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## **Pensions Committee**

Friday, 15 March 2019

**10.00 am**

Oak Room, County Buildings, Stafford

John Tradewell  
Director of Corporate Services  
7 March 2019

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## **A G E N D A**

### **PART ONE**

1. **Apologies**
2. **Declarations of Interest**
3. **Minutes of the meeting held on 18 December 2018** (Pages 1 - 4)
4. **Minutes of the Pensions Panel held on 4 December 2018** (Pages 5 - 8)
5. **Staffordshire Pension Fund Audit Plan 2018/19** (Pages 9 - 46)  
  
Report of the Director of Corporate Services and Chief Financial Officer (S151)
6. **Proposed Changes to the Pensions Consultative Forum Terms of Reference** (Pages 47 - 50)  
  
Report of the Director of Corporate Services
7. **Staffordshire Pension Fund Business Plan 2019/20** (Pages 51 - 66)  
  
Report of the Director of Corporate Services
8. **Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS)** (Pages 67 - 70)  
  
Report of the Director of Corporate Services

## 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 18 December 2018** (Pages 71 - 78)  
(Exemption paragraph 3)
11. **Exempt minutes of the Pensions Panel held on 4 December 2018** (Pages 79 - 86)  
(Exemption paragraph 3)
12. **Admission of New Employers to the Fund** (Pages 87 - 92)  
(Exemption paragraph 3)  
  
Report of the Director of Corporate Services
13. **Local Government Pension Scheme Regulations Administration - Debt Write-off** (Pages 93 - 96)  
(Exemption paragraph 3)  
  
Report of the Director of Corporate Services
14. **LGPS Central and Pooling Update** (Pages 97 - 150)  
(Exemption paragraph 3)
  - i) Verbal update from the Chair on the Shareholders Forum and LGPS Central Limited Company Meeting on 12 February 2019
  - ii) LGPS Central Limited – Strategic Business Plan and Budget 2019/20
  - iii) Local Government Pension Scheme (LGPS) - Draft Statutory Guidance on Asset Pooling  
Reports of LGPS Central Limited and Director of Corporate Services
15. **2019 Actuarial Valuation Training**  
(Exemption paragraph 3)  
  
Presentation and Training by Hymans Robertson

## **Membership**

Ben Adams	Peter Noskiw (Co-Optee)
Philip Atkins, OBE	Bob Spencer
Nigel Caine (Co-Optee)	Mike Sutherland
Derek Davis, OBE	Stephen Sweeney
Ann Edgeller (Vice-Chairman)	Martyn Tittley
Colin Greatorex (Chairman)	Kevin Upton (Co-Optee)
Phil, Jones	Michael Vaughan

### **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 18 December 2018**

**Attendance**

Ben Adams	Bob Spencer
Ann Edgeller	Mike Sutherland
Colin Greatorex (Chairman)	Stephen Sweeney
Phil, Jones	Michael Vaughan

**Also in attendance:** Ian Jenkinson, Tim Legge and Kate Salter (Pensions Board Members).

**Apologies:** Philip Atkins, OBE, Nigel Caine (Co-optee), Derek Davis, OBE and Peter Noskiw (Co-optee).

**PART ONE**

**1. Declarations of Interest**

There were no declarations of interest on this occasion.

**2. Minutes of the meeting held on 27 September 2018**

**RESOLVED** – That the minutes of the meeting of the Pensions Committee held on 27 September 2018 be confirmed and signed by the Chairman.

**3. Minutes of the meeting of the Pensions Panel held on 4 September 2018**

The Chairman referred to minute number 4 “Appointment of Union and Small Employer Representatives for the Pensions Committee” and welcomed Michael Vaughan (Union Representative) to his first meeting of the Committee. The Chairman also indicated that he had spoken to the Staffordshire Parish Council’s Association concerning the appointment of the Small Employer Representative and that the matter was to be considered at the Associations next meeting which was due to take place on 7 January 2019.

**RESOLVED** – That the minutes of the meeting of the Pensions Panel held on 4 September 2018 be noted.

**4. LGPS Asset Pooling Arrangements - Audit Assurance Framework**

The Committee received a report of the Director of Finance and Resources on the development of an assurance framework over the new pooling arrangements operating within LGPS Central.

The Committee were informed that, during 2014, the government explored a number of options for improving the efficiency and sustainability of the LGPS and undertook extensive consultation on the potential to deliver savings through greater investment

management collaboration. Following this exercise, in the summer of 2015, the government announced its intention to introduce a new regulatory framework which would facilitate collective investing and issued guidance and criteria to help administering authorities to develop proposals for asset pooling aimed at reducing costs and improving efficiency. Initial proposals were required by February 2016, followed by more detailed business case submissions in July 2016, with a target implementation date of 1 April 2018.

Informal links with several Midlands based LGPS Funds became the starting point for wider discussions in the context of the formal requirement for pooling. This resulted in a joint proposal from Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire to create 'LGPS Central', with combined assets of £35 billion. The Minister, Marcus Jones MP provided written confirmation, in November 2016, that LGPS Central had been formally accepted as a Local Authority Pension Fund Pool.

On 23 March 2017, following recommendations made by the Audit and Standards Committee and the Pensions Committee, the Council approved the Director of Strategy, Governance and Change and the Director of Finance and Resources to enter into the Shareholders Agreement and the Inter-Authority Agreement to establish a joint asset pool (LGPS Central), and investment management company (LGPS Central Ltd) and Joint Committee. The governance structure and arrangements for the LGPS Central pool have now been established.

Staffordshire County Council were leading on a co-ordinated and collaborative Internal Audit response to the new arrangements operating within the pool which had involved consultation with all Partner Fund's Internal Audit functions, External Audit Partners, the Practitioners Advisory Forum and LGPS Central Ltd.

A collaborative approach had been favoured in developing assurance over the new pooling arrangements operating within LGPS Central to:

- ensure a consistent approach to all Partner Funds when providing assurance to their own organisation in relation to LGPS Asset Pooling;
- prevent duplication, so that LGPS Central and LGPS Central Ltd were not having to deal with audit queries from all Partner Funds Internal and External Auditors;
- effectively share information between Internal Audit Partners and also between Internal Audit Partners and LGPS Central and LGPS Central Ltd; and
- identify risks and mitigating controls at an earlier stage.

As part of this collaborative approach, Staffordshire County Council's Internal Audit Service had led on the development of an Assurance Framework applying the three lines of defence model, focusing on the management controls, oversight governance arrangements and independent assurance required to provide assurance to Partner Funds that potential risks regarding pooling had been considered and were mitigated. The Assurance Framework was currently in draft form and looked at the control environment for the LGPS Central Pool only.

Assurance over the control framework operating within LGPS Central Ltd was currently being discussed with the Partner Fund's Internal Audit functions and the Practitioners Advisory Forum for the company's first year of operation and for 2019/20 and beyond.

