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Pensions Committee

Friday 29 September 2023
10:00
Oak Room, County Buildings, Stafford

John Tradewell
Deputy Chief Executive and Director for Corporate Services
21 September 2023

Agenda

1. **Apologies**

2. **Declarations of Interest**

3. **Minutes of the meeting held on 30 June 2023** (Pages 1 - 10)

4. **Minutes of the Pensions Panel held on 05 September 2023** (Pages 11 - 14)

5. **Appointment of a Co-opted Representative** (Pages 15 - 16)

   Report of the Deputy Chief Executive and Director for Corporate Services

6. **Staffordshire Pension Fund Draft Annual Report and Accounts 2022/23** (Pages 17 - 20)

   Report of the Director of Finance

7. **Staffordshire Pension Fund - Cyber Security Strategy** (Pages 21 - 34)

   Report of the Director of Finance

8. **DLUHC Consultation: Next Steps on Investments** (Pages 35 - 46)

Report of the Director of Finance

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 paragraph of Part 1 of schedule 12A of the Local Government Act 1972 indicated below'

Part Two
(All reports in this section are exempt)

10. **Exempt minutes of the meeting held on 30 June 2023** (Pages 47 - 50)

11. **Exempt minutes of the Pensions Panel held on 05 September 2023** (Pages 51 - 64)

12. **Local Government Pension Scheme Regulations - Admission of New Employers to the Fund (Exemption paragraph 3)** (Pages 65 - 70)

Report of the Director of Finance

13. **LGPS Central Asset Pool Update (Exemption paragraph 3)** (Pages 71 - 84)

14. **Joint Committee, Shareholders Forum and LGPS Central Limited AGM Update (Exemption paragraph 3)**

Verbal report of the Chair and the Director of Finance

15. **LGPS Central Limited Update (Exemption paragraph 3)** (Pages 85 - 104)

Presentation by LGPS Central Limited

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

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 Committee Meeting held on 30 June 2023

Present:

Attendance	
Philip Atkins, OBE	Bob Spencer
Nigel Caine (Co-Optee)	Stephen Sweeney
Mike Davies (Vice-Chair)	Mike Wilcox
Colin Greatorex	

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

Apologies: Mike Allen, Derrick Huckfield, Syed Hussain, Phil Jones, Mike Sutherland and Michael Vaughan

Part One

1. Declarations of Interest

There were no declarations of interest made on this occasion.

2. Minutes of the meeting held on 31 March 2023

Resolved: That the minutes of the meeting of the Pensions Committee held on 31 March 2023, be confirmed and signed by the Chairman.

3. Minutes of the Pensions Panel held on 6 June 2023

Resolved: That the minutes of the meeting of the Pensions Panel held on 6 June 2023, be received.

4. Appointment of Pensions Panel

Resolved: That the following Members be appointed to serve on the Pensions Panel for the 2023/24 municipal year:

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

5. Staffordshire Pension Fund Investment Performance 2022/23

The Director of Finance submitted a summary of the Staffordshire Pension Fund's Investment Performance for 2022/23.

Committee members were reminded that the Staffordshire Pension Fund employed Portfolio Evaluation Limited (PEL) to provide independent investment performance measurement services for the Fund's various investments. The detailed performance metrics, which measure the percentage return of the Fund's various investments against an agreed range of benchmarks, were reported to the Pensions Panel each quarter.

The Committee received a presentation prepared by PEL relating to the Staffordshire Pension Fund Investment Performance. The presentation covered the following matters:

- Market Review
  - Asset class results
  - Themes
  - Market trends and developments
- Evaluation of the Staffordshire Pension Fund results
  - Total Fund results (short and long term)
  - Attribution of one and three year periods
  - Results focus on periods ended 31 March 2023.

The following Summary was provided:

- The Fund, for the period ended March 2023, outperformed its benchmark over most time periods.
- The Fund had outperformed the PEL LGPS Information Service average return over the one, three, five, ten and twenty-year periods.
- The outperformance over the year was due primarily to the performance of equity assets, most notably Private Equity and active Global Equities.
- The Fund continued to transition assets to LGPS Central as part of the wider pooling agenda.
- Total risk remained low and active risk was at a level that was consistent with the structure of the Fund. Risk had increased over recent years due to the impact of the pandemic, inflationary issues, and bond yields.

Members were informed that the contract with PEL would be coming to an end in July 2023, and that the Fund had appointed Northern Trust to carry out the future independent performance monitoring of the Pension Fund's performance and that of its managers. It was explained that Northern Trust provided a portal approach to supplying data and reports, which would be refined as necessary to ensure it continued to meet the needs of the Panel. It was stated that performance measurement would also be the focus of the November training session.

Resolved: That the Staffordshire Pension Fund Investment Performance be noted.

6. Staffordshire Pension Fund Business Plan Outturn 2022/23

The Committee considered the final outturn position for the financial year 2022/23, together with a summary of the key achievements against the Business Plan, provided at Appendix 2 to the report.

Members heard that Fund Officers continued to embrace hybrid working and technological developments and about the positive impacts these have had on operational activities. Members attention was drawn to the continued high levels of service being provided throughout 2022/23 to scheme members and employers. Specific achievements included:

<u>Pensions Administration Team</u>

- Completion of the 2022 Triennial Actuarial Valuation
- Changes to Management Team Structure and ongoing Recruitment
- Continued improvements and support of the "My Pensions Portal"
- Continued improvements of the Pensions Website
- Successful completion of the first "Digital Proof of Life" biometric recognition exercise
- Continued exploration of various mediums to deliver communication to scheme members and employers.

In response to a question asking if data analytics were used to help officers understand how people were accessing the Pensions Portal or website, it was confirmed that a monthly analytics report was provided to Fund Officers. This information allowed Officers to continually develop the sites to ensure the most relevant information was being provided in places that were easily accessible.

<u>Pensions Investment Team</u>

- Annual Stewardship Report developed in line with the requirements of the Financial Reporting Council's (FRC) UK Stewardship Code and submitted to the FRC in March.
- Climate Change Reporting in line with the requirements of the Task Force for Climate Related Financial Disclosures (TCFD).
- The implementation of the Fund's Strategic Asset Allocation, in line with the Pension Fund's Climate Change Strategy continued at pace.

Audit

The Committee were informed that three Internal Audits had taken place throughout 2022/23. The Pensions Administration System Audit, which had received a draft assurance rating of "Adequate", the annual Pensions Administration Audit, which had received a draft assurance rating of "Substantial", and the Pension Fund Responsible Investment, Climate Change & Engagement Audit for which an assurance rating of "Substantial" had been received.

Pensions Administration – Service Standards

The Committee were presented with the pensions Administration Team's Service Standards for 2022/23 and were informed that the Team had achieved a 90% performance target in 12 of the 15 published standards. The Committee were asked to note the consistent level of performance versus the standards over the last three years.

