

County Buildings, Stafford
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Pensions Committee

Friday, 16 March 2018

10.00 am

Oak Room, County Buildings, Stafford

NOTE: Following the meeting there will be a training session on the General Data Protection Regulation (GDPR)

John Tradewell
Director of Strategy, Governance and Change
8 March 2018

A G E N D A

PART ONE

1. **Apologies**
2. **Declarations of Interest**
3. **Minutes of the meeting held on 8 December 2017** (Pages 1 - 4)
4. **Minutes of the Pensions Panel held on 5 December 2017** (Pages 5 - 8)
5. **Appointment of a Member of the Pensions Panel**

To consider the appointment of a Member to take the vacant seat on the Pensions Panel
6. **Staffordshire Pension Fund Audit Plan 2017/18** (Pages 9 - 42)

Report of the Director of Finance and Resources
7. **Staffordshire Pension Fund Business Plan 2018/19** (Pages 43 - 52)

Report of the Director of Finance and Resources
8. **Review of Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS)** (Pages 53 - 56)

Joint Report of Hymans Robertson and the Director of Finance and

Resources

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

10. **Exempt minutes of the meeting held on 8 December 2017** (Pages 57 - 60)
(Exemption paragraph 3)

11. **Exempt minutes of the Pensions Panel held on 5 December 2017** (Pages 61 - 70)
(Exemption paragraph 3)

12. **III Health Liability Risk Management (IHLM)** (Pages 71 - 78)
(Exemption paragraph 3)

Report of Director of Finance and Resources

13. **Admission of New Employers to the Fund** (Pages 79 - 82)
(Exemption paragraph 3)

Report of Director of Finance and Resources

14. **Debt Write-off** (Pages 83 - 86)
(Exemption paragraph 3)

Report of Director of Finance and Resources

15. **Pooling of LGPS Investments**
(Exemption paragraph 3)

Oral Report of Director of Finance and Resources

Membership

Ben Adams	Geoff Locke (Co-Optee)
Philip Atkins, OBE	Peter Noskiw (Co-Optee)
Nigel Caine (Co-Optee)	Mike Sutherland
Derek Davis, OBE	Stephen Sweeney
Ann Edgeller (Vice-Chairman)	Martyn Tittley
Colin Greatorex (Chairman)	Kevin Upton (Co-Optee)
Sue Insull (Co-Optee)	

Note for Members of the Press and Public

Filming of Meetings

The Open (public) section of this meeting may be filmed for live or later broadcasting or other use, and, if you are at the meeting, you may be filmed, and are deemed to have agreed to being filmed and to the use of the recording for broadcast and/or other purposes.

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 8 December 2017

Present:

Attendance	
Ben Adams	Geoff Locke (Co-opted Member)
Philip Atkins, OBE	Mike Sutherland
Derek Davis, OBE	Stephen Sweeney
Ann Edgeller (in the chair)	Kevin Upton (Co-Opted Member)
Colin Greatorex	

Also in attendance: Corrina Bradley and Ian Jenkinson (Pensions Board Member Members) and Ian Colvin (Hymans Robertson).

Apologies: Nigel Caine, Sue Insull and Peter Noskiw (Co-opted Members).

PART ONE

35. Robert Marshall

The Committee were informed of the death, on the evening of Wednesday, 1 November 2017, of County Councillor Robert Marshall who had been appointed as Chairman of the Committee in May 2017. The Committee stood in silence in Mr Marshall's memory.

36. Declarations of Interest

There were no declarations of interest on this occasion.

37. Minutes of the meeting held on 20 October 2017

The Director of Finance and Resources referred to minute number 26 relating to the implementation of the Markets in Financial Instruments Directive and confirmed that applications had been submitted for elective professional client status for the Staffordshire Pension Fund with all relevant investment and financial institutions.

RESOLVED – That the minutes of the meeting of the Pensions Committee held on 20 October 2017 be confirmed and signed by the Chairman.

38. CIPFA Knowledge and Skills Framework

The Committee received a presentation and report by the Director of Finance and Resources in respect of the Committee's continued commitment to adopt a training plan covering the 8 key knowledge areas of the CIPFA Knowledge and Skills Framework. i.e.:

- Pensions Legislative
- Pensions Governance
- Pensions Administration (Local Pensions Board only)
- Pensions Accounting and Auditing Standards

- Pensions Services, procurement and relationship management
- Investment performance and risk management
- Financial markets and products knowledge
- Actuarial methods, standards and practices

They were informed that training for Pensions Committee members under the CIPFA KSF was not mandatory, as it was for the Local Pensions Board, but was considered to be best practice and was strongly encouraged. Thorough knowledge of the key areas of the Pension Fund by Members of the Pensions Committee and Senior Officers was vital for proper governance of the scheme.

The Director explained that Members of the Committee would be requested to complete a Training Needs Assessment (TNA) measuring themselves against the CIPFA KSF in order to assess the Committee's current areas of knowledge and expertise, both as individuals and as a collective. Once Officers had analysed the results of the TNA, a more focused Training Plan, aimed at achieving certain levels of Competency, would be put in place to address areas for specific training needs going forward. This training could be provided through completion of the Local Government Association's "Fundamentals" training (provided over three separate days), through the on-line Pensions Regulator Toolkit, via bespoke "just-in-time" training, or via a mixture of all three.

Following a discussion, the Committee expressed the view that those Members who wished to attend the three day "Fundamentals" training or the on-line training provided in the Pensions Regulator's Toolkit should be given the opportunity to do so; and that "just-in-time" bespoke training should also continue to be provided.

It was anticipated that a review of the TNA would be carried out annually. There was also a separate Training Log in place for Pensions Committee Members and this would be updated regularly to record all training which had taken place and would form part of the Fund's Annual Report and Accounts.

RESOLVED – (a) That the contents of the report in relation to the CIPFA Knowledge and Skills Framework (CIPFA KSF) be noted and that the Members of the Committee reaffirm their commitment to such.

(b) That the high level Training Plan and the proposed levels of Competency be noted.

(c) That it be noted that a Training Log is being maintained by the Director of Finance and Resources and that "just in time" training at Pensions Committee and Pensions Panel will be identified on meeting agendas and recorded on the Training Log.