The Committee also received a presentation detailing the key elements of the governance structure and the draft Assurance Framework.

In response to a question from Mr Jenkinson as to whether the proposals would create more work for the Internal Audit Team, the Interim Chief Internal Auditor indicated that the Internal Audit Teams from the constituent authorities within the Pool still needed to decide how the work would be split-up/shared and that the main areas of activity would focus on the areas considered to be of the highest risk.

In response to a question from Mr Adams on how the Committee could be assured that the assurance work being undertaken would give a true reflection of the situation within the Company, the Head of Treasury and Pensions indicated that the Staffordshire Pension Fund had representatives on both the Joint Committee and the Shareholder's Forum and that the Company would also need to have an AAF 01/06 (assurance report on internal controls) in place. The Interim Chief Internal Auditor also added that any internal audit report would give an assurance on the first and second lines of defence.

Mr Sutherland enquired as to whether the Internal Audit Team had had sight of the proposed assurance framework of other Pools. In response, the Interim Chief Internal Auditor indicated that the LGPS Central Pool was more advanced than the other Pools in relation to the creation of an Assurance Framework and that its proposals had been shared with other Pools and comments/feedback had been invited.

In response to a question from Mr Legge in relation to whether the Pool had seen a reduction in asset management costs, the Head of Treasury and Pensions indicated that savings were beginning to be seen by way of reductions in the levels of asset management fees.

**RESOLVED** – That the development of an Assurance Framework by Staffordshire County Council's Internal Audit service for the LGPS asset pooling arrangements and the LGPS Central pool be noted.

## **5. 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:

### **6. Exempt minutes of the meeting held on 27 September 2018** (Exemption paragraph 3)

**7. Exempt minutes of the meeting of the Pensions Panel held on 4 September 2018**

(Exemption paragraph 3)

**8. Breaches and Disclosure of Information - Annual Benefit Statements (ABS)**

(Exemption paragraph 3)

**9. LGPS Pensions Administration - Additional Resource**

(Exemption paragraph 3)

**10. LGPS Central Limited Update**

(Exemption paragraph 3)

**Chairman**



**Minutes of the Pensions Panel Meeting held on 4 December 2018**

Present:

**Attendance**

Colin Greatorex (in the Chair)    Stephen Sweeney  
Mike Sutherland

**Also in attendance:** Ian Jenkinson (Observer), Paul Potter (Hymans Robertson) and David Thomas (Independent Adviser).

**Apologies:** Philip Atkins, OBE, Derek Davis, OBE and Carolan Dobson (Independent Adviser).

**PART ONE**

**26.    Declarations of Interest**

There were no declarations of Interest on this occasion.

**27.    Minutes of meeting held on 4 September 2018**

**RESOLVED** – That the minutes of the Meeting of the Pensions Panel held on 4 September 2018 be confirmed and signed by the Chairman.

**28.    Pension Fund Performance and Portfolio of Investments as at 30 September 2018**

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 2018.

The Panel were informed that the Fund had a market value of £5.1 billion as at 30 September 2018; the highest reported to date. Over the quarter the Fund returned 3.4%, outperforming its strategic benchmark by 0.4%. The best performing asset classes relative to their benchmarks were active global equities and alternatives. Emerging markets and property were detractors from performance.

The Panel noted that the Fund had outperformed its strategic benchmark over the 1, 3, 5 and 10 year periods, and had achieved positive absolute returns over all periods. Annualised returns over both 3 and 5 years were in excess of 10% per annum, well above the investment return assumptions used by the Actuary as part of the triennial valuation. Mr Thomas indicated that it was very encouraging to see that returns had exceeded target levels over both the 3 and 5 year periods.

In response to a question from Mr Sutherland, Mr Potter indicated that any trend for an upward drift in interest rates was likely to be affected by the repercussions from Brexit.

In response to a question from Mr Greateorex as to whether it was a good time to make additional investments in Global Bonds/Global Equities, Mr Potter indicated that the Fund already had significant investments outside the UK.

**RESOLVED** – That the Pension Fund Investment performance and the portfolio of investments for the quarter ended 30 September 2018 be noted.

### **29. Dates of Future Meetings**

- 5 March 2019
- 14 June 2019
- 11 September 2019
- 3 December 2019
- 3 March 2020

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

### **30. 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:

**31. Exempt Minutes of the Meeting held on 4 September 2018**  
(Exemption paragraph 3)

**32. Pension Fund Performance and Manager Monitoring for the quarter ended 30 September 2018**  
(Exemption paragraph 3)

**33. Property - Confirmation of action taken by Director of Finance and Resources**  
(Exemption paragraph 3)

**34. Responsible Investment (RI) Report Quarter 3 2018**  
(Exemption paragraph 3)

**35. Strategic Benchmark Review and Monitoring**  
(Exemption paragraph 3)

- a) Economic and Market Update
- b) Review of Position as at 30 September 2018

**36. LGPS Central - Global Active External Equity Multi Manager Sub-Fund**  
(Exemption paragraph 3)

**Chairman**



**PENSIONS COMMITTEE – 15 MARCH 2019**

**Report of the Director of Corporate Services  
and Chief Financial Officer (S151)**

**Staffordshire Pension Fund Audit Plan 2018/19**

**Recommendation of the Chairman**

1. To note the external auditor's plan for the audit of the Staffordshire Pension Fund (the Fund) for the 2018/19 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 the Pensions Committee and the Audit and Standards Committee.
7. **Equalities implications:** There are no direct equalities implications arising 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.

**John Tradewell**  
**Director of Corporate Services**

**Rob Salmon**  
**Chief Financial Officer (S151)**

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

A photograph showing a group of people in a meeting. They are seated around a white table, looking at and pointing to several documents. A smartphone is visible on the table. The scene is brightly lit, suggesting an office or conference room environment.