Councillor Greatorex highlighted that, whilst 90% of performance targets had been achieved in 12 of the 15 standards, there would be 10% of targets that had not been achieved. It was also noted that there were three standards where the performance results were less than 90%. It was clarified that performance was monitored on a monthly basis to track the cases where the desired standard had not been achieved. This allowed the team to learn lessons and ensure that, where possible, they would be able to improve services standards in the future. The ability to continue to recruit additional team members to deal with the ever-increasing volume of work was also noted as being a contributory factor.

Ongoing workloads and impact on Service Standards

Members received an update of the latest position of the McCloud remedy project which summarised that:

- 2022/23 saw the Systems & Data Team requesting final data from scheme employers for the c70,000 scheme members in scope;
- Software providers continued to work with the Department for Levelling Up, Communities and Housing (DLUHC) and the LGPS Actuaries, to ensure appropriate changes to administration systems had been made;
- DLUHC published a consultation and draft legislation on the McCloud remedy on 30 May 2023, which closed on 30 June 2023;
- Regulations were expected to be in force on 1 October 2023;
- Once all of the above points were implemented, a substantial exercise would be carried out to validate and load historic data and test member benefit calculations to ensure a member would not be better off in the final salary scheme. It was anticipated that very few

scheme members would be affected.
- Annual Benefit Statements for 2024/25 would include any McCloud underpin calculations.

Confirmation had been received that changes to the Government's Pensions Dashboard Programme had delayed the date that LGPS Funds had to be connected to the dashboard's ecosystem. This had been rescheduled from 30 September 2024 to 31 October 2026. Despite this, the Fund intended to continue with its plans to cleanse scheme member data and appoint an Integrated Service Provider to enable system connection prior to the go live deadline.

Resource

Recruitment of experienced team members continued to be difficult, and the focus continued to be on training and 'growing our own'. Over the last 12 months the number of team members had remained stable and whilst several experienced members of the Team had retired or left, through successful recruitment the Fund had managed to appoint some new and enthusiastic team members.

Pensions Investment Team

As well as undertaking the day-to-day accounting and contract monitoring activities, the investment team also delivered several additional projects:
- Submitting the first Annual Stewardship Report to the Financial Reporting Council, in line with the UK Stewardship Code's increased requirements.
- Continuing to implement the recommendations from the Strategic Asset allocation review, carried out by Hymans Robertson in 2022.
- Continuing involvement in the development of the LGPS Central pool and engagement with the various Officer Working Groups, to ensure the right products were being developed and available for the Fund to invest in.

Pension Fund Budget and Costs

Committee members were reminded that instead of solely setting an annual budget and relying on budget monitoring to manage costs, reliance would be placed on cost comparisons, benchmarking and trends, where these were available, to ensure that value for money was consistently delivered.

The headline budget reported to Pensions Committee for 2022/23, showed that the Fund was underspent by c£5.4m, this was compared to an overspend in 2021/22 of c£3.5m. It was explained that the underspend in 2022/23 was attributable to a decrease in expenditure on Investment

Management Fees and vacant property costs during the year.

The Pension Fund Budget and Costs were presented to the Committee. These focussed on:

- **Administration Costs**, where it was noted, costs had decreased from 2021/22 by around £0.04m. This was mainly due to a decreased cost of the Pensions Administration 'Altair' software system, following the recent tender.

- **Oversight and Governance Costs**, where the costs had increased in 2022/23. Actuarial fees had increased, reflecting the work for the 2022 Triennial Actuarial Valuation and Investment Oversight fees had increased because of the ongoing implementation of the Fund's Strategic Asset Allocation. LGPS Central governance costs had also increased - proportionate to the general increases in the LGPS Central budget.

- **Investment Management Costs**, had decreased overall in 2022/23. Private Equity fees were c£2.2m less, due to lower performance fees payable than in 2021/22. Vacant property costs had also decreased by c£0.5m relative to 2021/22. Asset values fell in 2022/23 due to markets falling on the back of inflationary pressures, interest rate rises and fears of a recession. Investment management fees, as a percentage of assets under management, had reduced. However, due to the outcome of the recent Strategic Asset Allocation review, where further allocations would be made to private market asset classes, the investment management costs of the Fund were expected to rise.

Councillor Greatorex suggested that it might be an appropriate time to carry out an exercise to assess the success of the Fund's participation in LGPS Asset Pooling, to establish whether it had achieved the cost savings anticipated and originally forecasted. In response it was explained that there had been many changes to the Fund's Investment Strategy since pooling was introduced in 2016 and as a result a true like for like comparison was difficult to obtain. Changes within the Fund's Strategic Asset Allocation and downward pressures on investment management fees in the market generally meant a comparison of the expected savings in 2016 would be very different to the expected savings in 2023. However, it was agreed that a session on LGPS Asset Pooling would be provided to the Committee in the future.

Resolved: That the outturn position of the Staffordshire Pension Fund Business Plan for 2022/23 be approved.

7. Staffordshire Pension Fund Risk Register and Risk Management Policy

The Committee considered a report of the Director of Finance on the Fund’s Risk Register and Risk Management Policy.

The Committee was informed that Risk management was good practice and 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. Officers reviewed the risk register every quarter, focusing in on the detail of one of four key areas, (Governance, Funding, Administration and Investment), along with a review of any emerging risks.

The Committee heard that as part of the review, Members of the Local Pensions Board attend the review meetings and took an active role in the discussions. They also discussed the specific area under review each quarter at 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 were attached at Appendix 1 to the report. It was also suggested that the Committee may wish to consider asking members of the Local Pensions Board to continue with their role in the ongoing review process.

The Committee were presented with a summary of the high-level risks associated with the objectives, attached at Appendix 2 of the report. This summarised the highest score of the detailed risks associated with each of the high-level risks and provided a summary of the controls and sources of assurance currently in place. This was intended to give the Committee an overview of the main risks the Pension Fund needed to consider and the controls in place to mitigate them.

The Committee were reminded that as part of the annual review, it was agreed that the Pensions Committee would review emerging risks to the Fund. It was important to recognise that some of the greatest risks faced by the Pension Fund arose from change. Several transitional areas were reflected in Appendix 3 to the report, which provided more detail on the emerging risks perceived to be faced by the Pension Fund.

The Committee was informed that the Pension Regulator’s Code of Practice recommended that a Pension Fund has a Risk Management Policy in place, and that this was reviewed periodically. The risk management policy covered key areas such as:

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

The updated Risk Management Policy for the Staffordshire Pension Fund was attached at Appendix 4 to the report and was submitted for approval.

Resolved: a. That the summary of the high-level risks and emerging risks from the current Staffordshire Pension Fund Risk Register, as presented in Appendices 2 and 3 respectively be noted.

b. That the content and recommendations of the Local Pensions Board review of the Staffordshire Pension Fund Risk Register, attached at Appendix 1, and the continued involvement of the Pensions Board in the ongoing review, be noted.

c. That the Risk Management Policy of the Staffordshire Pension Fund, attached at Appendix 4, be approved.

8. Staffordshire Pension Fund Communications Policy

The Committee received a report of the Director of Finance relating to the Staffordshire Pension Fund Communications Policy.

