

Minutes of the Pensions Committee Meeting held on 15 December 2023

Present: Mike Sutherland (Chair)

Attendance	
Philip Atkins, OBE	Liz Staples
Nigel Caine (Co-Optee)	Stephen Sweeney
Mike Davies (Vice-Chair)	Mike Wilcox

Also in attendance: Rob Birch, Corrina Bradley (Employer Representative), Chantelle Denham, Simon Humble and Michael Vaughan

Apologies: Colin Greatorex, Derrick Huckfield and Bob Spencer

Part One

1. Declarations of Interest

There were no declarations of interest made on this occasion.

2. Minutes of the meeting held on 29 September 2023

On 22 November 2023 DLUHC issued their response to the Consultation on asset pooling. Despite a number of responses from Pension Funds challenging the various proposals, DLUHC decided to progress with the ambition for Pension Funds to transfer Listed Assets into a Pool by March 2025. However, DLUHC had introduced a "Comply or Explain" aspect to this which, whilst demonstrating DLUHC's clear desire to see an increase in pooling, also recognised the challenges and did allow Funds a degree of flexibility. The Staffordshire Pension Fund had sufficient reasons to explain why it would continue with its current investment strategy, whilst continuing to consider future pooling opportunities.

DLUHC had also provided a response relating to the requirement for Funds to allocate 5% of assets to support Levelling Up in the UK. It was noted that DLUHC had initially required Funds to develop a plan to demonstrate how this would happen. Whilst it was still expected that the plan would be required, this was no longer mandatory and had instead been highlighted as an ambition. The same ambition had been proposed for the allocation of 10% to Private Equity.

Resolved: That the minutes of the meeting of the Pensions Committee held on 29 September 2023, be confirmed and signed by the Chairman.

3. Staffordshire Pension Fund Investment Cost Benchmarking 2022/23

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 41 pension funds that had a median size of £7.3bn versus the Fund's £6.6bn 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 were several variables which would also need to be considered to obtain a like for like comparison, such as assets under management, strategic asset allocation and implementation style. 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 51.0 bps was below the benchmark cost of 53.0 bps.
- In aggregate, the Fund had a higher cost implementation style.
- In aggregate, the Fund paid less than peers for similar assets.
- The Fund's pooled assets saved 0.3 bps relative to peers.

Cost trend

- The Fund's costs fell from 61.6 bps in 2018/19.

Returns

- The Fund's 5-year net total return was 7.1%. This was above the LGPS median of 6.3%.
- The Fund's 5-year benchmark return was 6.5%. This was above the LGPS median of 5.7%.

Funding and Risk

- The Fund's funding level of 128% on the standard SAB basis in 2022 was above the LGPS median of 124%.

- The Fund's strategic asset allocation suggests that it takes more risk relative to its liabilities than LGPS peers.

Value added

- The Fund's 5-year net value added was 0.7%. The LGPS median was 0.8%.
- The Fund's cumulative 5-year net value added has added £253 million to the funding of the plan.

Cost effectiveness / value-for-money

- The Fund's 5-year performance placed it in the positive value added, high-cost quadrant of the Value for Money chart.

Resolved: That the information presented by CEM Benchmarking provided at Appendix 1 of the report, be noted.

4. Staffordshire Pension Fund Audit Plan Update 2020/21 - 2022/23

The Committee received a report from the Director of Finance providing an update on the Staffordshire Pension Fund Audit 2020/2021 to 2022/2023.

The Committee was reminded that at its meeting in December 2021, a draft Audit Results Report (ISA260) had been received from Ernst and Young (EY) in relation to the audit of the 2020/21 accounts of the Fund. However, it had not been possible to issue a final ISA260 and conclude the audit because of the delayed conclusion of the audit of the County Council Statement of Accounts in which the Pension Fund accounts were included.

The Committee was informed that at the meeting of the Audit and Standards Committee held in December 2023, the Audit Results Report for both the County Council and the Pension Fund accounts had been received which finally concluded the audit for 2020/21. This would allow the draft 2020/21 Annual Report and Accounts for the Staffordshire Pension Fund to be finalised and published on the Fund's website. The ISA260 for the Pension Fund was included for information at Appendix 1 to the report.