# Staffordshire Pension Fund

## Audit planning report

Year ended 31 March 2019

February 2019



Staffordshire County Council  
No 1 & 2 Staffordshire Place,  
Tipping Street,  
Stafford, ST16 2DH

7 February 2019

Dear Audit and Standards Committee/Pension Committee Members

Audit planning report for the Pension Fund

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 Pension Committee with a basis to review our proposed audit approach and scope for the 2018/19 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 Pension Fund and outlines our planned audit strategy in response to those risks. It is intended solely for the information and use of the Audit and Standards Committee and Pension 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 11 March 2019 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Associate Partner

For and on behalf of Ernst & Young LLP



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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). 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 and further guidance (updated April 2018)" 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, Pension Committee and management of Staffordshire County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Standards Committee, Pension Committee and management of Staffordshire County Council 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, Pension Committee and management of Staffordshire County Council 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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# Overview of our 2018/19 audit strategy



# Overview of our 2018/19 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 and Pension 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	Risk identified	Change from PY	Details
Management Override: Misstatements due to fraud or error	Fraud risk	No change in risk	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.
Investment Income and Assets - Investment Journals	Fraud risk	No change in risk, but shown separately	Linking to the management override risk above we have identified the most likely area is to affect investment income and assets in the year, specifically through journal postings.
Valuation of unquoted investments	Significant risk	No change in risk	The Fund's investments include unquoted pooled investment vehicles and private equity funds (approximately 9% of the total Funds assets in 2017/18). 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 and estimates could result in a material valuation error.
Valuation of directly held properties	Other financial statement risk	No change in 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.
Local Government Pension Scheme (LGPS) Asset Pooling Arrangements	Other financial statement risk	New risk	<p>The Fund is one of the eight Partner Funds of LGPS Central Ltd, which has been established to manage the pooled investment assets of nine Local Government Pension Scheme Fund across the centre of England.</p> <p>The Fund will allocate 10% of its Strategic Asset Allocation (SAA) approximately £500 million to the LGPS Central Active External Global Equity Multi Manager Sub-Fund (GE Sub-Fund). The transfer is scheduled to take place in January / February 2019.</p> <p>The Fund needs to ensure an effective transfer of the assets and ensure the accounting treatment and disclosure in the accounts is appropriate.</p>

# Overview of our 2018/19 audit strategy

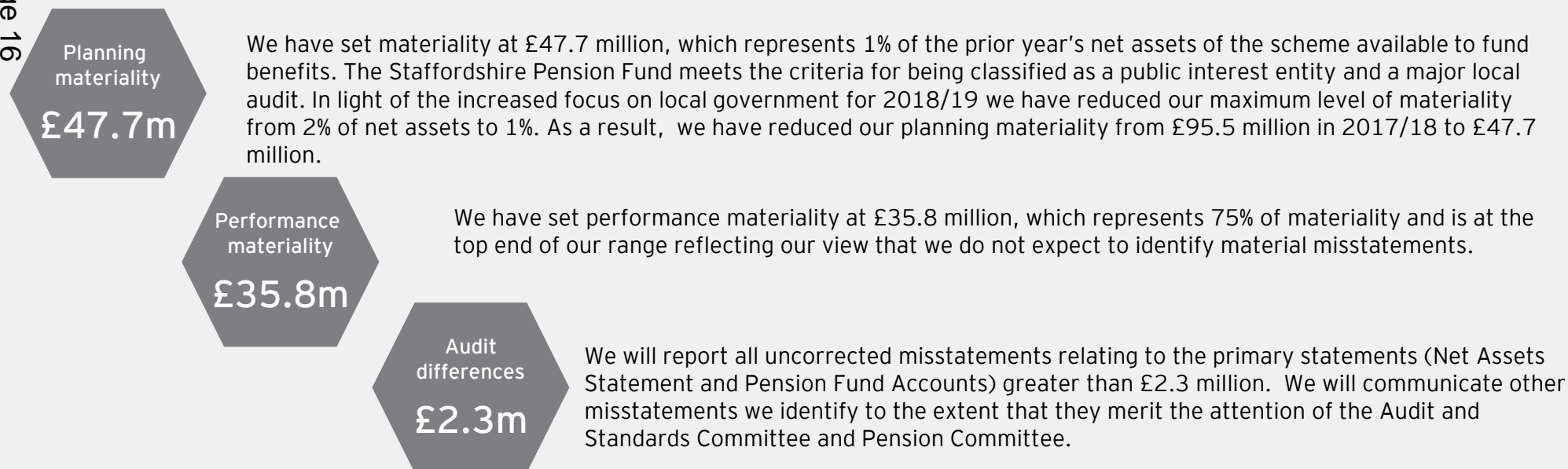
In addition to the risks outlined above we have identified one area of audit focus.

Area of focus	Change from PY	Details
IFRS 9 Financial Instruments	New area of focus	For 2018/19 the Fund needs to adopt the new accounting standard relating to financial instruments (IFRS 9). The Fund needs to assess and evaluate the implications of the new standard on the way it classifies and accounts for its financial instruments and make appropriate disclosures in its 2018/19 accounts.

In addition to the above area of focus, we will also take into consideration the steps taken by the Fund to consider the impact of EU Exit on its preparation of the accounts, including any significant changes in the valuation of assets post EU Exit. Although the precise impact cannot yet be modelled, we anticipate that Authorities will be carrying out scenario planning to assess the funding strategy to deliver and to manage the Fund in longer term.

## Materiality

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# Overview of our 2018/19 audit strategy

## 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 transactions of the Pension Fund during the year ended 31 March 2019 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2019; and
- Our opinion on the consistency of the Pension Fund financial statements within the Pension Fund 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 Pension Fund.

## Audit team changes

Suresh Patel will continue as your Engagement Lead. Caroline Davies has recently left EY and we have brought in Vicky Chong as her replacement as audit manager. Vicky is an Assistant Manager with over 8 years experience of auditing local government pension funds. She is a member of the Association of Chartered Certified Accountants and has already established a good working relationship with the Pension Fund manager.



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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.

Management Override:  
Misstatements due to fraud  
or error\*

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### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 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.

Linking to our risk of management override we have considered the Investment Journals (see below).

### What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- ▶ Assess the nature of any significantly unusual transactions identified.
- ▶ Consider if management bias is present in the key accounting estimates and judgements in the financial statements.

## 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.

Investment Income and Assets - Investment Journals\*

### What is the risk?

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 (see above).

We have therefore considered the key areas where management has the opportunity and incentive to override controls that could affect the Fund Account and the Net Asset Statement.

We have identified the main area being investment income and asset valuations where figures taken from custodian/fund managers reports are incorrectly posted to the general ledger in the year, specifically through journal postings.

### What will we do?

Our approach will focus on:

- Test journals at year-end to ensure there are no unexpected or unusual postings;
- Undertake a review of reconciliation to the fund manager and custodian reports and investigate any reconciling differences;
- Re-perform the detailed investment note using the reports we have acquired directly from the custodian or fund managers;
- Check that reconciliation of holdings included in the Net Assets Statement back to source reports;
- For quoted investment income we will agree the reconciliation between fund managers and custodian back to source reports.



## Our response to significant risks (continued)

Valuation of unquoted investments\*

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**Financial statement impact**

Misstatements that occur in relation to the valuation of unquoted investments could affect the Net Assets of the Fund.

The values of unquoted investments in 2017/18 were:

Private Equity: £141.6 million

Private Debt: £134.4 million

Hedge Funds: £88.1 million

### What is the risk?

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 (see above).

The Fund's investments include unquoted pooled investment vehicles and limited partnerships. 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 and estimate could result in a material valuation error.

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.