The Committee was reminded that Regulation 61 of the Local Government Pensions Scheme Regulations 2013, stated that the administering authority of a Pension Scheme must maintain and publish a written statement setting out its policy concerning communications with a range of stakeholders.

The review of the Fund’s Communication Policy Statement that took place in June 2021 reflected changes in procedures at that time, which incorporated the more flexible ways of working and communicating, following changes that came about as a result of the pandemic. The 2023 review of the Communication Policy Statement provided a further opportunity to reflect on working practices and methods of communication. As there had been no significant changes to the policy following this review, it was determined that wider consultation was considered unnecessary.

Councillor Greatorex noted that the Communications Policy stated that paper copies of information would be phased out as the Fund developed the website and My Pension Portal platforms. Whilst it was stated that paper copies of information would be made available on request, Councillor Greatorex raised the issue of “Digital Exclusion”. He suggested that not all people were capable of accessing this information digitally, and the wording of this item would need to be considered carefully, as it was important to ensure that all members would be able to access their pension information in the format they wanted.

Resolved: That the revised and updated Communications Policy, attached as Appendix 1 to the report, be approved subject to the wording implying Digital Exclusion being reviewed and amended appropriately.

9. Exclusion of the Public

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

10. Exempt minutes of the meeting held on 31 March 2023

11. Exempt minutes of the Pensions Panel held on 6 June 2023

12. Local Government Pension Scheme Regulations - Admission of New Employers to the Fund (Exemption paragraph 3)

Chair

Minutes of the Pensions Panel Meeting held on 5 September 2023

Present:

Attendance	
Philip Atkins, OBE	Colin Greatorex
Mike Davies	Stephen Sweeney

Also in attendance: Carolan Dobson, Simon Humble and Philip Pearson (Hymans Robertson)

Apologies: Iain Campbell (Hymans Robertson) and Mike Sutherland

Part One

110. Declarations of Interest

There were no declarations of interest made on this occasion.

111. Minutes of meeting held on 06 June 2023

In reference to Minute 101: The Panel was informed that a response had been provided by LGIM explaining the high proportion of votes against management. It was agreed that this would be shared electronically with the Panel members following the meeting.

Resolved: a. That the minutes of the Meeting of the Pensions Panel held on 6 June 2023 be confirmed and signed by the Chair.

b. That the response by LGIM relating to their stance on management voting decisions, be shared electronically with the Panel members following the meeting.

112. Dates of Future Meetings

- 5 December 2023, 9:30am – Oak Room, County Buildings
- 5 March 2024, 9:30am – Oak Room, County Buildings

- In person training 10 November 2023 – 10:00am – White Room, County Buildings

Resolved: That the dates of the future Pensions Panel meetings and training session be noted.

113. Pension Fund Performance and Portfolio of Investments as at 30 June 2023

The Director of Finance submitted a summary of the performance of the Staffordshire Pension Fund (the Fund), together with a portfolio of the Fund's investments, as at 30 June 2023.

The Panel heard that over the quarter the Fund had underperformed its Strategic Asset Allocation benchmark return by 0.3%. The best performing asset class relative to benchmark was listed equities, in particular global sustainable equities. Private Equity was the largest detractor to Fund performance over the quarter. The Fund had a market value of £6.746 billion as of 30 June 2023, an increase of £0.111 billion since 30 March 2023.

A copy of the Staffordshire Pension Fund's portfolio of investments at 30 June 2023 was attached at Appendix 1 to the report.

Resolved: That the Pension Fund Investment performance and the portfolio of investments for the quarter ended 30 June 2023 be noted.

114. Responsible Investment and Engagement (RI&E) Report Quarter 1 2023/24

The Director of Finance submitted the Responsible Investment and Engagement Report to the Panel, which included the Climate Stewardship Plan for 2022/23 and the Local Authority Pension Fund Forum (LAPFF) Quarterly Engagement Report. It was highlighted that the Local Government Pension Scheme Central (LGPS Central) Quarterly Stewardship Report Q1 2023/24 had not been available when the meeting papers had been circulated, but this had been received and had been made available on the LGPS Central website.

The Panel was informed that the Staffordshire Pension Fund (the Fund) had been accepted as a signatory to the UK Stewardship Code. Officers and Advisors had undertaken a large volume of work to ensure the Fund was accepted as signatories of the new Stewardship Code, this involved providing evidence that showed how the Fund complied and aligned with 12 specific principles. The Panel also heard that five of the eight LGPS Central Partner Funds, as well as LGPS Central themselves, were now signatories of the UK Stewardship code.

In response to a question from Councillor Greatorex regarding the implementation of the Transition Pathway Initiative (TPI) framework, what the scores represented and how they were assigned, it was explained that these questions would be raised with LGPS Central directly and brought back to a future Panel meeting.

Resolved: That the content of the Responsible Investment and Engagement (RI&E) report, including the Climate Stewardship Plan (Appendix 1), and the Local Authority Pension Fund Forum (LAPFF) Quarterly Engagement Report (Appendix 2), be noted.

115. 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.

116. Exempt Minutes of the Meeting held on 06 June 2023 (exemption paragraph 3)

117. Pension Fund Performance and Manager Monitoring for the quarter ended 30 June 2023 (Exemption Paragraph 3)

118. Economic and Market update (Exemption paragraph 3)

119. Infrastructure (Exemption paragraph 3)

120. Strategic Asset Allocation - Quarterly update (Exemption paragraph 3)

121. Property Approvals (Exemption paragraph 3)

122. Infrastructure (Exemption paragraph 3)

Chair

PENSIONS COMMITTEE – 29 SEPTEMBER 2023

Report of the Deputy Chief Executive and the Director for Corporate Services

Appointment of a Co-opted Representative

Recommendation of the Chair

1. That the Committee approves the appointment of Mrs Elizabeth Staples as the non-voting co-opted member on the Pensions Committee representing Retired Pension Scheme Members.

Background

2. Mr Philip Jones, who serves as the non-voting co-opted member on the Pensions Committee representing Retired Pension Scheme Members, tendered his resignation from the Committee in May 2023, but offered to remain on the Committee whilst a successor was found.

3. As a result of Mr Jones's retirement, during the Spring and Summer of 2023 expressions of interest were sought from retired members to fill the vacant co-opted member seat on the Committee. Four expressions of interest were subsequently received.

4. On 11 August 2023 applicants met with a panel consisting of the Chairman of the Committee, the Assistant Director for Treasury and Pensions and the Democracy and Governance Officer.

5. The Panel have recommended that the position of non-voting co-opted member on the Pensions Committee representing Retired Pension Scheme Members be offered to Mrs Elizabeth Staples.

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

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

8. **Resource and Value for money implications:** There are no direct resource and value for money implications arising from this report.

9. **Risk implications:** There are no risk implications arising from this report.

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

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

John Tradewell
Deputy Chief Executive and Director for Corporate

Contact Simon Humble
Telephone No. (01785) 278044

PENSIONS COMMITTEE – 29 SEPTEMBER 2023

Report of the Director of Finance

Staffordshire Pension Fund Draft Annual Report and Accounts for 2022/23

Recommendations of the Chair

1. That the Pensions Committee approve the draft Staffordshire Pension Fund Annual Report and Accounts for 2022/2023, noting the potential need for minor amendments, pending the conclusion of the external audit of the accounts by Ernst and Young (EY).