Although the audit of the Staffordshire Pension Fund's 2022/23 accounts had commenced in June 2023, and was substantially complete, a detailed Audit Plan had not been provided by EY prior to the start of the audit process. This document had now been received and, having been approved at the meeting of the Audit and Standards Committee in December 2023, was attached at Appendix 2 to the report for the Pension Committee's information. It was noted that once EY completed its external audit of the 2022/23 accounts and the County Council's Statement of Accounts were finalised, the Pension Fund would receive its concluding ISA260. It was highlighted that a draft copy of the 2022/23 Pension Fund

Annual Report and Accounts were published on the Pension Fund website in line with the 1 December deadline.

The Committee was also informed that KPMG had been appointed as the new auditor of the Council's, and consequently the Fund's accounts for 2023/24. Reassuringly they had already engaged with Fund officers in advance of the audit process of the 2023/24 accounts beginning.

Liz Staples commented that the national issue of auditors not completing audits of Pension Fund accounts in a timely fashion, had been raised by DLUHC representatives at a recent Pensions Fundamentals training session. It had also been suggested that DLUHC were advocating the separation of Pension and Council accounts to expedite the audit approval process. The Assistant Director of Treasury and Pensions confirmed her awareness of this but highlighted that the County Council's auditors had been appointed for a five-year period through a Public Sector framework, and as such KPMG had been appointed to take over from EY until the end of the next contract period. It was understood that consideration was to be given to separating the accounts of the Pension Fund from the Council and as a result the audit and approval of such but there was a large amount of Regulation that had to be considered before it was possible to do this.

In response to a request asking when the Borough and District Councils would receive the final assurance statements for the 2022/23 accounts, it was confirmed that this would be as soon as the County Council's accounts, and subsequently the Pension Fund's accounts, were finalised.

Notwithstanding the delay to the audit of the Pension Fund's accounts, the Chair of the Committee congratulated the Treasury and Pensions team on an excellent audit report.

Resolved: a. That the conclusion of the audit of the Staffordshire Pension Fund accounts for 2020/21 and the content of the Final Audit Results Report (ISA260) from EY at Appendix 1, be noted.

b. That the content of the Audit Plan from EY in relation to their audit of the Staffordshire Pension Fund accounts for 2022/23 at Appendix 2, be noted.

c. That the continuing delay in the conclusion of the 2021/22 and 2022/23 external audits of the Staffordshire Pension Fund accounts by EY, be noted.

5. Staffordshire Pension Fund - Governance Compliance Policy

The Committee received a report from the Director of Finance relating to a Review of Governance Compliance Statement.

The Committee was reminded that Regulation 55 of the Local Government Pensions Scheme Regulations 2013 stated that a Pension Fund should have a range of written policies and procedures in place. Having such, and keeping them updated, not only proved regulatory compliance, but also demonstrated good governance.

The Committee heard that the Governance Compliance Statement had last been updated and approved by the Pensions Committee at their meeting in September 2018. A full review of the document had been delayed, pending the Government's formal adoption of the recommendations of the Good Governance Project and the introduction of any requirements for the LGPS arising from the Pensions Regulator's Single Code of Practice – which, it appeared, had been delayed indefinitely. However, best practice dictated a minor review of the Governance Compliance Statement was required, to ensure the Fund still had a document which reflected current guidance and was as up to date as possible – although it was noted that the Fund still followed the 2014 versions of the guidance.

The revised and updated Governance Compliance Statement, attached as Appendix 1 to the report, was presented to the Committee for their approval. It was highlighted that some more recent versions of the schematics which had been included in draft document had been found after the document was shared with the Committee, and that these updated versions would be included in the final document.

It was also noted that no wider consultation was considered necessary as the Statement reflected the actual Governance arrangements already in place.

Resolved: That the revised and updated Governance Compliance Statement attached as Appendix 1 to the report, be approved.

6. Staffordshire Local Pensions Board - Constitution

The Committee received a report from the Deputy Chief Executive and Director of Corporate Services regarding proposed amendments to the Pensions Board Constitution.

The Committee was reminded that in April 2015 Staffordshire County Council set up a Local Pensions Board ("the Board"), and when the Board was originally set up the membership consisted of a maximum of six members made up of three Scheme Employer Representatives and three

Scheme Member Representatives. It was noted that the Board Constitution stated that one of the Scheme Employer representatives must be an Elected Local Authority Member and one Scheme Employee representative must be a Trade Union representative. The Committee was made aware of the efforts made throughout 2022 and 2023, to find suitable nominees to appoint to these specific positions on the Board, without success.