The proportion of the fund comprising of these investment types in 2017/18 is at circa 9%, and as these investments are more complex to value, even a small movement in these assumptions could have an impact on the financial statements.

### What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ Document and walkthrough 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 2019 is reasonable.

## Audit risks

### Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

#### What is the risk/area of focus?

##### **Valuation of directly held properties**

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.

#### What will we do?

We will:

- ▶ Assess the competence of management experts;
- ▶ Review the basis of valuation for properties and assessing the appropriateness of the valuation methods used; and
- ▶ Perform analytical procedures and checking the valuation output for reasonableness against our own expectations.

##### **LGPS Asset Pooling Arrangements**

Staffordshire Pension Fund is one of the eight Partner Funds of LGPS Central Ltd, which has been established to manage the pooled investment assets of nine Local Government Pension Scheme Fund across the centre of England.

The Fund will allocate 10% of its Strategic Asset Allocation (SAA) approximately £500 million to the LGPS Central Active External Global Equity Multi Manager Sub-Fund (GE Sub-Fund). The transfer is scheduled to take place in January / February 2019.

The Fund needs to ensure an effective transfer of the assets and that the costs and savings are managed in accordance with the agreed business case. In addition, the Fund needs to ensure it obtains the relevant assurances over the fund manager and custodian arrangements.

We will:

- ▶ Review how the transfers have been accounted for, including the external confirmation and the valuation received from fund managers at year-end;
- ▶ Review and test accounting entries and disclosures made within the Fund's financial statements in relation to the asset pooling;
- ▶ Review the governance arrangements in place to manage the costs and savings;
- ▶ Obtain the relevant service auditor (ISAE 3402) reports relating to the fund managers and custodian.

## Other areas of audit focus (continued)

### What is the risk/area of focus?

#### **IFRS 9 Financial Instruments**

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change:

- ▶ How financial assets are classified and measured;
- ▶ How the impairment of financial assets are calculated; and
- ▶ The disclosure requirements for financial assets.

There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 9.

However, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty on the accounting treatment.

### What will we do?

We will:

- ▶ Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;
- ▶ Consider the classification and valuation of financial instrument assets;
- ▶ Review new expected credit loss model impairment calculations for assets; and
- ▶ Check additional disclosure requirements.



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## Audit materiality



# Audit materiality

## Materiality

For planning purposes, we have set materiality for 2018/19 at £47.7 million. This represents 1% of the Fund's prior year's net assets. We will assess this throughout the audit. In an audit of a pension fund we consider the net assets to be the appropriate basis for setting the materiality as they represent the best measure of the schemes' ability to meet obligations rising from pension liabilities. We have provided supplemental information about audit materiality in Appendix C.

In the prior year we applied a threshold of 2%, meaning that materiality was set as £95.5 million. Given the Pension Fund is a major local authority based on its size, we have considered the overall risk profile and public interest, and as a result we have lowered our planning materiality from 2% to 1% of net assets.

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We request that the Audit and Standards Committee and Pension 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 £35.8 million which represents 75% of planning materiality. We have considered a number of factors such as the number of errors in prior year and any significant changes in 2017/18 when determining the percentage of performance materiality.

**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 Assets Statement.

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



04

Scope of our audit



# Scope of our audit

## Objective and Scope of our Audit

Under the Code of Audit Practice our principal objectives are to review and report on the Fund's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code. We issue an audit report that covers the financial statement audit. Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK). 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; Auditor independence; and
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements.

### Procedures required by the Code

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; Substantive tests of detail of transactions and amount; and
- ▶ Reviewing and assessing the work of experts in relation to areas such as valuation of the Pension Fund to establish if reliance can be placed on their work.

For 2018/19 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 and:

- ▶ 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 and Pension Committee.

### Internal audit:

We will regularly 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

The engagement team is led by Suresh Patel, who has significant experience on local government audits. Suresh is supported by Vicky Chong, Assistant Manager, who has replaced Caroline Davies as the audit manager. She is responsible for the day-to-day direction of audit work and is the key point of contact for the Chief Accountant.

## 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 provide input for the current year audit are:

Area	Specialists
Valuation of directly held properties	Savills (Staffordshire Pension Fund valuer) EY Valuation Team
Pensions disclosure	Hymans Robertson (Staffordshire Pension Fund actuary) PwC (Consulting Actuary to the PSAA) EY Pensions Advisory Team
Investment Valuation	The Pension Fund's custodian and fund managers EY Derivatives and 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 Council'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