(d) That it be noted that attendance at meetings of the Pensions Committee and Pensions Panel, and a summary of training delivered, is included in the Staffordshire Pension Fund's Annual Report and Accounts.

(e) That Members be provided with details of the LGA Fundamentals training together with a link to the training modules forming the Pensions Regulator's Toolkit.

(f) That the Committee also continue to receive "just-in-time" bespoke training.

39. Exclusion of the Public

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

PART TWO

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

40. Exempt minutes of the meeting held on 20 October 2017

(Exemption paragraph 3)

41. The Local Government Pension Scheme Administration- Breaches

(Exemption paragraph 3)

42. LGPS Regulations - Admitted Bodies

(Exemption paragraph 3)

43. Pooling of LGPS Investments

(Exemption paragraph 3)

Chairman

Minutes of the Pensions Panel Meeting held on 5 December 2017

Present:

Attendance

Philip Atkins, OBE (Chairman) Stephen Sweeney
Mike Sutherland

Also in attendance: Carolan Dobson (Independent Adviser), Ian Jenkinson (Observer), Graeme Johnston (Hymans Robertson), Geoff Locke (Observer) and David Thomas (Independent Adviser).

Apologies: Derek Davis, OBE

PART ONE

80. Declarations of Interest

There were no Declarations of Interest on this occasion.

81. Minutes of meeting held on 5 September 2017

RESOLVED – That the minutes of the Meeting of the Pensions Panel held on 5 September 2017 be confirmed and signed by the Chairman.

82. Pension Fund Performance and Portfolio of Investments as at 30 September 2017

The Director of Finance and Resources submitted a summary of the performance of the Pension Fund, together with a portfolio of the Fund's investments, as at 30 September 2017.

The Panel were informed that the Fund had a market value of £4.8 billion as at 30 September 2017; the highest reported to date. Over the quarter the Fund returned 1.7%, slightly outperforming its strategic benchmark by 0.1%. The best performing asset classes relative to their benchmarks were UK Equities and the Alternatives pool. Allocations to low returning Corporate Bonds and Cash were marginal detractors from performance.

The Fund had outperformed its strategic benchmark in the year to date and 3 and 5 year time periods. Annualised returns over both 3 and 5 years were in excess of 11% per annum, well above the investment return assumptions used by the Actuary as part of the triennial valuation.

RESOLVED – That the Pension Fund Investment performance and the portfolio of investments for the quarter ended 30 September 2017 be noted.

83. Dates of Future Meetings

- 6 March 2018

Provisional Dates for 2018/19

- 5 June 2018
- 24 July 2018 (Managers Day)
- 4 September 2018
- 4 December 2018
- 5 March 2019

All meetings are scheduled to start at 9.30am at County Buildings, Stafford.

84. 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.

PART TWO

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

85. Exempt Minutes of the Meeting held on 5 September 2017

(Exemption paragraph 3)

86. Pension Fund Performance and Manager Monitoring for the quarter ended 30 September 2017

(Exemption paragraph 3)

87. Pooling of LGPS Investments

(Exemption paragraph 3)

88. Strategic Benchmark Review and Monitoring

(Exemption paragraph 3)

a) Economic and Market Update

b) Review of Position as at 30 September 2017

89. Responsible Investment (RI) Quarter 3 2017

(Exemption paragraph 3)

90. Managers' Presentations

(Exemption paragraph 3)

Standard Life Investments (UK Active Equity Portfolio)

Chairman

Local Members Interest	
Nil	

PENSIONS COMMITTEE – 16 MARCH 2018

Report of the Director of Finance and Resources

Staffordshire Pension Fund Audit Plan 2017/18

Recommendation of the Chairman

1. To note the external auditor’s plan for the audit of the Staffordshire Pension Fund (the Fund) for the 2017/18 financial year.

Background

2. The audit will be undertaken by Ernst and Young (EY) who are also the County Council’s auditors.
3. The Fund accounts will be audited as part of the County Council’s accounts.
4. The document at Appendix 1, the Audit Plan, details how EY intend to carry out their responsibilities as auditors and is an assessment of the key issues which they believe will affect the audit.
5. Appendix 1 is also being reported to the County Council’s Audit and Standards Committee as part of the normal audit arrangements.
6. Although the Fund is audited as part of the County Council’s accounts, EY will issue a separate opinion on the Fund and produce a Fund specific Audit Findings Report. This will again be reported to both Pensions Committee and Audit and Standards Committee.
7. **Equalities implications:** There are no direct equalities implications arising directly from this report.
8. **Legal implications:** The legal implications are dealt with in the body of the report.
9. **Resource and value for money implications:** The costs of the audit are included in the Audit Plan
10. **Risk implications:** There are no direct risk implications arising from this report.

11. **Climate change implications:** There are no direct climate change implications arising from this report.
12. **Health impact assessment screening:** There are no direct implications arising from this report.

Andrew Burns
Director of Finance and Resources

Contact: Tim Byford
Telephone Number: (01785) 278196
Background Documents: None



Staffordshire Pension Fund
Audit planning report

Year ended 31 March 2018

March 2018

A nighttime photograph of a street scene. In the foreground, a white truck with orange lights is parked or moving slowly. To the left, there is a building with a brightly lit entrance and some signage. The street has white lane markings and a green arrow pointing right. The overall scene is illuminated by streetlights and building lights, creating a mix of warm and cool tones.

12 March 2018

Audit and Standards
Committee/Pensions Committee
Staffordshire Pension Fund
No 1 & 2 Staffordshire Place,
Tipping Street,
Stafford, ST16 2DH

Dear Audit and Standards Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit and Standards Committee and the Pensions Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Fund, and outlines our planned audit strategy in response to those risks. This report is intended solely for the information and use of the Audit and Standards Committee, Pensions Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 12 March 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Suresh Patel, Associate Partner
For and on behalf of Ernst & Young LLP
Enc

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit and Standards Committee and management of Staffordshire Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Standards Committee and management of Staffordshire Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Standards Committee and management of Staffordshire Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



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01

Overview of our 2017/18 audit strategy



Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Standards Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Valuation of unquoted investments	Significant risk	Increased risk	The Fund's investments include unquoted pooled investment vehicles and private equity funds (approximately 9% of total Fund assets). Judgements are taken by the Investment Managers to value those investments whose prices are not publically available. The material nature of Investments means that any error in judgement could result in a material valuation error.
New General Ledger System	Significant risk	New risk	The Council and Pension Fund have implemented a new General Ledger system in year (Integra). Any significant system change creates risks associated with data migration and integrity which could result in a material misstatement.
Valuation of directly held properties	Other financial statement risk	Decreased risk	The Fund has a significant portfolio of directly held property investments. The valuation of land and buildings is subject to a number of assumptions and judgements. A small movement in these assumptions could have a material impact on the financial statements.

