

## Minutes of the Pensions Committee Meeting held on 16 December 2022

Present: Mike Sutherland (Chair)

### Attendance

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

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

### PART ONE

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

2. **Declarations of Interest**

There were no declarations of interest made on this occasion.

3. **Minutes of the meeting held on 30 September 2022**

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

4. **Staffordshire Pension Fund Investment Cost Benchmarking 2021/22**

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

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

### **Cost**

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

### **Cost trend**

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

### **Returns**

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

### **Funding and Risk**

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

### **Value added**

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

### **Cost effectiveness / value-for-money**

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

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

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

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

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

## Employer Contribution Levels

The presentation focussed on:

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

## Funding Strategy Statement Review

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

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

Other main changes highlighted included:

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

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

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

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

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

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

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

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

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

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

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

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

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

## **7. Exclusion of the Public**

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

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

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

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

**Chairman**