2. That the Pensions Committee approve the final version of the Staffordshire Pension Fund Annual Report and Accounts for 2022/23 are signed off by the Chair, prior to publishing as final on the Staffordshire Pension Fund's website, following completion of the external audit.

3. That the Pensions Committee notes the continued delayed conclusion of the two previous years external audits of the Staffordshire Pension Fund accounts.

Background

4. The audit of the Staffordshire Pension Fund's 2022/23 accounts commenced in June 2023, with preliminary testing and fact finding being undertaken. However, due to a continuing audit resource issue, a plan to accompany the audit of the 2022/23 accounts will not be available for presentation to Pensions Committee until the December meeting.

5. The 2020/21 and 2021/22 Pension Fund accounts are substantially complete but, as the Fund accounts are included within the County Council Statement of Accounts, (which are yet to be finalised), the audit of the 2021/22 accounts has not formally concluded and the final ISA 260 Audit Results Report is still outstanding. The following table summarises the current external audit position for the financial years 2020/21 to 2022/23.

	Audit Plan		**Draft Accounts**	**ISA260 Report**	
Financial Year	**Received from EY**	**Presented to Pensions Committee**	**Presented to Pensions Committee**	**Received from EY**	**Presented to Pensions Committee**
2020-2021	✓	June 2021	Sept 2021 (draft as part of the Annual Report)	✓	Dec 2021 (Draft)
2021-2022	✓	Sept 2022	Dec 2022 (draft as part of the Annual Report)	x	Dec 2022 (reported to Cttee that ISA260 not available)

2022-2023	x	Anticipated presentation at December Committee	Sept 2023 (draft as part of Annual Report)	x	

6. Once EY complete their external audit of the 2022/23 accounts and the County Council's Statement of Accounts are also finalised, the Pension Fund will receive its concluding Audit Results Report (ISA260).

Staffordshire Pension Fund Draft Annual Report and Accounts 2022/23

7. The statutory deadline for Pension Fund's to publish their Annual Report and Accounts is by 1 December each year. Although the Fund's accounts have not yet been formally signed off for 2022/23, a link to the draft version of the accounts is provided below:

   https://www.staffspf.org.uk/Finance-and-Investments/Annual-Reports-and-Accounts/Documents/202223-SPF-Annual-Report-draft.pdf

8. Following the conclusion of the 2022/23 audit process, an Independent Auditor's Statement from EY will need to be included in the Fund's Annual Report and Accounts so this can be finalised. The statement will confirm that the Fund accounts included in the Annual Report and Accounts are consistent with those included in the County Council's Statement of Accounts and were properly prepared in accordance with accounting standards.

9. A final version of the Annual Report and Accounts for 2022/23 will be presented to the Chair of the Pensions Committee for final sign off, after which it will be published as final on the Pension Fund's website.

Rob Salmon
Director of Finance

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

Background Documents: Accounts & Audit Regulations 2015

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

Legal implications: These have been addressed in the report.

Resource and Value for money implications: There are no direct resource or value for money implications arising from this report.

Risk implications: There are no direct risk implications arising from this 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.

PENSIONS COMMITTEE – 29 SEPTEMBER 2023

Report of the Director of Finance

**STAFFORDSHIRE PENSION FUND
CYBER SECURITY STRATEGY**

Recommendation of the Chair

1. That the Pensions Committee approves the Cyber Security Strategy attached as Appendix 1.

Background

2. Regulation states, and best practice dictates, that a Pension Fund should have a range of written policies and procedures in place. Having such, not only proves regulatory compliance, but more importantly demonstrates good governance and provides a range of information to stakeholders.

3. The Staffordshire Pension Fund endeavours to have a full range of policies in place and has made efforts over recent years to update and review them regularly. Pensions Committee have approved these policies where necessary and several have also been the subject of wider consultation with the Fund's many stakeholders.

4. Cybercrime continues to be a real and growing threat around the world. Companies and Governments recognise the risk and deal with the challenges every day and Pension Funds are no different. Why? Well, they hold, and control large amounts of personal and financial data, as well as assets and they need to pay pensions. Cyber criminals know that if they carried out an attack on pensions data, any pressure to pay a 'ransom' could be enormous.

Cyber Security Framework

5. The Pensions Committee received a Training Session on Cyber Security & Awareness from Hymans Robertson on 4 November 2022 which defined cyber risk as 'the risk of financial loss, disruption, or damage to the reputation of the Fund or its members resulting from the failure of its IT systems and processes'.

6. During the same session, Fund Officers described their proposed 4 stage approach to addressing Cyber Security as being focused on:

   - Assessing – the risks and understanding the Fund's vulnerability,
   - Protecting – and safeguarding the Fund,
   - Responding – to how we will deal with an incident and recover, and

- Governance – ensuring we have the correct documentation and monitoring processes in place.

7. Fund Officers have developed and continue to refine a Cyber Footprint Register (CFR) which maps the Fund's cyber footprint across all internal and external systems accessed or used by the Fund and its suppliers (and potentially third parties) to **assess** what data flows through those systems. The controls that are in place around those systems to **protect** the data are ascertained and the way in which we would **respond,** in terms of who to contact in the event of an attack etc is also documented.

8. Through a risk assessment approach Officers will determine those suppliers which present the highest risk to the Fund and aim to review their cyber security procedures as part of a rolling testing programme. This will involve a questionnaire being sent to the suppliers of those systems to better help us understand and document the controls in place. It is recognised that assessing cyber resilience is an ongoing process.

9. Disaster Recovery and Business Continuity Plans have also been reviewed to consider cyber risks and these will be routinely updated.

Cyber Security Strategy

10. The final stage is to focus is on **governance.** As the Fund did not have a Cyber Security Strategy, the document attached at Appendix 1 is the first iteration of this document to be produced. However, as cyber security is a fast moving and ever-changing area, the Strategy will need to be regularly reviewed and developed in response to any wider knowledge and experience gained. When published, the Pensions Regulators Single Code of Practice is also anticipated to have wider implications on the governance requirements around cyber security but these are unknown at the time of writing.

11. Whilst there will be some commonality of cyber risks, the combination of those cyber risks and the set of circumstances that surround them will be unique to Staffordshire Pension Fund and our Cyber Security Strategy. Therefore, wider consultation is considered unnecessary.

Rob Salmon
Director of Finance

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

Background Documents:
Pensions and Lifetime Savings Association – Cyber Risk June 2022

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

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

Resource and Value for money implications: There are no direct resource and value for money implications arising from this report.

Risk implications: The risk implications are covered in the body of the Report and in the Cyber Security Strategy.

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.

Staffordshire Pension Fund
Local Government Pension Scheme

Cyber Security Strategy

October 2023

This Cyber Security Strategy will be revised and republished following any material change in policy.