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Audit team changes

Key changes to our team:

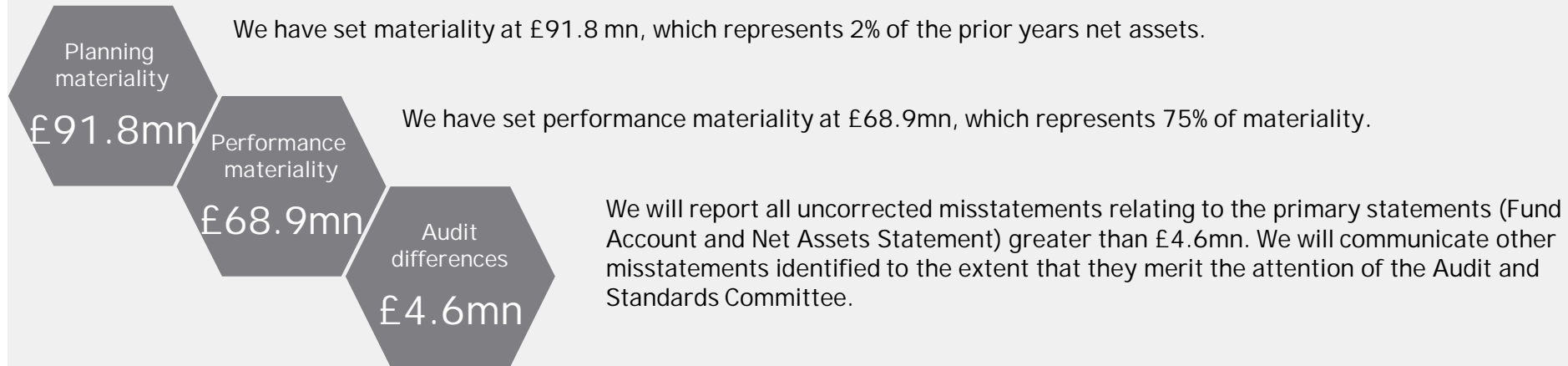


Associate Partner – Suresh Patel

- Suresh takes over from Richard Page as the Engagement Lead
- Suresh has significant public sector audit experience, with a portfolio of Local Authorities and Local Government Pension Funds
- He is a member of the Chartered Institute of Public Finance and Accountancy (CIPFA)

Overview of our 2017/18 audit strategy

Materiality



Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- § Our audit opinion on whether the financial statements of Staffordshire Pension Fund give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and
- § Our opinion on the consistency of the Fund's financial statements, which are included in the Fund's Annual Report, with the published financial statements of Staffordshire County Council (Administering Authority).

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- § Strategic, operational and financial risks relevant to the financial statements;
- § Developments in financial reporting and auditing standards;
- § The quality of systems and processes;
- § Changes in the business and regulatory environment; and,
- § Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Fund.



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02

Audit risks



Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

<p>Misstatements due to fraud or error*</p>	<p>What is the risk?</p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>What will we do?</p> <ul style="list-style-type: none"> • Identify fraud risks during the planning stages. • Inquire of management about risks of fraud and the controls put in place to address those risks. • Understand the oversight given by those charged with governance of management's processes over fraud. • Consider the effectiveness of management's controls designed to address the risk of fraud. • Determine an appropriate strategy to address those identified risks of fraud. • Perform mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
<p>New General Ledger System</p>	<p>What is the risk?</p> <p>The administering authority has implemented a new General Ledger system in year (Integra). Any significant system change creates risks associated with data migration and integrity which could result in a material misstatement.</p>	<p>What will we do?</p> <ul style="list-style-type: none"> • Carry out a review of Internal Audits planned work on the system migration to inform our risk assessment and planned audit response. • In conjunction with IT Risk Assurance (ITRA) specialists within EY, review the Council's approach and execution of the transfer of data to the new system. Perform tests on data migration to gain assurance on the opening balances in Integra. • Document and walkthrough the IT general controls, assessing the design of those controls. • Documentation and walkthrough of both the General ledger systems in use in the financial year.

Our response to significant risks (continued)

<p>Valuation of unquoted investments</p>	<p>What is the risk?</p>	<p>What will we do?</p>
<p>Page 19</p> <p>Financial statement impact</p> <p>Misstatements that occur in relation to the valuation of unquoted investments could affect the net assets of the Fund. The value of investments categorised as level 3 in 2016/17 was:</p> <p>Private Equity: £146mn Private Debt: £75mn Hedge Funds: £87mn</p>	<p>The Fund's investments include unquoted pooled investment vehicles and limited partnerships (approximately 9% of fund assets). Judgements are taken by the Investment Managers to value those investments whose prices are not publically available. The material nature of investments means that any error in judgement could result in a material valuation error.</p> <p>Current market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the Fund year end. Such variations could have a material impact on the financial statements.</p> <p>Additionally, for 2017/18 the fund is required to close their accounts within a shortened time frame to previous years. As such the pension fund will be taking the latest valuation available from the fund managers and making adjustments for capital calls and distributions, and other material fluctuations to year end to enable them to meet the shorter deadline of 1 June 2018 for submission of the financial statements to audit. As such there is a greater risk that the year end valuation could be materially misstated.</p>	<ul style="list-style-type: none"> • Document and walk through the process and design of the controls over the valuation process • Review the relevant investment manager controls' reports for qualifications or exceptions that may affect the audit risk. • Review the basis of valuation for unquoted investments and ensure it is in line with the accounting policy. • Perform tests of valuation by obtaining the latest available audited accounts and agreeing the net asset value per the confirmation received to the audited accounts provided • Where the audited accounts do not have the same year end as the Fund we will perform other procedures to obtain assurance that the movement to 31 March 2018 is reasonable.



