partner Fund from the LGPS Central pool's shared objectives which may result in e.g. increased costs, lack of assets classes in which to invest, viability of pool. | 5 | 2 | 10 | PAF various working groups, product development protocol, decision tree, Inter authority agreement, shared objectives, | Shareholders agreement, IAA, regulation, regulatory business plan, LGPSC budgets, 5 year pool plan | 5 | 2 | 10 | ongoing | | | Pensions Committee | |
| | | | 3 | 4 | 12 | | | 3 | 3 | 9 | ongoing | | | | |

NB, risks associated with pooling will change as LGPS Central is formed and transition is progressed.

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