Cyber Security Strategy (CSS) Background

The Staffordshire Pension Fund (the Fund) holds a large amount of personal data and assets which can make it a target for fraudsters and criminals. Everyone: our members, our scheme employers, and other Fund stakeholders, should be able to feel that their data and the Fund's assets are safe.

Cyber security is the discipline dedicated to protecting information and the systems used to process or store it. A cyber-attack could have very serious consequences, not only in terms of disrupting services but also because of the reputational damage it might cause. And there is also the potential for financial repercussions or some wider impact on individuals in the future.

Cyber security is fast moving, and the challenges and risks of breaches have never been higher, there are an increasing and alarming number of cyber security attacks on government organisations with catastrophic effects on operations and reputation. Increasingly the Fund will have to become even more proactive and more sophisticated in the battle against such threats.

Cyber security will see many developments including, but not limited to, a move towards biometrics for authentication, resulting in a decrease in the reliance on traditional passwords.

"Zero Day" threats, which take advantage of a security vulnerability that does not have a fix in place, will become more common and a robust process for monitoring alerts and incidents across our partners networks will be increasingly important. We will need to work closely with them and external experts in the use of advanced technologies to detect and mitigate technological and cyber risk.

A culture will be developed where staff have the skills and confidence to remain safe while working on-line, both in work and in their private lives.

Strategy Purpose

The purpose of this Cyber Security Strategy (CSS) is to provide assurance to members, scheme employers, and other stakeholders about our commitment to deliver robust information security measures to protect their data and the Fund's assets from misuse and cyber threats. We will also aim to safeguard their privacy through increasingly secure and modern information governance and data sharing agreements with our partners.

Through delivery of the CSS, we have assessed ourselves against:

- Pension and Lifetime Savings Association Cyber Risk Guide; and
- The Pensions Regulators' Cyber Security Principles for Pensions Schemes.

Cyber Security Strategy Scope

This CSS applies to all the Fund's employees, scheme employers, contractors, suppliers, and anyone else who may have access to the Fund's systems, software, and hardware.

This CSS applies to all information and data held or owned by the Fund, any ICT equipment and infrastructure used, and the physical environment in which the information and/or supporting ICT is used.

Where access is to be granted to any third party (e.g. contractors, service providers and partners) compliance with this CSS is assumed to be agreed.

This CSS links into several existing Staffordshire ICT policies and does not replace these documents.

Staffordshire County Council

As the Administering Authority and our largest partner, Staffordshire County Council and Staffordshire ICT are responsible for documenting and maintaining a wide range of technical standards in line with Security Best Practice and Government Guidelines including the ISO 27001 ISMS standard which will be used to identify any gaps in the Council's Cyber Security documentation suite.

These will include standards for:

- Data Security
- System Security
- Resilient Networks
- Identity and Access Controls
- Staff Awareness and Training

Our Roles and Responsibilities

The Pensions Committee is accountable for the security of the Fund's information and assets. Committee Members receive training to ensure they have the skills and expertise to understand and manage the risk.

Cyber Security and the management thereof are identified as a key risk on the Fund's Risk Register, which also focuses on any increases in risks arising from operational changes (e.g. a new system or process).

This CSS is owned by the Assistant Director for Treasury and Pensions supported by the Strategic Investment Manager, the Strategic Pension Manager, and a number of Senior Managers.

Who is Responsible?	For what?
Pensions Committee	• Appreciate and understand the Fund's Cyber Footprint. • Undertake training to ensure sufficient understanding of cyber risk. • Approval of the Fund's CSS. • Engage in incident reporting and rectification.
Local Pensions Board	• Appreciate and understand the Fund's Cyber Footprint. • Undertake training to ensure sufficient understanding of cyber risk. • Assist the Pensions Committee and Administering Authority in developing and reviewing the Fund's CSS. • Engage in incident reporting and rectification.
Director of Finance and Senior Management Team	• Oversee the Cyber Security Risk of the Council and the Pension Fund • Ensure Cyber Risk is covered by Fund policies. • Ensure the Fund has effective controls and a framework in place to protect the security of the Fund's information, data, and assets.
Assistant Director for Treasury & Pensions	• Owner of the Fund's CSS • Oversight of the Fund's Cyber Footprint Register (CFR) and its annual review. • Ensuring the development of a third-party system providers testing programme, in consultation with Staffordshire ICT. • Oversight of the assurance / compliance by other stakeholders and third-party system providers. • Ensuring the existence of a robust Business Continuity and Disaster Recovery Plan for Treasury & Pensions. • Ensuring regular reporting to Pensions Committee on cyber security activities and performance against the Testing Programme
Treasury & Pension Fund Management Team	• Assisting with the delivery of the CSS. • Annual review of the CFR and determining RAG ratings.

	• Delivery of the third-party testing programme, on a 3-year rolling basis • Management of mitigating controls for cyber risk and routine testing of Business Continuity and Disaster Recovery procedures. • Recording and reporting of any cyber breaches or issues.
Fund Officers	• Undertake mandatory training to ensure sufficient understanding of the impact of cyber risk. • Awareness of and adherence to the Fund's CSS and office procedures • Reporting of any cyber breaches or issue to the Treasury & Pensions Management Team • Routinely act to protect all data.

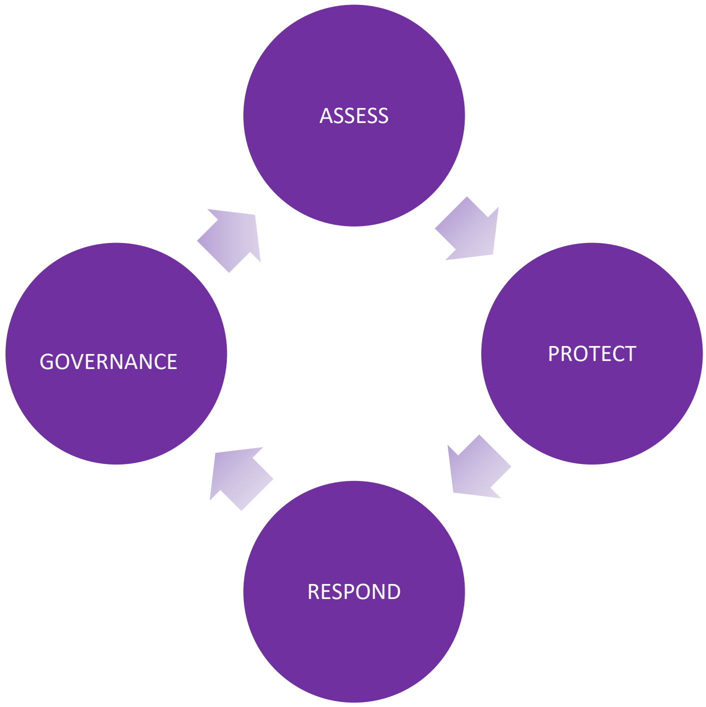
Our Approach to Cyber Security

The four main types of Cyber Risk

Type of Risk	Details
Accidental	Loss of hardware (laptop. mobile, USB), loss of electronic data, computer systems failure
Untargeted	Social engineering e.g. phishing exercise which enables malicious content in an email (link/attachment)
Targeted	Deliberate act which can be internal or external e.g. improper use of administrative access or credentials, spoofing, activists etc
Severe	Cyber terrorism and state sponsored attack

Our four stages

We have a four-stage approach to managing cyber security and the risk it poses to the Fund. Our approach focuses on, quantifying the different types of risks (Assess), ensuring effective controls are in place to protect the Fund against those risks (Protect), and ensuring the Fund can respond to a cyber incident if it occurs (Respond). Finally, there is also an appropriate set of policies and procedures that the Fund has in place around cyber security which ensure everyone is well informed and understands what needs to happen (Governance).