03

Audit materiality

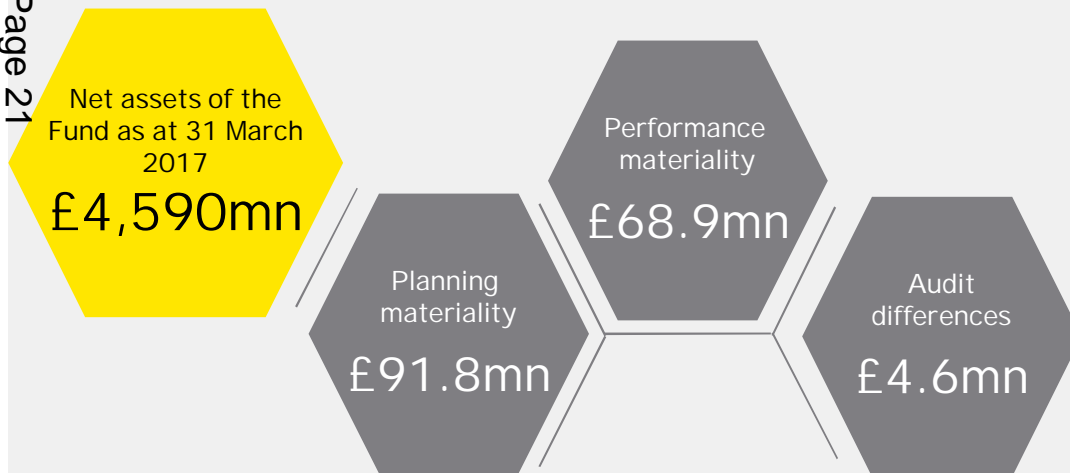


Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £91.8mn. This represents 2% of the Fund's prior year net assets value. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.

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We request that the Audit and Standards Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £68.9mn which represents 75% of planning materiality. We have used a threshold of 75% as our experience from prior year audits means that we do not anticipate identifying a significant number of audit adjustments.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the Fund Account and Net Asset Statement.

Other uncorrected misstatements, such as reclassifications and misstatements in disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit and Standards Committee or are important from a qualitative perspective.



04

Scope of our audit



Scope of our audit

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Fund's financial statements and the consistency of these financial statements with those disclosed in the Fund's Annual Report. We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error; Significant disclosures included in the financial statements; Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and Auditor independence.

Consistency opinion

We are required to consider the consistency of the Fund's financial statements, which are included in the Fund's Annual Report, with the published financial statements of Staffordshire County Council (Administering Authority).

Audit Process Overview

Our audit involves identifying and understanding the key processes and internal controls and substantive tests of detail of transactions and amounts.

For 2017/18 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit and Standards Committee.

Internal audit

We will meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.



05

Audit team



Audit team

Suresh Patel is the Associate Partner responsible for the overall quality and delivery of the audit service. He will be supported by Caroline Davies as Senior Manager on the audit who will be the main point of contact for the audit team. This will be the first year that Suresh has worked on the audit of Staffordshire Pension Fund and the third year that Caroline has worked on the audit of Staffordshire Pension Fund.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists may provide input for the current year audit are:

Area	Specialists
Valuation of directly held properties	EY Valuations Team
Pensions liability disclosure	EY Actuaries
Valuation of quoted and unquoted investments	EY Derivatives Valuation Centre

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Fund's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



06 Audit timeline





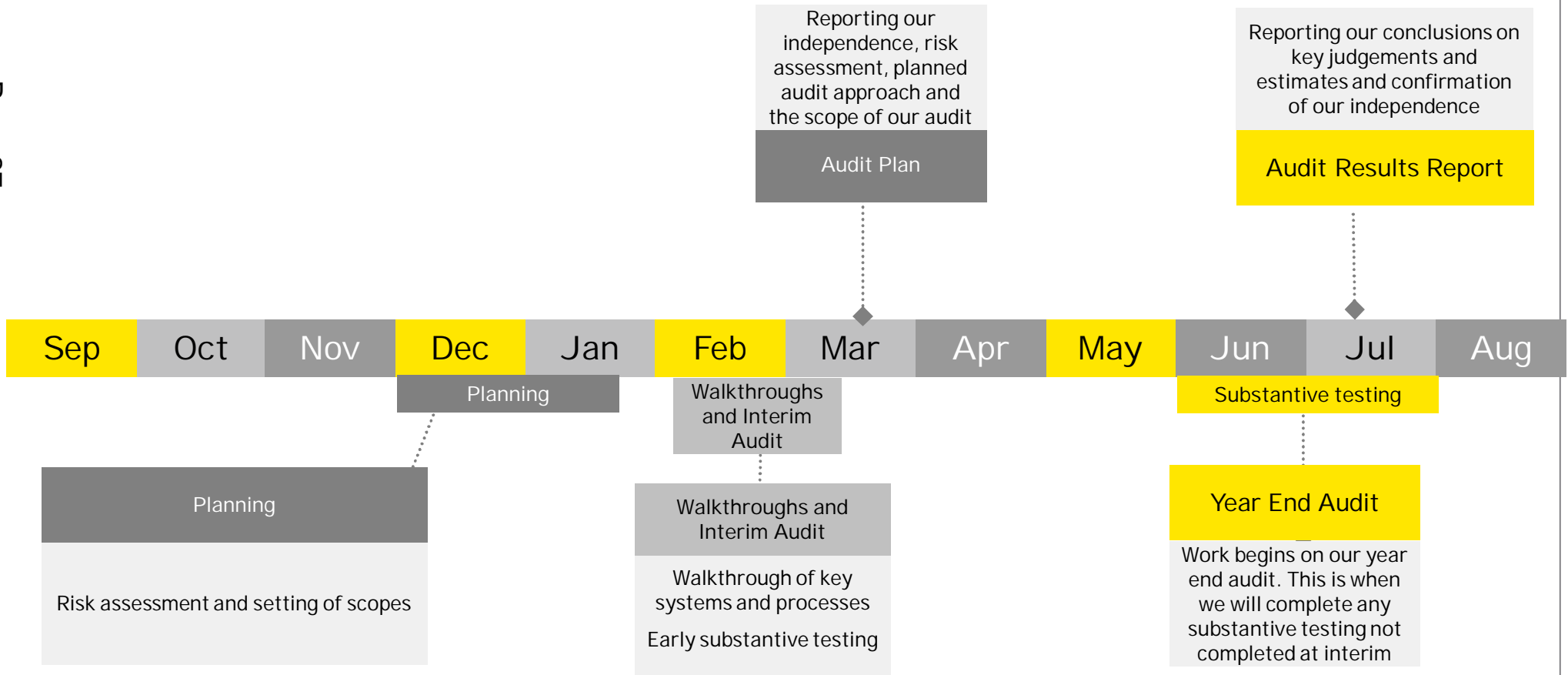
Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18. From time to time matters may arise that require immediate communication with the Audit and Standards Committee and we will discuss them with the Audit and Standards Committee Chair as appropriate.