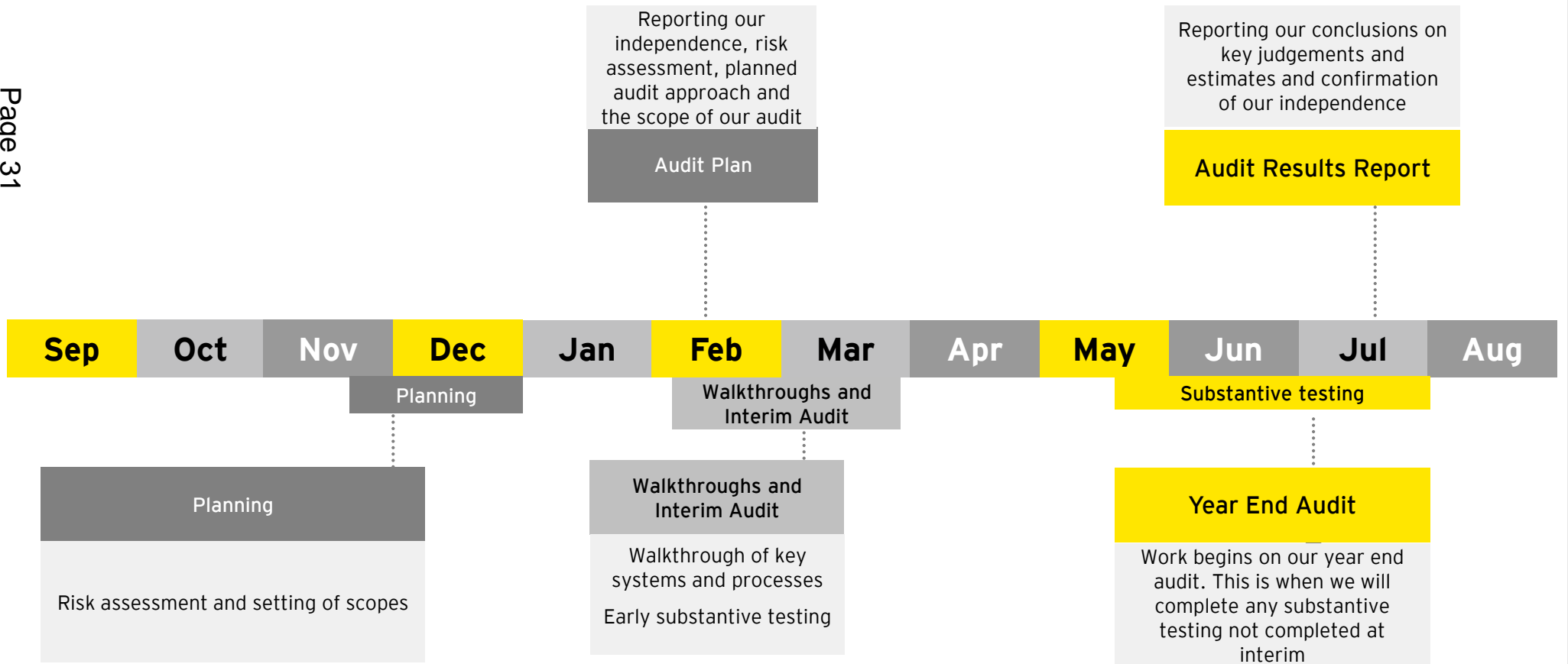
# Audit timeline

## 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 2018/19. 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. We will also provide updates on corporate governance and regulatory matters as necessary.

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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="94 670 134 813">Page 33</p> <ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard</li> </ul>	<ul style="list-style-type: none"> <li>▶ 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;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ 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;</li> <li>▶ Written confirmation that all covered persons are independent;</li> <li>▶ 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;</li> <li>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

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

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. 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.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved. None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non-audit fees to audit fees is not permitted to exceed 70%. At the time of writing, there are no non-audit services provided by us to Pension Fund.

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 Council. 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.

## Other communications

### EY Transparency Report 2018

Ernst & Young (EY) has 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 2018 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>



# 08

# 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 requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The fee for 2018/19 reflects the year 1 of the new 5 year contract awarded by PSAA.

	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£	£	£
Total Fee - Code work	22,050**	22,050	28,367
IAS19 assurances*	5,500	Nil	5,500
<b>Total fees</b>	<b>27,550</b>	<b>22,050</b>	<b>33,867</b>

#### *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 2017/18 we received and responded to 14 requests. This additional fee is subject to approval by the PSAA.

\*\* We will consider the impact of the two new areas of focus (the investment in the LGPS Central Ltd and implementation of IFRS 9) on the planned fee for 2018/19 and discuss any additional fee with the Chief Financial Officer.

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council 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 Council 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.



## Appendix B

# Required communications with the Audit & 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	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report - March 2019
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report - July 2019




## Appendix B

# Required communications with the Audit & Standards Committee (continued)


			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Page 29	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"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report - July 2019
	Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Corrected misstatements that are significant</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit results report - July 2019
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Audit and Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Audit results report - July 2019	
Related parties	<ul style="list-style-type: none"> <li>▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit results report - July 2019	




# Required communications with the Audit & Standards Committee (continued)

 Our Reporting to you

Required communications	 What is reported?	  When and where
<p>Independence</p>	<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"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016:</p> <ul style="list-style-type: none"> <li>▶ Relationships between EY, the Council and senior management, its affiliates and its connected parties</li> <li>▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence and related safeguards</li> <li>▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> <li>▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> <li>▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>▶ Details of any contingent fee arrangements for non-audit services</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▶ The Audit Committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	<p>Audit planning report - March 2019</p> <p>Audit results report - July 2019</p>





# Required communications with the Audit & Standards Committee (continued)

 Our Reporting to you

Required communications	 What is reported?	  When and where
<p>Public Interest Entities</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 41</p>	<p>For the audits of financial statements of public interest entities our written communications to the Audit &amp; Standards Committee include:</p> <ul style="list-style-type: none"> <li>▶ A declaration of independence</li> <li>▶ The identity of each key audit partner</li> <li>▶ The use of non-member firms or external specialists and confirmation of their independence</li> <li>▶ The nature and frequency of communications</li> <li>▶ A description of the scope and timing of the audit</li> <li>▶ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits</li> <li>▶ Materiality</li> <li>▶ Any going concern issues identified</li> <li>▶ Any significant deficiencies in internal control identified and whether they have been resolved by management</li> <li>▶ Actual or suspected non-compliance with laws and regulations identified relevant to the Audit Committee</li> <li>▶ The valuation methods used and any changes to these including first year audits</li> <li>▶ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework</li> <li>▶ The identification of any non-EY component teams used in the group audit</li> <li>▶ The completeness of documentation and explanations received</li> <li>▶ Any significant difficulties encountered in the course of the audit</li> <li>▶ Any significant matters discussed with management</li> <li>▶ Any other matters considered significant</li> </ul>	<p>Audit planning report - March 2019 Audit results report - July 2019</p>

## Appendix B

# Required communications with the Audit & Standards Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit results report - July 2019
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ 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</li> <li>▶ 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</li> </ul>	Audit results report - July 2019
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit results report - July 2019
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report - July 2019
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report July 2019
Auditors report	<ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report - July 2019
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit planning report - March 2019 Audit results report - July 2019

## 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 Pension 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 Pension Fund to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, 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.



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Local Members' Interest
N/A

## **Pensions Committee – Friday 15 March 2019**

### **Proposed Changes to the Pensions Consultative Forum Terms of Reference**

#### **Recommendation**

1. That the Pensions Committee approves the proposed amendments to the Pensions Consultative Forum Terms of Reference as outlined in this report.

#### **Report of the Director of Corporate Services**

1. The Pensions Committee on 27 September 2018 approved a revised Pension Fund Governance Statement which included an update to the Pensions Consultative Forum terms of reference.
2. The update recognised that the existing arrangements for the Pensions Consultative Forum were not achieving the levels of participation and engagement from Employers for which the Forum was intended. In addition, due to the growth in the number of Academies and the externalisation of services previously provided in house by the County Council, the number of Employers in the Staffordshire Pension Fund has increased dramatically in recent years and now stands at over 400. It was therefore proposed to alter the format of Forum meetings in an attempt to encourage an increase in Employer attendance and engagement.
3. The new governance arrangements agreed by the Pensions Committee propose that rather than two Forum meetings each year, there should be one Annual General Meeting, aimed predominantly at senior/decision making level Employer representatives, to receive the Annual Report, Accounts and Fund performance updates. This will be supplemented by other 'practical' based events for Employers, such as centrally hosted Training Days and local site visits to groups of Employers on request
4. Separately, an Employer Focus Peer Group will be formed consisting of 15 representatives from a cross section of the Fund's Scheme Employers which will be used for more regular engagement for the purposes of delivering appropriate training and timely information via Employer Focus Newsletters.