Assess – the risks and understand our vulnerability

We will endeavour to identify, analyse, prioritise, and manage a range of cyber security risks. As part of maintaining our CFR, the Treasury & Pension Fund Management Team will identify, assess, and document the Fund's cyber risks. This will typically include:

- an assessment of our key functions, systems, assets, and dataflows;
- an assessment and detailed mapping of the data flows between the Fund and its partners and third-party providers; and
- an assessment of what we use our data for and the potential vulnerabilities that we may have.

Unless there is any material change or notification of a national cyber security threat, the Fund's CFR will be reviewed at least annually with Red, Amber, Green (RAG) risk ratings assigned to each area of data supplied to the Fund pre and post assurance.

Those suppliers of systems or data perceived to remain of heightened cyber risk to the Fund, be that because of the impact or likelihood of any potential data breach, will be assessed more frequently as part of the

Fund's rolling testing programme. Assessment will be via a cyber security questionnaire developed in conjunction with Staffordshire ICT.

We will also work in collaboration with Staffordshire ICT's Cyber Security Team and the Council's Information Governance Team to ensure we align our priorities and benefit from the sharing of knowledge and experience.

Protect – and safeguard the Fund

Key policies and procedures

A range of Council policies and processes are in place around the acceptable use of devices, email, and the internet (including social media), the use of passwords and other authentication and home and mobile working. Managers are responsible for ensuring that they and their teams are aware of these and comply with their responsibilities under the relevant Staffordshire ICT policies and undertake all identified mandatory cyber risk and information governance training.

Training

It is important that the Fund has the knowledge and skills to understand and effectively manage its Cyber Security Risk. Regular training, in addition to any mandatory training of the Council, will be undertaken by the Pensions Committee and Local Pensions Board, and attendance is monitored by the Assistant Director Treasury and Pensions. As Council Employees, Fund Officers are required to undertake mandatory cyber security training, including annual refresher training, provided by Staffordshire ICT. Where employees do not complete the mandatory training managers are informed and access to the Council's systems may be suspended.

The monitoring of the completion of mandatory training is undertaken by the Treasury & Pension Fund Management Team.

External Suppliers

Cyber security is an active consideration for us when we are selecting suppliers. Assurance is sought from all third-party suppliers that they have the necessary protections in place around our scheme's data and the security of the Fund's assets.

Respond – how we will deal with an incident and Recover

Our ability to react and recover from a cyber security incident or breach is a critical element to managing cyber security. Unless there is any material change, we will carry out an annual review our Business Continuity and Disaster Recovery Plan which details the key steps to be followed, including the key roles and responsibilities to enable the Fund to resume operations swiftly and safely. This will include:

- **Incident management** – who will oversee, track, report and document the incident?
- **Assessment** – do we understand, the nature, severity, and type of incident?
- **Action** – do we need to implement our Business Continuity and Disaster Recovery plan?
- **Escalation** – communication, who should be notified?

Post-incident review

Following any incident, and as part of the Business Continuity Plan, there will be a structured Debrief which aims to ensure that a detailed analysis is undertaken of the incident itself. This will also include consideration of such things as: the decisions made, communication, costs and expenses and the overall effectiveness of the response, as well as the impact of the incident. Any corrective or preventative actions arising from the Debrief will also be documented.

Governance – documentation and monitoring

The CSS will be listed on the Fund's Governance Register and routinely reviewed, updated, and approved by the Pensions Committee.

The quarterly Risk Register review meetings attended by the Treasury & Pension Fund Management Team will include a discussion and a review of cyber security risks. Cyber Security focussed meetings will be held outside of this as required but will be held at least annually to review the Cyber Footprint Register.

Due diligence checks on perspective suppliers will identify potential cyber security risks. The rolling review of our third-party suppliers on our CFR will ensure that they maintain their standards and any cyber security accreditations.

On an annual basis we will evaluate the Fund's Business Continuity and Disaster Recovery Plan so we are prepared should a cyber security incident occur. This will also incorporate a review of the Incident Log together with any lessons learned from post incident review documents including the Debrief assessments and any Action Log.

Contact us

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If you would like this information in large print, Braille, audio tape/disc, British Sign Language, or any other language, please ring 01785 278222

PENSIONS COMMITTEE – 29 SEPTEMBER 2023

Report of the Director of Finance

DLUHC CONSULTATION: NEXT STEPS ON INVESTMENTS

Recommendation of the Chair

1. That the Pensions Committee approves the response to the Department for Levelling Up, Housing and Communities (DLUHC) consultation on the next steps on investments for the LGPS in England and Wales, provided in Appendix 1.

Local Government Pension Scheme (England and Wales): Next steps on investments.

2. On 11 July 2023, the Department for Levelling Up, Housing and Communities (DLUHC) launched a consultation on LGPS investment reforms.

   Local Government Pension Scheme (England and Wales): Next steps on investments - GOV.UK (www.gov.uk)

3. The consultation was announced by the Chancellor in his Mansion House Speech and seeks views on proposals in the following five areas:

A. Pooling

- To revise ISS guidance to include requirements to transfer listed assets to the pool by 31 March 2025, and to set out in the ISS assets which are pooled, under pool management and not pooled, and to provide a rationale, value for money and date for review for assets which are under pool management or not pooled.

- To revise pooling guidance to set out fully how Funds and pools should interact and promote a model of pooling which includes the characteristics listed in the consultation, including on delegation of manager selection, strategy implementation, advice, governance, transition of assets, new investments outside the pool and reporting.

- To implement a requirement in guidance for administering authorities to have a training policy for pensions committee members and to report against the policy.

- To revise guidance on annual reports to require greater clarity on the progress of pooling including a summary asset allocation (including investment in infrastructure and levelling up), a comparison between actual and strategic asset allocation, and a report of the net savings from pooling. They also seek views on whether there should be an additional requirement for Funds to report net returns for each asset class against a consistent benchmark, and if so how this requirement should operate.

- For the Scheme Advisory Board to expand their Scheme Annual Report to provide a report on the progress on pooling and on asset allocation across the LGPS.

- To make changes to LGPS official statistics to provide greater transparency on asset allocation and the proportion of assets which have been pooled.

B. Levelling up

- Requirement for Funds to have a plan to invest up to 5% of assets to support levelling up in the UK, and to report annually on progress against the plan.