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Audit timeline

Faster Close – Key Messages

What is the issue

Earlier accounts deadline

For 2017/18 the Pension Fund needs to prepare draft accounts by 31 May and the publish audited accounts by 31 July a challenge and risk for both preparers and auditors.

There are risks to the Pension Fund including the ability to prepare good quality working papers and obtaining relevant information from third parties.

As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within the same compressed timetable. Slippage at one client could put delivery of others at risk.

To mitigate this risk we will require:

- good quality draft accounts and supporting working papers by the agreed deadline;
- Appropriate Pension Fund staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

If the Pension Fund is unable to meet key dates within our agreed timetable, we will notify the Director of Finance and Resources of the impact on the timing of your audit, which may be that we postpone the audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Where we require additional work to complete your audit, due to new risks, scope changes, or poor audit evidence, we will notify the Director of Finance and Resources of the impact on the timing of the audit and fees. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

What will we do?

To support the Pension Fund we will:

- Work with the Pension Fund to engage early to facilitate early substantive testing where appropriate, specially our IAS19 protocol testing
- Provide an early review on the Pension Fund's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.
- Work with the Pension Fund to implement EY Client Portal, this will:
 - Streamline our audit requests through a reduction of emails and improved means of communication;
 - Provide on-demand visibility into the status of audit requests and the overall audit status;
 - Reduce risk of duplicate requests; and
 - Provide better security of sensitive data.
- Agree the team and timing of each element of our work with you.
- Agree the supporting working papers that we require to complete our audit.



07

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
<p data-bbox="91 778 136 922">Page 30</p> <ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard 	<ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Written confirmation that all covered persons are independent; ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services. We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted. We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards we have adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Suresh Patel as your audit engagement partner and the audit have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Fund. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you.

At the time of writing, there are no long outstanding fees and there are no non-audit fees and therefore no additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4. There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements. There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Fund. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise. There are no other threats at the date of this report.

EY Transparency Report 2017

We have policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2017 and can be found here: <http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-20167>



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Appendices



Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
Total Fee - Code work	28,637	28,637	28,637
IAS 19 assurances *	5,500	NA	5,500
Significant risk - New general ledger **	TBC	TBC	TBC
Total fees	34,137	28,637	34,137

All fees exclude VAT

* As in previous years we anticipate that an extra fee of £5,500 will be charged to take into account the additional work required to respond to IAS19 assurances from scheduled bodies. In 2016/17 we received and responded to 14 requests. This additional fee is subject to approval by the PSAA.

** We anticipate there will be a further fee for additional work required as a result of the new general ledger system, as set out on page 10. We are in the process of scoping this work and will discuss and agree any additional fee with management.

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and consistency opinion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Fund; and
- ▶ The Fund has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Fund in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Regulatory update

In previous reports to the Audit and Standards Committee, we highlighted the issue of regulatory developments. The following table summarises progress on implementation:

Earlier deadline for production and audit of the financial statements from 2017/18	
Proposed effective date	Effective for annual periods beginning on or after 1 April 2017.
Details	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.
Impact on Staffordshire Pension Fund	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>We are discussing with the Fund their progress in working towards closing the accounts in the shortened time scales. This includes:</p> <ul style="list-style-type: none"> • Streamlining the Statement of Accounts removing all non-material disclosure notes; • Bringing forward the commissioning and production of key externally provided information such as IAS 19 pension information, asset valuations; • Re-ordering tasks from year-end to monthly/quarterly timing, reducing year-end pressure; • Establishing and agreeing working materiality amounts with the auditors.




Appendix C

Required communications with the Audit and Standards Committee

We have detailed the communications that we must provide to the Audit and Standards Committee.



Our Reporting to you

Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit and Standards Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report



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Appendix C

Required communications with the Audit and Standards Committee







Our Reporting to you

Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	Audit results report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management 	Audit results report
Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit and Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud 	Audit results report
Related parties	<ul style="list-style-type: none"> • Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity 	Audit results report

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Appendix C

Required communications with the Audit and Standards Committee

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report and Audit Results Report	
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report	
Consideration of laws and regulations	<ul style="list-style-type: none"> • Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Audit and Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Standards Committee may be aware of 	Audit results report	
Internal controls	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit 	Audit results report	
Representations	<ul style="list-style-type: none"> • Written representations we are requesting from management and/or those charged with governance 	Audit results report	

Appendix C

Required communications with the Audit and Standards Committee

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report	
Auditors report	<ul style="list-style-type: none"> • Key audit matters that we will include in our auditor's report • Any circumstances identified that affect the form and content of our auditor's report 	Audit results report	
Fee Reporting	<ul style="list-style-type: none"> • Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work 	Audit planning report/Audit results report	

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fund to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit and Standards Committee reporting appropriately addresses matters communicated by us to the Audit and Standards Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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ED None

PENSIONS COMMITTEE – 16 MARCH 2018

Report of the Director of Finance of and Resources

Staffordshire Pension Fund Business Plan 2018/19

Recommendation of the Chairman

1. That the Pensions Committee approves the Pensions Business Plan for 2018/19 and notes the key challenges.

Background

2. For reasons of best practice and good governance, it is important for the Pensions Committee to consider and approve an annual Business Plan for the Pension Fund. This report reviews progress against the current financial year's Business Plan (Appendix A - 2017/18) and provides the proposed Business Plan for the following financial year (Appendix B – 2018/19).