#### **Equalities Implications**

5. There are no direct equality implications arising from this report.

#### **Legal implications**

6. The legal implications are covered in the body of the report.

#### **Resource and Value for Money Implications**

7. There are no Resources and value for money implications.

**Risk Implications**

8. The risk implications are covered in the body of the report.

**Climate Change implications**

9. There are no direct climate change implications arising from this report.

**Health Impact Assessment screening**

10. There are no health impact assessment implications arising from this report.

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**Contact Officer / Report Author**

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**List of Background Papers/Appendices:**

Appendix A: Proposed Terms of Reference of the Pensions Consultative Forum

### **Pension Consultative Forum Terms of Reference**

The Pensions Consultative Forum, consisting of representatives from all Scheme Employers in the Fund, as well as Trade Unions, meets at least annually (for an Annual General Meeting (AGM)). The Forum's 6 nominated representatives also attend the quarterly meetings of the Pensions Committee in a non-voting capacity.

The AGM provides a formal means for communication and consultation about the activities and governance of the Staffordshire Pension Fund, and will typically:

- receive the Annual Report and Accounts of the Fund;
- consider a report on the assets, liabilities and the solvency of the Fund;
- consider a report of the investment arrangements of the Fund;
- consider an account of the performance of the investment arrangements of the Fund;
- discuss the principles and practices of the interaction between the administering authority and Participating Bodies regarding the Fund; and
- consider any other business that is consistent with the purpose and objectives of the meeting.

Outside of the AGM, the Forum is also used as a means of consultation with Scheme Employers; for example, this may include consultation on changes to the Funding Strategy Statement or the Investment Strategy Statement.

A recent addition to the Fund's Governance arrangements includes an Employer Focus Peer Group. The group will consist of about 15 representatives from a cross section of the Fund's Scheme Employers and will be used for more regular engagement for the purposes of delivering appropriate training and timely information via Employer Focus Newsletters.



**PENSIONS COMMITTEE – 15 MARCH 2019**

**Report of the Director of Corporate Services**

**Staffordshire Pension Fund Business Plan 2019/20**

**Recommendation of the Chairman**

1. That the Pensions Committee approves the Pensions Business Plan for 2019/20 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 - 2018/19) and provides the proposed Business Plan for the following financial year (Appendix B – 2019/20).

**Pensions Business Plan 2018/19 – 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 several areas including;
  - Implementing Hymans Employer Asset Tracker (HEAT) in preparation for the 2019 Actuarial Valuation;
  - Ensuring full compliance with the General Data Protection Regulations (GDPR);
  - Making real progress with i-Connect;
  - Engaging with Employers through Employer Focus Newsletters, an Employer Training Day and the creation of an Employer Focus Peer Group;
  - Redesigning the Staffordshire Pension Fund Website;
  - Embedding the Governance of the LGPS Central pool, including the working of the Shareholders Forum, Joint Committee and the Practitioners Advisory Forum and its working groups; and
  - Preparing for the transition of Assets into LGPS Central Limited.

Full details will be included in the final outturn report which will be presented to the Pensions Committee at their meeting in June 2019.

## **Performance Standards 2018/19**

4. 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. Indeed, at its last meeting, the Pensions Committee approved a 6-month extension to the backlog project, undertaken with an external provider, to assist with the competing demands on internal resources.
5. Whilst performance in certain areas may not be back to the optimum target levels the Pensions Services Teams aspire to, there is a real sense that things are improving. Issues with recruiting appropriately skilled staff were addressed via a recruitment exercise in 2018, to begin to 'grow our own' instead. Several new staff are fast approaching being up to speed and are a good addition across the teams.
6. Issues due to the increasing number of payroll providers are being addressed and remain a key priority. The wider implementation of i-Connect will assist in the quality and timeliness of data, albeit in the short term, this will create additional pressure on the teams as it generates more errors and queries.
7. A full set of performance statistics will be provided as part of the Outturn reporting for the June Committee.

## **Pensions Business Plan 2019/20**

8. The Business Plan for 2019/20 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 undertake 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. finalising the year end data.
9. And, whilst there are new areas of focus for development in 2019/20, it must be recognised that an Actuarial Valuation year always puts immense pressure on Pensions Administration teams in the LGPS and Staffordshire is no different. Therefore, our Key Development Activities in 2019/20, to some extent, will build on embedding the good development work the team undertook in 2018/19 into our 'Business as Usual' activity.
10. Some of the areas that the Pensions Services Teams have identified as Key Development Activities in 2019/20 include:
  - Undertaking a Mortality / Living as Stated / Tracing Exercise prior to the issue of our Deferred Members Annual Benefit Statements in 2020;



- Continuing to implement i-Connect software for data collection with Fund Employers, with the aim of having **as close to 100%** of Active Fund Member data being submitted monthly;
- Continued development of the Pension Fund's website ([www.staffspf.org.uk](http://www.staffspf.org.uk)) and the promotion of Member Self Service;
- Reviewing the Fund's Strategic Asset Allocation alongside the Actuarial Valuation;
- Maintaining effective pool Governance and monitoring asset transitions into LGPS Central as more sub-funds are launched; and
- Appointing 4 Members of the Local Pensions Board.

## **Pensions Administration – Key Development Activities**

### Tracing Services

11. The Staffordshire Pension Fund has an unusually high level of Deferred Members who have a Pensions record but no longer pay contributions into the Scheme; usually due to them changing their job to one which means they are no longer eligible to be a member of the LGPS. As with Active Members, however, Deferred Members are entitled to receive an Annual Benefit Statement (ABS). But given they are less likely to engage with the Fund, regards change of address or personal circumstances etc, it is quite often the case that ABS's get returned. Similarly, the Fund may not have received notification of death for a Deferred Member. It is therefore good practice to undertake a Tracing Exercise to pick these changes up, at least every 2-3 years.

### Continued implementation i-Connect

12. Work has been ongoing throughout 2018/19 to get several of the larger payroll providers to submit their pensions data monthly, via the i-Connect module in Altair, the Pensions administration system. Whilst much of the effort, from both sides, is now coming to fruition, there is a need to keep the momentum going and engage with the remainder of Employers to encourage their payroll providers to do the same. This will not only assist in the accuracy and timeliness of data, but it will also help 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.

### Website, Member and Employer Communications

13. The Fund's new look website was launched in late 2018 and we have received many positive comments. The layout is more intuitive with a fresher look and feel to it and already we are beginning to see changes in the way Scheme Members use the website and ultimately, we hope to see a fall in the

number of telephone enquiries as a result. We have also unlocked most of the pages in the Employers' dedicated area where we are beginning to provide them with new factsheets to accompany the various guides they already have access to. But there is still much more to do and work will remain ongoing throughout 2019/20.

14. Through the Fund's website, we also want to promote the use of the Member Self Service (MSS) portal in Altair. Once they have signed up, any Scheme Member can view their pensions data and calculate their retirement benefits payable in the future. Whilst arguably Scheme Members who are over the age of 55 are more likely to find MSS of interest initially, our longer-term intention is to use MSS as a means of providing both Active and Deferred Scheme Members with their ABS.