Following discussions at the September 2023 Board meeting, it was proposed that the Scheme Manager consider reducing the number of members on the Board from six to four, and in doing so remove the specific stipulation from the Board Constitution that the Board membership must include an Elected Local Authority Member and a Trade Union representative. It was made clear that this amendment did not mean that Elected Local Authority Members or Trade Union representatives could not become members of the Board, it simply removed the stipulation that there must be two such representatives. It was highlighted that the proposal remained consistent with Local Government Pensions Scheme Regulations 2013.

The Committee heard that Trade Unions had been informed of the proposals and were asked to provide feedback. One response was received, from Unison, which stated an appreciation of the issue. Given that they had no suitable candidate to put forward they confirmed that there was no objection to the proposal.

Whilst this process was carried out the opportunity was also taken to make some amendments to the "Member Appointment Process" included within the Board Constitution, to ensure it remained consistent with current appointment practices. It was noted that the constituted appointment process focussed on the selection process undertaken when the Board was originally established. Whilst it also included additional steps that concentrated on the recruitment of replacement Board members, the process no longer needed to consider the appointment of an original Board, and the proposed amendments meant that the process focussed on the appointment of replacement Board members only. It was also highlighted that the proposed appointment process was tried and tested as it followed the same appointment process that was used to recruit co-opted members to the Pensions Committee.

The Pensions Committee was also informed that the S151 Officer for Tamworth Borough Council had recently been recruited to join the Board as an Employer Representative, meaning that, with the approval of this report, the Pensions Board was now at full capacity membership.

Resolved: a. That the proposed amendments to the make-up of the Local Pensions Board Membership and the reduction in the number of members

that sit on the Board from six to four – two representing Scheme Employers and two representing Scheme Employees, be approved.

b. That the amendments to the Local Pensions Board Constitution reflecting the proposed changes to the make-up of the Local Pensions Board Membership, be approved.

c. That the changes to the Local Pensions Board Member Appointment Process, be approved.

7. Fund Actuaries' Update

The Committee received a presentation from Douglas Green from Hymans Robertson updating Members on a range of Actuarial matters. The presentation covered the following:

- **Funding update**
 - The 2022 valuation
 - What's happened since 2022
 - Funding update as at 30 September 2023
 - Total investment return from 1 April 2022 to 30 September 2023
 - What's caused the improvement?
 - What does this mean for contributions?
 - Rates can be reviewed in between triennial valuations, however ...
 - Only in specific situations, which do not include a change in funding level
 - If a rate is reviewed, need to follow:
 - i. Scheme Advisory Board guidance (e.g. use 2022 valuation conditions)
 - ii. Section 2.4 of Staffordshire Fund's Funding Strategy Statement (FSS)
- **Actuarial assumptions in the real world**
 - Beware of inflation
 - Higher inflation leads to higher liabilities. The Actuary allowed for this when setting contributions at the March 2022 valuation
 - Mortality: What happened in 2022?
 - 2022 excess mortality rates were surprisingly similar to 2021
- **Wider outlook & summary**
 - Wider outlook
 - Pooling Consultation - comply or explain by 2025, ambitions to invest 5% "Levelling Up" and 10% private

- equity.
- McCloud Regulations - big admin task, minimal impact on LGPS benefits for most members or employers
- Pensions dashboard – connection deadline delayed, now possibly 2025
- Goodwin case - Govt expected to consult on remedy in 2024
- LGPS Cost Sharing Valuations are unlikely to result in changes in member benefits.
- Other Public Sector Valuations (Police, Fire, Teachers etc.) are likely to result in increased employer contributions.
- Summary
 - Investments
 - Markets have struggled
 - Returns have been less than anticipated
 - Inflation
 - Benefit increases have been greater than long term assumption (2023 increase was 10.1%, 2024 increase expected to be 6.7%)
 - Partly anticipated at 2022 funding valuation
 - Interest Rates
 - Interest rates have increased significantly
 - This puts upwards pressure on expected future returns across asset classes
 - Morality
 - Life expectancy improvement rates remaining lower than previous levels
- What does it mean for employers?
 - Funding positions
 - Higher than at 2022 valuation
 - Increased volatility and uncertainty, especially around inflation
 - Contribution rates
 - Not reviewed until the 2025 valuation
 - Past service funding position is a small element of the total rate
 - Stability of contributions is key

Resolved: a. That the contents of the presentation, be noted.

b. That the representative of Hymans be thanked for his presentation and for taking the time to join the Pensions Committee meeting.

8. 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.

9. Exempt minutes of the meeting held on 29 September 2023

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

11. Enhancing Funding Strategy (Exemption paragraph 3)

Chair