C. Private equity

- To revise ISS guidance to require Funds to consider such investments to meet the government's ambition of a 10% allocation to private equity in the LGPS.

D. Investment consultants

- To make it regulatory to implement the requirements set out in an order made by the Competition and Markets Authority (CMA) in respect of the LGPS.

E. Definition of investments

- To make a technical change to correct an inconsistency in the definition of investment in the LGPS Investment Regulations 2016.

4. Attached at Appendix 1 is the draft response from Staffordshire Pension Fund to the 15 questions asked by the consultation on the five areas outlined above. The consultation closes on 2 October 2023 and Officers invite feedback from Members on the draft consultation response, prior to its submission to DLUHC.

Rob Salmon
Director of Finance

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

Equalities Implications: There are no direct equalities implications.

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

Resource and Value for Money Implications: There are no direct Resource and Value for Money Implications.

Risk Implications: There is always a risk of admitting any new contractor to the Fund but this is mitigated through the existing Fund Employer acting as a guarantor.

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

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

Local Government Pension Scheme (England and Wales): Next steps on investments.

Draft Consultation response from Staffordshire Pension Fund

The Pensions Committee of the Staffordshire Pension Fund welcome the opportunity to provide their response to the Government's consultation on the Next Steps for Investments in the LGPS.

We are fully supportive of the principle of pooling investment management, but our priority remains to exercise our fiduciary duty in safeguarding the assets of the Staffordshire Pension Fund, which are ultimately owned for the benefit of our 120,000+ scheme members and to ensure we pay them the benefits due to them, as they become due for payment.

There are several terms used in the consultation which would benefit from clearer definitions and a greater understanding by Government of what they mean to LGPS Funds in practice. E.g., pooled assets, assets under pooled management and the implementation of investment strategy.

Asset Pooling in the LGPS

Question 1. **Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?**

- *An alternative approach to pooling is not necessary given that the regulated entity structure across the LGPS Central pool works well. However, there is a need to address the inconsistencies in the different pooling structures, to enable fairer comparison.*

- *The cost of making changes to the current number of pools may be prohibitive given the potential for significant transition costs in the unwinding of investments and asset transfers.*

- *Strategic Asset Allocation has evolved in response to LGPS Funds' changing needs and the current economic environment. Pooling has resulted in compromise and has led to a narrowing of investment choice in some instances. To accommodate these changes, a flexible approach should be considered by government and LGPS Funds should still be permitted to invest outside of their pools, where this can be justified on a cost and value for money basis.*

- *It is important that the right products are available for an LGPS Fund to invest in both now and in the future. LGPS Central and its Partner Funds have been very conscious of ensuring this is the case. Investments and assets under management (AUM) will naturally flow into the management of pool companies where suitable products are available. The development of a* *comprehensive range of suitable products in which Partner Funds can have the confidence to invest will take time.*

- *Bigger isn't always better and the pooling report cited was not conclusive on this. Indeed, increasing the scale of assets under management at pool companies may limit the potential to invest in the very asset classes government is trying to encourage i.e., UK venture private equity, where not all funds are big enough to accept the large levels of commitment that pools would need to make to deploy capital effectively and efficiently.*

- *The focus should continue to be on net performance and value for money, not simply cost savings. The level and cost of resources required at pooling companies is greater than initially envisaged in 2016 and this has increased the costs to LGPS Funds significantly whilst at the same time reducing the amount of potential savings available.*

- *One barrier to increasing the effectiveness of pooling is the level of resources required within LGPS Funds themselves to support the governance requirements and manage the risks around the pool companies, both as shareholders and as clients. The proliferation of reporting requirements being advocated. e.g., TCFD, TNFD, DLUCH reporting have also added to the level of resources required at LGPS Funds.*

- *Whilst the ability to invest across pools may appear to prove beneficial, we are concerned that increasingly complex governance structures will further diminish local accountability to LGPS scheme members and more importantly local taxpayers (see answer to question 8).*

Question 2. Do you agree with the proposal to set a deadline in guidance requiring administering authorities to transition listed assets to their LGPS pool by March 2025?

- *No. This is an arbitrary deadline linked to the Actuarial Valuation cycle and which we believe will lead to sub-optimal outcomes across the LGPS. Whilst we note the government's ambition to move assets into pools more quickly this is better happening when the right products are available for LGPS Funds to invest in.*

- *LGPS Funds will naturally review their Strategic Asset Allocations in line with the output from Actuarial Valuations and these will also consider the suitability of the products offered by the pool in which they are able to invest. Any enforcement across products or timing may mean that LGPS Funds are forced to invest in underperforming or unsuitable products at an inappropriate time.*

- *The introduction of any deadline will lead to multiple and unnecessary transitions of assets, at significant expense and potential loss of performance. Resources, both at pooling companies and at LGPS Funds, may not be available to support transitions, which take time to plan. This will also lead to increases in cost due to the short time frame and scarcity of resources within* *the transition management industry. Too much transition activity in a short space of time may also impact equity markets. LGPS Funds may have to consider the need to disinvest/invest via cash to meet any unrealistic and imposed deadline, which is clearly a most inefficient and risky way of investing scheme members assets.*

- *A more sensible, medium-term approach should be taken for the movement of liquid assets into pool company products. Government should accept that the best and most cost-effective solution may be for LGPS Funds to hold assets outside of the pool company, until such time that there are suitable pooled products in which they are able to invest. We acknowledge that LGPS Funds would need to justify this on a cost and value for money basis in the ISS.*

- *Given recent funding levels, many LGPS Funds are reducing their exposure to listed assets in favour of Private Market investments where commitments and drawdowns can be spread over investment periods of several years. This comment should be viewed in conjunction with previous comments about asset transition and the availability of suitable products.*

<u>Question 3.</u> Should government revise guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above?

- *No. We believe a flexible approach is required. The current arrangements in place across LGPS Central work well for Partner Funds. Collaborative discussion is already happening across the LGPS Central pool to agree how we can move forward together in partnership. The pooling company will continue to assist Partner Funds to implement their investment strategies by providing suitable products for them to invest in, selecting funds for pooled vehicles and appointing and monitoring investment managers.*

- *There continues to be a focus by Government on cost savings, as opposed to 'net' performance. There is evidence that supports the fact lower fees are not always achievable when the overhead cost of the pooling company is considered. The move to invest in Private Market asset classes will generally increase fees and may also limit the amount of future savings that can be achieved due to the aggregated 'LGPS' fees that are offered across the industry.*

- *We agree that collaboration but not competition between pool companies will deliver a better outcome for the LGPS.*

- *Pool companies should **<u>not</u>** be actively advising LGPS Funds regarding investment decisions, including investment strategies. This not only represents a conflict of interest but fails to recognise the fact that the fiduciary duty for managing the assets and paying LGPS benefits is the responsibility of the individual LGPS Fund. Accountability to the scheme member and the local taxpayer remains with LGPS Funds. Therefore, independent investment advice is more consistent with this responsibility.*

<u>Question 4.</u> Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?