Pensions Business Plan 2017/18 – Progress Update

3. Progress against the current year's Business Plan is detailed in Appendix A. As well as continuing to do the 'day job' and the increasing challenges that this presents, in effectively administering 3 schemes, significant successes have been achieved in a number of areas including;
 - Implementing new processes and procedures following a review of the Fund's Additional Voluntary Contribution (AVC) providers at the end of 2016;
 - Issue of the Annual Benefit Statements by 31 August 2017;
 - An initial review of compliance to The Public Service Scheme Code of Practice and Public Service Regulatory Strategy in relation to Disclosure of Data e.g Breaches;
 - Appointment of an independent Performance Measurer for the investments of the Fund; and
 - Continued support to LGPS Central Ltd in its progress towards Financial Conduct Authority (FCA) approval.

Full details will be included in the final outturn report which will be presented to the Pensions Committee at their meeting in June 2018.

Performance Standards 2017/18

5. The Committee have been made aware in previous year's reports of the challenges implicit in administering the LGPS, since the introduction of the 2014 scheme and the regulatory complexity that brings with it.
6. Whilst performance in certain areas may not be back to the optimum target levels the Pensions Services Teams would wish for, there is a sense that things are starting to improve. Issues with recruiting appropriately skilled staff are being addressed via a recruitment exercise to 'grow our own' instead. And issues as a result of the fragmentation of the County Council's payroll are being focused on as a key area of development activity in 2018/19 with the implementation of i-Connect.
7. A full set of performance statistics will be provided as part of the Outturn reporting for the June Committee.

Pensions Business Plan 2018/19

8. The Business Plan for 2018/19 has been split into 2 distinct sections. The first section deals with Key Development Activities which aim to make the way we work more efficient and effective. The second section deals with the activities that we need to do as part of the day job but which impact us significantly at certain points in the year or which happen as a by-product of another activity e.g. performing data integrity checks prior to the 2019 Actuarial Valuation.
9. The areas that the Pensions Services Teams have identified as Key Development Activities in 2018/19 include:
 - Ensuring full compliance with the General Data Protection Regulations (GDPR) which come into effect in May 2018;
 - Continuing to implement i-Connect software for data collection with Fund Employers, with the aim of having 50% of Active Fund Member data submitted monthly;
 - Development of the Pension Fund website and a review of the ways in which we communicate with our Scheme Members and Fund Employers; and
 - Implementation of the new Governance Arrangements in relation to LGPS Central Limited to include the reporting arrangements and review of asset transition plans.

Pensions Administration – Key Development Activities

GDPR

10. From May 2018, the EU General Data Protection Regulation (GDPR) will replace the current Data Protection Act. GDPR is a regulation by which the

European Parliament intends to strengthen and unify data protection for all individuals within the European Union (EU). Alongside the County Council's corporate programme, the Pension Fund is working towards ensuring areas of compliance specific to Pensions Administration. This includes identifying data relationships with current and previous suppliers, putting privacy statements in place on our systems and documentation and reviewing historic data to ensure that we store, hold and manage LGPS members' personal data in line with statutory requirements going forward. We are also arranging both external and internal training for all Pensions Administration staff to raise their awareness and highlight the potential significance of any GDPR compliance breach. Given that the Fund has in excess of 100,000 individual members' records this is a huge challenge across the team, at a time when we are also endeavouring to work to close the Pension Fund accounts by 31 May, two months earlier than in previous years.

Members of the Pensions Committee will receive a short information and training session, on GDPR, following today's meeting.

i-Connect

11. The increasing number of Employers in the Fund together with the increasing number of payroll providers makes it extremely difficult to ensure that the Fund is fully compliant with The Public Service Scheme Code of Practice and Public Service Regulatory Strategy in relation to the Disclosure of Data. One of the ways in which the risks of non compliance can be mitigated is by encouraging Employers to submit monthly data using the i-Connect software, which is a module of the administration system Altair. Progress has been slow with this project thus far, as the onus is on the resource and enthusiasm of Employers who need to undertake a data mapping exercise to provide an extract from their payroll. Ultimately, doing this will benefit all concerned, not only in relation to the Disclosure of Data but also because it will improve the accuracy of pension data generally and remove the need to have a year- end process.

Website and Member and Employer Communications

12. The Fund now has almost 300 Employers, all who have different levels of experience and resources available in relation to dealing with Pensions. It is becoming increasingly apparent that one of the ways in which we can begin to alleviate unnecessary telephone enquiries and email queries is to make appropriate information available, accessible and user friendly. The Staffordshire Pension Fund website is key to this and, working with the County Council's IT team, a review is being started to make the site more member and employer focussed, in terms of answering the most frequently asked questions. We also recognise that the site needs to be intuitive to use and fluid in the topical information displayed.
13. Recognising that many Employers do have a limited resource means that if we can help them to perform their roles more effectively, it will ultimately help us provide them with a better service. I-Connect is one example of this, but

we are also proposing to redesign and produce more Employer focussed newsletters, update our scheme guides and run targeted practitioners workshops on topics such as Data requirements and Breaches, Ill-health retirement, IDRPs and other such areas, on which we often spend time explaining the process several times over.

Pensions Investment – Key Development Activities

LGPS Asset Pooling

14. The Committee have been fully updated and engaged thus far with the numerous complexities surrounding LGPS asset pooling and the creation of LGPS Central Limited which was authorised by the Financial Conduct Authority (FCA) in December 2017. A vast amount of additional work has been undertaken by Officers over the past 2 years, to get LGPS Central Limited to the 1 April 2018 go-live date but, the work does not stop there. Throughout the company's first year of operation, there are Governance arrangements to implement, reporting and accounting arrangements to put in place, asset transitions to manage and monitor and there is still work to be done in conjunction with the company in developing the investment offering. Again, the Committee is asked to note that the amount of time and resource that still needs to be committed to this project should not be underestimated.

Cost and Resources

15. The Pension Fund currently has five main sources of 'resource/cost';
 - Internal resources in pension's administration and accounting
 - Advice from actuary and consultants/advisors (external);
 - Legal support either internal or external;
 - Investment management (external);
 - Custody (external).
16. A number of costs are very difficult to anticipate for example, costs for investment advice and legal support vary depending on the level of activity. Investment Management fees vary dependent of the GBP (£) amount of assets under management (AUM) and the level of manager performance, impacting on the payment of performance related fees. Therefore, it is likely that there could be considerable variation in the final outturn position.
17. CIPFA reporting guidance states it is good practice to produce a three year budget and Table 1 illustrates our best estimate of the likely budget costs for the three years commencing 2018/19. Clearly, given the difficulty outlined in the previous paragraph these are indicative costs only and as such will be subject to further variation with changes over time.
18. The indicative costs have been produced using the information we have available at the current time, with reasonable assumptions made about growth in AUM and levels of activity. However, even small changes in activity levels

combined with other factors, such as increases in the governance and running costs of LGPS Central could create significant variations from these figures.