## **Pensions Investment – Key Development Activities**

### Strategic Asset Allocation (SAA)

15. Alongside the 2019 Actuarial Valuation, it makes sense to review the Fund's Strategic Asset Allocation, i.e. how much of the Fund's assets are to be invested in Equities, Bonds, Property, Alternatives and Cash. Whilst some preliminary modelling has been undertaken by Hymans Robertson, the Fund's Investment Consultant, and it appears that the Fund has little scope to reduce its SAA to growth assets, such as equities, it will be advantageous to consider the granularity within asset classes e.g. UK equities versus Global Equities. There will also be a need to factor in the sub-fund launches planned by LGPS Central Limited in any re-allocation across and within the asset classes. Any changes in the SAA will be brought to the Pensions Committee as a recommendation of the Pensions Panel in due course.

### LGPS Asset Pooling

16. Over the last 3 years, the Committee have been regularly updated and remained engaged with the numerous complexities surrounding LGPS asset pooling and the creation of LGPS Central Limited, which was successfully launched on 1 April 2018. Work has continued at pace for Officers of the 8 Partner Funds, throughout the company's first year of operation; to implement the various Governance arrangements, plan for asset transitions as the first sub funds were launched and work with the Company to refine and develop the investment offering and determine the next range of sub funds. This level of Officer commitment will need to continue throughout 2019/20, as more of the Fund's assets transfer into LGPS Central Limited and transition activity increases. Performance reporting and refined accounting arrangements, in line with the new guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) also must be considered and implemented.

## **Cost and Resources**

17. The Pension Fund currently has five main areas of 'resource/cost';

- Pension’s administration and accounting (internal);
  - Advice from actuary and consultants/advisors (external);
  - Legal support either internal or external;
  - Investment management (external);
  - Custody (external).
18. 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.
19. 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 2019/20. 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.
20. 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 Limited or contra to that, reduced investment manager fees, as a direct or indirect result of asset pooling, could create significant variations from these figures.

Table 1 - Indicative Pension Fund Costs 2019-2022

<b>Cost Heading</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Pensions Administration	2,400	2,450	2,500
Governance*	970	990	1,010
Audit	30	40	40
Actuarial Fees	280	100	110
Legal Fees	270	270	280
Investment Advice	180	190	190
Investment Management Fees**	12,310	12,400	12,500
Property Expenses (ex-legal)	1,720	1,760	1,800
Monitoring and Custody	100	90	90
Other expenses	510	520	530
<b>Total</b>	<b>18,770</b>	<b>18,810</b>	<b>19,050</b>

*\*Includes the running costs of LGPS Central*

*\*\* the above does not include the cost of transition which will be taken from the capital value of assets.*

21. The LGPS Central Limited Strategic Business Plan and Budget for 2019/20 was approved by Shareholders on 12 February 2019. 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 must 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.
22. Excluded from Table 1 are transition costs; these are not a revenue cost per-se and are more typically deducted from the capital value of the assets being transitioned. However, as these are by far one of the biggest costs that pooling will generate, there is a need to ensure that they are kept to a minimum through an effective and efficient transition management process. Working with LGPS Central Limited, Partner Funds will appoint both a Transition Advisor and a Transition Manager (TM); the Advisor being appointed to provide effective and experienced challenge to the TM throughout the process. Post trade reporting of the costs of individual transitions, versus their pre-trade estimates will be reviewed by the LGPS Central Joint Committee and individual Partner Funds through their usual Governance arrangements. For Staffordshire, this will be a report to the Pensions Panel.
23. Because of the uncertainty around a number of costs highlighted in the previous paragraphs, it is not proposed to use these estimated costs for 'budget monitoring' purposes per-se but to use them as an indication. Whilst they will be compared to the budget forecast post 31 March as part of the outturn report, the Committee is asked to consider them alongside cost comparisons, benchmarking and trends to ensure that value for money is being delivered. A more detailed report on comparative outturn costs for 2018/19 will be brought to the Committee in June 2019.

## **Risk**

24. The primary risks to the continued delivery of a pension's administration, accounting and investment monitoring service to the high standards achieved are;
  - Having a team of staff, sufficiently resourced, with the right experience to cope with changes to Government Legislation;
  - The ability to deal with an increasing number of Employers and the challenge and complexities their different requirements present;
  - The increasing fragmentation of payroll provision and the requirement for accurate and timely data; and ultimately
  - The need to ensure 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 2019 meeting of this Committee.

25. **Equalities implications:** There are no direct equality implications arising from this report.
26. **Legal implications:** There are no direct legal implications arising from this report albeit LGPS Regulations do have an impact on the business.
27. **Resource and Value for money implications:** Resource and value for money implications are considered in the report.
28. **Risk implications:** There are no direct risk implications, but the report does contain some actions to address risks identified in the risk register.
29. **Climate change:** There are no direct climate change implications arising from this report.
30. **Health Impact Assessment screening:** There are no health impact assessment implications arising from this report.

**John Tradewell**  
**Director of Corporate Services**

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Background Docs: None



Area of Service	Key Development Activity	Progress
<b>LGPS Pensions Administration</b>	Develop new working Practices with Third Party Payroll Providers including the introduction of i-Connect (see below)	Good progress made but work ongoing as new providers emerge
	Full implementation of Hymans Employer Asset Tracker (HEAT) including mechanism for Ill-health self insurance	Achieved
	Improve quality of data prior to 31 March 2019 Valuation	Achieved (albeit data quality improvement will always be of ongoing benefit)
	Ensure full compliance with new General Data Protection Legislation (GDPR)	Achieved
	Demonstrate a general improvement in KPI's	Improvement in some areas with ongoing challenges in others
<b>Pensions Administration System</b>	Implement i-Connect with a range of small / larger Employers to achieve an overall target of 50% of Active Fund Membership	On target to achieve
	Government Actuaries Department transactional data project	Achieved
<b>Contracting Out Reconciliation</b>	Phase 1 Finalise enquiries with HMRC for Deferred and Pension Members	Achieved
	Phase 2 Finalise enquiries with HMRC for Active Members	Achieved
	Finalise under/overpaid pensioner members	Ongoing, pending responses from HMRC
<b>Governance</b>	To develop a Training Plan for Pensions Committee Members focusing on any collective knowledge gaps identified from the Training Needs Analysis (TNA)	Achieved – annual review due Q119
	Review published policies e.g Governance Policy	Register of policies produced. Several policies reviewed with plan in