- *The Chartered Institute of Public Finance and Accountancy (CIPFA) publish a Key Knowledge and Skills Framework for Pensions Trustees, which we and many other LGPS Funds have already adopted. Recommendations about training were also made in the Good Governance Project carried out on behalf of the Scheme Advisory Board.* LGPS Scheme Advisory Board - Good Governance (lgpsboard.org)

- *It would be beneficial for Government to endorse the Good Governance Project recommendations thus ensuring there is no duplication of existing training guidance and that there is consistency between all interested parties across the LGPS.*

<u>Question 5.</u> Do you agree with the proposals regarding reporting? Should there be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so, how should this requirement operate?

- *We agree in principle with the Government's ambition to have consistency of data reported across the LGPS to enhance clarity and transparency.*

- *Whilst we agree that reporting net returns for each asset class against a consistent benchmark would be helpful, we also recognise that this will be a challenge and subject to numerous complications (i.e., benchmarks to be set at an asset class level or by implementation method (active/passive management), benchmarks net or gross of fees etc).*

- *Clear guidance and reporting templates to ensure consistency and avoid duplication of other reporting should be provided, save increasing the demands on LGPS Fund resources further.*

- *We recognise that this will be a complex exercise that will take careful thought, time, and resource to develop. We would suggest that a working group is established to explore these reporting requirements further.*

<u>Question 6.</u> Do you agree with the proposals for the Scheme Annual Report?

- *We agree in principle to a single set of consistent data being published by the SAB on behalf of the LGPS, subject to previous comments on complexity and not further burdening already stretched resources.*

LGPS investments and levelling up

<u>Question 7.</u> Do you agree with the proposed definition of levelling up investments?

- *The definition of levelling up is subjective and suitably broad to provide sufficient scope to classify a large range of UK investments as contributing to the Government's levelling up agenda. However, any levelling up investments must still meet the required risk / return profile of an LGPS Fund and not compromise their fiduciary duty.*

- *Whilst we acknowledge the Government's ambition for LGPS Funds to invest up to 5% of their assets in projects which support local areas, we caveat such with the following comments:*
    - *The primary focus of any LGPS Fund is to pay pensions;*
    - *The 5% is not an additional 5% to investments already made that meet the definition;*
    - *Any investment should stand independently on its own merit and work within an LGPS Fund's Strategic Asset Allocation;*
    - *Any investment should take into account an individual LGPS Fund's appetite for risk - small local investments are likely to be more risky;*
    - *These types of investments can be more costly to set up and monitor;*
    - *There is likely to be a limited number of, and investment capacity in, these investments and this has the potential to increase competition to invest, drive up costs and reduce returns;*
    - *There will need to be an assessment of the investment return from these investments versus the risk being taken;*
    - *Larger pools may not be able to invest in smaller local UK investment vehicles;*
    - *There may be local conflicts of interest;*
    - *These are potentially illiquid assets to invest in at a time when many LGPS Funds are looking for sources of positive cashflow; and*
    - *In view of the above 5% should not be a prescriptive or hard target.*

<u>Question 8.</u> Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?

- *We agree in principle to investment by asset pools into other asset pools vehicles for very specific projects e.g., GLIL or 'national' projects in relation to levelling up. Guidance should be provided by government, so any assets invested this way are not 'double counted' in statistical returns.*

- *We are concerned that:*
    - *Local to one pool is not local to another which may provide rise to a conflict of interest;*
    - *Governance structures may get overcomplicated making fiduciary duty more difficult; and*
    - *There may be Shareholder versus Client concerns about risk exposures and capacity.*

<u>Question 9.</u> Do you agree with the proposed requirements for the levelling up plan to be published by funds?

- *Subject to the views we have expressed in our responses to the previous questions then we have no issue with the principle of the proposal that LGPS Funds publish a levelling up plan. However, we are concerned that there will be no visible pipeline to inform the plan. Can the Government assist by outlining potential projects that they become aware of?*

<u>Question 10.</u> Do you agree with the proposed reporting requirements on levelling up investments?

- *Subject to the views we have expressed in our responses to the previous questions, we have no issues in principle with the proposed reporting requirements on levelling up. However, we are concerned that any reporting requirements do not become too onerous with LGPS Funds having to look through their investment portfolios to compare UK investments to the 12 levelling up missions.*

- *There may be a limit to the depth of analysis possible, given available resources at LGPS Funds and the fact that the number of individual assets that require reporting on may run into the hundreds.*

Investment opportunities in Private Equity

<u>Question 11.</u> Do you agree that funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio? Are there barriers to investment in growth equity and venture capital for the LGPS which could be removed?

- *No, we do not agree.*

- *Private equity is a high-risk asset class, and we believe it should be for each individual LGPS Fund to decide if an allocation to private equity within their Strategic Asset Allocation and their risk appetite is appropriate. An LGPS Fund is ultimately accountable for their own funding and investment strategies and understanding the profile of their own liabilities.*

- *Private equity is an expensive, illiquid asset class. Many LGPS Funds are maturing and are now cashflow negative; private equity may not suit their liquidity needs.*

- *Asset pooling companies will likely lack the skills, networks, and connections to invest in venture private equity. Large in-house teams within the pooling companies would need to be established at significant cost, which would quickly erode any cost saving benefits. If this requirement was to remain then access would have to be via external managers, negating one of the Government's further pooling objectives.*

- *Barriers may be direct or indirect and include, risk profile and risk appetite, cost, liquidity, availability and suitability.*

- *It would be helpful if the Government could be clear as to whether they mean Private Markets more widely for the 10% allocation, private equity globally, UK private equity or specifically UK Venture private equity. If it is the latter, the UK venture market is very small and too much capital chasing too few opportunities could lead to dangerous price bubbles.*

- *Any increased allocation to Private Market asset classes generally will be more expensive and have limited impact on future cost savings.*

Question 12. **Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise on the Bank's expertise?**

- *We have no objection to exploring collaboration between the British Business Bank and the LGPS. However, we believe there should be no pre-requisite to invest, as there is still a need for alignment with an individual LGPS Fund's Strategic Asset Allocation, Investment Strategy, and risk appetite.*

- *We are unable to comment about secondary legislation but would re-emphasise the point that there should be no pre-requisite to invest.*

Improving the provision of investment consultancy services to the LGPS

Question 13. **Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?**

- *We have no objection to this proposal given we already set and monitor strategic objectives for our main investment consultant. We review and report on these annually which aligns to best practice.*

- *We would appreciate some clarity from the Government on whether their intention is that this order be extended to investment advisers that are not FCA registered or to investment advisers who may act independently. Further guidance on the scope of the services that independent investment advisors can and cannot advise on. E.g., Strategic Asset Allocation versus specific product advice would also be appreciated.*

Updating the LGPS definition of investments

Question 14. **Do you have any comments on the proposed amendment to the definition of investments?**

- *We have no comments on this proposed amendment.*

<u>Question 15.</u> Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.

- *We are not aware that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals in this consultation.*

29 September 2023
T&PF/MS/TB

Not for publication by virtue of paragraph(s) 3
of Part 1 of Schedule 12A
of the Local Government Act 1972

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