Table 1 - Indicative Pension Fund Costs 2018-2021

Cost Heading	2018/19	2019/20	2020/21
	£000	£000	£000
Pensions Administration	2,250	2,290	2,340
Governance*	980	1,000	1,020
Audit	40	40	40
Actuarial Fees	140	320	150
Legal Fees	200	200	210
Investment Advice	190	200	200
Investment Management Fees	11,110	10,450	10,270
Property Expenses (ex-legal)	1,620	1,650	1,690
Monitoring and Custody	120	20	0
Other expenses	360	370	380
LGPS Central transition costs	2,030	810	1,540
Total	19,040	17,350	17,840

**Includes the running costs of LGPS Central*

19. Given the imminent date for the commencement of LGPS asset pooling on 1 April 2018, the Fund will begin to incur additional cost in relation to the ongoing governance, management and operational costs of LGPS Central Ltd. The 2018/19 budget for the company has only recently been approved by Shareholders and whilst the full implications of this for Partner Funds is still being analysed through the cost / savings model, the Fund's estimated share of the budget is included in the Governance costs in the table above. Whilst, this includes an element of fixed cost, that the Fund has to pay by virtue of being a Shareholder of the company, many other elements of cost will be dependent on a number of variables, including the services being provided to the Fund by the company e.g. manager monitoring as well as the AUM invested in the sub-funds being offered by the company.
20. Table 1 also includes the forecast costs of transitioning assets into LGPS Central and the offset in reduced investment management costs. This is based on the transition timetable outlined in the July 2017 Business Case Submission to Government and as and when the transition plan for assets and the timings of such transitions gets revised by the company, these costs may need to be updated to reflect any changes.
21. Because of the uncertainty around a number of costs, it is not proposed to use these estimated costs for 'budget monitoring' purposes per-se; they are purely indicative for information. To manage cost, the Committee is asked to rely on cost comparisons, benchmarking and trends to ensure that value for

money is delivered. A fuller report on comparative outturn costs for 2017/18 will be brought to the Committee in June 2018.

Risk

22. The primary risks to the continued delivery of a pension administration service to the high standards achieved are;
- The staffing resource with the right experience to cope with changes to Government Legislation and increasing fragmentation of payroll provision.
 - Pension payroll – Ensuring that the correct pensioner members are paid on time with the correct amount.

These, and other risks, are further analysed in the Pension Fund's Risk Register, the latest version of which will be presented in full to the June 2018 meeting of this Committee.

23. **Equalities implications:** There are no direct equality implications arising from this report.
24. **Legal implications:** There are no direct legal implications arising from this report but there is a legal requirement to implement GDPR.
25. **Resource and Value for money implications:** Resource and value for money implications are considered in the report.
26. **Risk implications:** There are no direct risk implications but the report does contain some actions to address risks identified in the risk register.
27. **Climate change:** There are no direct climate change implications arising from this report.
28. **Health Impact Assessment screening:** There are no health impact assessment implications arising from this report.

Andrew Burns
Director of Finance and Resources

Contact: Melanie Stokes
Telephone No: (01785) 276330
Background Docs: None

Issue to be addressed	Key Development Activity	Timetable
LGPS Pensions Administration	Review Administration Team staffing levels and structure	Under ongoing review
	Review Processes and Procedures (I Connect) (new SCC Finance System)	Achieved with ongoing review
	Develop new working Practices (Third Party Payroll Providers)	Partially Achieved with ongoing review
	Compliance with new General Data Protection Legislation (GDPR)	Ongoing to May 2018
	Finalise Year end data	Achieved
	Issue Active and Deferred Annual Benefit Statements	Achieved
	Record Keeping Data Integrity Checks	Ongoing to March 2019
	Introduce employer asset tracking model (HEAT)	Partially achieved with further input required
	Revise HMRC maximum allowance process	Achieved
Fire Pensions Administration	Train additional Support Staff	Partially Achieved
	Explore providing administration to additional Fire Authorities	NB. Service terminated with effect from June 2018
	Issue Active and Deferred Annual Benefit Statements	
Pensions Administration System	Implement Pension Payroll Phase 3	Deferred as update not yet available from Heywoods
	Implement I Connect Phase 1 Staffordshire County Council	Ongoing
	Implement I connect Phase 2 Large Employers	Partly achieved and ongoing
	GAD Transactional data project	Achieved
Reconciliation – Contracting Out	Phase 1 Finalise Deferred and Pension members	Ongoing
	Finalise under/overpaid pensioner members	Ongoing
	Phase 2 Active Members commence reconciliation	Ongoing
Governance	To ensure that the Pension Board members have the appropriate skills and knowledge and are able to demonstrate their level of	Ongoing

Issue to be addressed	Key Development Activity	Timetable
	understanding	
	To ensure that the Committee members have the appropriate skills and knowledge and are able to demonstrate their level of understanding	Ongoing
	Conduct CIPFA skills gap analysis	Achieved
	Appoint Actuarial Adviser to the Fund	Achieved
Communications	Review website content and structure	Ongoing
	Revise Employer Administration manual	A review of the format of this document is ongoing
	Finalise and communicate administration strategy	Ongoing
The Pensions Regulator	The Public Service Scheme Code of Practice and Public Service Regulatory Strategy – Review compliance	Achieved
	Comply with Record Keeping Regulations	Ongoing
	Monitor and report employer performance	Achieved
Additional Voluntary Contribution Providers	Embed new processes for Scottish Widows	Achieved
	Implement changes to investment routes for Standard Life	Achieved
Pension Fund Investment	Review Strategic Asset Allocation in the context of the Investment Structure being offered by LGPS Central	Achieved
	Tender and appoint Performance Measurer	Achieved
	Continue to respond to and develop detailed pooling proposals with LGPS Central	Achieved
	Tender and appoint Independent Investment Advisor	Deferred