Area of Service	Key Development Activity	Progress
		place to review others during 2019/20
	Develop Covenant Monitoring Process	Outstanding. Deferred to 2019/20
<b>Communications – Scheme Members</b>	Review website content and structure including Member Self Service / My Pension	Significant progress made but due to enormity of task, work will continue into 2019/20
<b>Communications - Employers</b>	Develop Employer Administration policies / guides / practices and promote such to relevant Employers	Significant progress made. Review in conjunction with website development, with work continuing into 2019/20
	Run Employer Practitioner Workshop(s) e.g Breaches, Ill-health retirement, IDRPs and produced focussed Newsletters	Achieved with Training Workshop, Employer Focus Newsletters and new Employer Peer Group established. Ongoing development in 2019/20.
<b>Pension Fund Investment</b>	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	Achieved
	Continue to review SPF Strategic Asset Allocation in the context of the Investment Offering of LGPS Central	Ongoing. Meetings with Investment Advisors and LGPS Central as required.
	Monitor process, reconcile data and report performance impact following asset transitions into LGPS Central e.g Global Equities	Global Equity Transition took place in February 2019. Post transition



Area of Service	Key Development Activity	Progress
		analysis and reconciliations to be completed for 31 March 2019 accounts.
Area of Service	Resource Intensive – Business as Usual Activity	Period
<b>LGPS Pensions Administration</b>	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
<b>The Pensions Regulator (tPR)</b>	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



Area of Service	Key Development Activity	Timetable
<b>LGPS Pensions Administration</b>	2019 Actuarial Valuation – work with Actuary and Employers to ensure all valuation work is carried out in a timely, informative and efficient way	31 December 2019
	Undertake a Mortality / Living as Stated / Tracing Exercise prior to issue of 2020 Deferred Annual Benefit Statements	31 March 2020
	Continue to develop new working practices with Third Party Payroll Providers following the introduction of i-Connect	31 March 2020
	Demonstrate a general improvement in KPI's	31 March 2020
<b>Pensions Administration System</b>	Continue to implement i-Connect with a range of smaller / larger Employers to achieve an overall target as close to 100% of Active Fund Membership data being submitted monthly	31 March 2020
	Review task design in Altair	31 March 2020
	Review use of interactive dashboard in Altair	31 March 2020
<b>Contracting Out Reconciliation</b>	Finalise under/overpaid pensioner members following responses to enquiries with HMRC	31 March 2020
<b>Governance</b>	Run appointment process for 4 Members of the Local Pensions Board	30 June 2019
	Continue to review published policies e.g. Administration Policy	30 September 2019
	Review need for and develop Covenant Monitoring Process	31 December 2019
	Review of Funding Strategy Statement following Actuarial Valuation and consultation with Employers	31 December 2019
<b>Communications – Scheme Members</b>	Promote the use of Member Self Service / My Pension (with the aim of issuing all Annual Benefit Statements electronically in 2021)	31 March 2020 and beyond
	Continue to review Website content	31 March 2020
<b>Communications</b>	Further develop and run Employer Practitioner Workshop(s) e.g	30 June 2019

Area of Service	Key Development Activity	Timetable
<b>- Employers</b>	Breaches, Ill-health retirement, IDRPs	
	Further develop the role of the Employer Focus Peer Group and the Employer Focus Newsletters	30 September 2019
	Further develop Employer Administration policies / guides / practices and promote such to relevant Employers	31 March 2020
<b>Pension Fund Investment</b>	Review of Strategic Asset Allocation (SAA) in conjunction with 2019 Actuarial Valuation and the Investment Offering of LGPS Central Ltd	31 December 2019
	Review of the Investment Strategy Statement following the SAA review	31 March 2020
	Continue to monitor processes, reconcile data and report performance impact following asset transitions into LGPS Central e.g. Corporate Bonds	31 March 2020 (as required)
Area of Service	Resource Intensive – Business as Usual Activity	Period
<b>LGPS Pensions Administration</b>	Management of JLT backlog project and continued response to resulting queries	1 April - 30 June
	Review Pensions Services staffing levels and structure	1 April – 30 September
	Finalise Year end data	1 April - 30 July
	Issue Deferred Annual Benefit Statements	1 May – 30 June
	Issue Active Annual Benefit Statements	1 July – 31 August
	Record Keeping Data Integrity Checks (pre-2019 /post 2019 Valuation)	1 April – 31 March
	Continue to improve quality of data generally across the Scheme	1 April – 31 March
	Assess the impact of any Regulatory Changes and communicate such to all interested parties and stakeholders	1 April – 31 March
<b>The Pensions Regulator</b>	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

Area of Service	Key Development Activity	Timetable
	Improve common and conditional data scores	1 April – 31 March
	Maintain and review Breaches Log and improve reporting to tPR	1 April - 31 March



**PENSIONS COMMITTEE – 15 MARCH 2019**

**Report of the Director of Corporate Services**

**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), which now includes the Pension Fund's Bulk Transfer Policy.
2. That the Pensions Committee notes the requirement for further updates to the Investment Strategy Statement (ISS) once the outcome of the Ministry of Housing Communities and Local Government's (MHCLG) informal consultation on the Statutory Guidance on Asset Pooling in the LGPS is known.

**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 last full review of the FSS was undertaken in 2017 and following consultation, the document was approved by the Pensions Committee at its meeting in March 2017. This reflected major changes required to the FSS because of changes to CIPFA's Guidance and the then Fund environment. Since March 2017, only minor amendments have been made to the FSS.

8. As part of the review of the Fund's various policies, it was decided that there was a need to separate the Bulk Transfer Policy from the Administration Strategy, as it should really form part of the FSS. The FSS has been reviewed on this basis, in conjunction with the Pension Fund's advisors Hymans Robertson, and this has also resulted in several other minor amends to the FSS. The revised document can be viewed at:

<https://www.staffspf.org.uk/Finance-and-Investments/Funding-Strategy-Statement>

9. A full review of the FSS will be required later in 2019/20, following the 2019 Actuarial Valuation and it will be at this stage that the document will be put out to wider consultation.

### **Investment Strategy Statement (ISS)**

10. 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, kept under review and revised from time to time and at least every three years.
11. The ISS documents how the investment strategy for the Fund is determined and implemented and 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.
12. The ISS was reviewed in April 2018 and arguably needs further minor amendment in April 2019, to better reflect the arrangements in place for asset pooling and the transfer of assets into LGPS Central Limited. However, Members of the Committee are asked to note that the document may need further substantial revision following the outcome of the MHCLG's informal consultation on the Statutory Guidance on Asset Pooling in the LGPS, which closes on 29 March 2019. At this stage, wider consultation on the ISS may also be considered appropriate. The document in its current form can be viewed at:



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

**John Tradewell**  
**Director of Corporate Services**

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Background Documents:

Public Service Pensions Act 2013

The Local Government Pension Scheme (Management and Investment of Funds)  
Regulations 2016

MHCLG Consultation on Statutory Guidance on Asset Pooling in the LGPS

## 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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of Part 1 of Schedule 12A  
of the Local Government Act 1972

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