Area of Service	Key Development Activity	Timetable
LGPS Pensions Administration	Develop new working Practices with Third Party Payroll Providers including the introduction of i-Connect (see below)	31 March 2019
	Full implementation of Hymans Employer Asset Tracker (HEAT) including mechanism for Ill-health self insurance	30 September 2018
	Improve quality of data prior to 31 March 2019 Valuation	31 March 2019
	Ensure full compliance with new General Data Protection Legislation (GDPR)	31 March 2019
	Demonstrate a general improvement in KPI's	31 March 2019
Pensions Administration System	Implement i-Connect with a range of small / larger Employers to achieve an overall target of 50% of Active Fund Membership	31 March 2019
	Government Actuaries Department transactional data project	31 July 2018
Contracting Out Reconciliation	Phase 1 Finalise enquiries with HMRC for Deferred and Pension Members	30 September 2018
	Phase 2 Finalise enquiries with HMRC for Active Members	31 October 2018
	Finalise under/overpaid pensioner members	31 March 2019
Governance	To develop a Training Plan for Pensions Committee Members focusing on any collective knowledge gaps identified from the Training Needs Analysis (TNA)	30 June 2018
	Review published policies e.g Governance Policy	30 September 2018
	Develop Covenant Monitoring Process	31 March 2019
Communications – Scheme Members	Review website content and structure including Member Self Service / My Pension	31 March 2019
Communications - Employers	Develop Employer Administration policies / guides / practices and promote such to relevant Employers	31 March 2019
	Run Employer Practitioner Workshop(s) e.g Breaches, Ill-health retirement, IDRPs and produced focussed Newsletters	30 June 2018

Area of Service	Key Development Activity	Timetable
Pension Fund Investment	Implement new Governance Arrangements in relation to LGPS Central to include meetings and reporting to / from the Shareholder Forum, the Joint Committee and the Practitioners Advisory Forum to Pensions Committee and Pensions Panel	30 September 2018
	Continue to review SPF Strategic Asset Allocation in the context of the Investment Offering of LGPS Central	31 March 2018 (as required)
	Monitor process, reconcile data and report performance impact following asset transitions into LGPS Central e.g Global Equities	31 March 2019 (as required)
Area of Service	Resource Intensive – Business as Usual Activity	Period
LGPS Pensions Administration	Review Pensions Services staffing levels and structure	1 April – 30 September
	Finalise Year end data	1 April - 30 July
	Issue Active Annual Benefit Statements	1 July – 31 August
	Issue Deferred Annual Benefit Statements	1 May – 30 June
	Record Keeping Data Integrity Checks (pre 2019 Valuation)	1 April – 31 March
	Management of JLT backlog project and response to resulting queries	1 April - 31 January
The Pensions Regulator	Continually review compliance with The Public Service Scheme Code of Practice and Public Service Regulatory Strategy in relation to Disclosure of Data	1 April – 31 March
	Maintain and review Breaches Log and improve reporting to tPR	1 April - 31 March

PENSIONS COMMITTEE – 16 MARCH 2018

Report of the Director of Finance & Resources

Funding Strategy Statement and Investment Strategy Statement

Recommendations of the Chairman

1. That the Pensions Committee notes the minor amendments to the Funding Strategy Statement (FSS).
2. That the Pensions Committee notes the updates made to the Investment Strategy Statement (ISS) to more accurately reflect the governance arrangements in relation LGPS Central Ltd and also the reference to the Responsible Investment Policies of LGPS Central Ltd.

Background

3. All Local Government Pension Scheme (LGPS) Funds are required to prepare, maintain and publish FSS and ISS documents. The FSS must be formulated, maintained and published in accordance with the Public Service Pension Act 2013, whilst the ISS must be formulated, maintained and published in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
4. In preparing maintaining and reviewing both statements, the administering authority must have regard to guidance published by CIPFA. The latest such guidance for both documents was published in September 2016.
5. Whilst a full review of the FSS should be undertaken at each valuation and at least every three years for the ISS, it is considered good practice to review and update both documents annually, to reflect changes in the year.

Funding Strategy Statement (FSS)

6. The FSS governs how employer liabilities are measured, the pace at which these liabilities are funded and how employers, or pools of employers, pay for their own liabilities.
7. The changes to the CIPFA guidance meant that the Fund's FSS required major alterations to maintain compliance with the new guidance and the current LGPS and Fund environment. The FSS was consulted upon and approved by the Pensions Committee at its meeting in March 2017.
8. The FSS has been reviewed in conjunction with the Pension Fund's advisors Hymans Robertson, and this has resulted in several minor amends. The full document can be viewed at:

Investment Strategy Statement (ISS)

9. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force in 2017 and under Regulation 7(6) and 7(7), the ISS had to be published by 1 April 2017 and kept under review and revised from time to time and at least every three years.
10. The ISS is a document that replaced and largely replicates, the previous Statement of Investment Principles (SIP). Authorities are required to prepare and maintain an ISS which documents how the investment strategy for the Fund is determined and implemented. The ISS is required to cover a number of areas, specifically:
 - The requirement to invest money across a wide range of investments.
 - An assessment of the suitability of particular investments and investment types.
 - The maximum percentage authorities deem should be allocated to different asset classes or types of investment, although limits on allocations to any asset class are not prescribed as they previously were under the 2009 Regulations.
 - The authority's attitude to risk, including the measurement and management of risk.
 - The authority's approach to investment pooling;
 - The authority's policy on social, environmental and corporate governance considerations.
 - The authority's policy with regard to stewardship of assets, including the exercise of voting rights.
11. The April 2017 version of the ISS has been reviewed and changes are considered necessary to better reflect the arrangements in place for asset pooling with effect from 1 April 2018. And also to better reflect LGPS Central's policies on social, environmental and corporate governance (Responsible Investment) which the Fund will be adopting as assets move into the management of company. The full document can be viewed at:

<https://www.staffspf.org.uk/Finance-and-Investments/Statement-of-Investment-Principles/Investment-Strategy-Statement.aspx>

Andrew Burns
Director of Finance and Resources

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Background Documents:

Appendix 1

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

Resource and Value for money implications: The direct cost of producing the FSS is relatively small. It is published only on the web site. The resource and value for money implications are included in the body of the ISS report.

Risk implications: The publication of an FSS and an ISS are requirements of the Local Government Pension Scheme Regulations 2016.

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.

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