

PENSION BOARD

MINUTES of a meeting of the Pension Board held at County Hall, Lewes on 16 November 2017.

PRESENT Richard Harbord (Chair) Councillor Kevin Allen,
Angie Embury, Stephen Osborn and Bernadette Carlyle

ALSO PRESENT Ian Gutsell, Chief Finance Officer
Ola Owolabi, Head of Pensions
Brian Smith, Regional Operations Manager
Jason Bailey, Lead Pensions Manager
Wendy Neller, Pensions Strategy and Governance Manager
John Shepherd, Finance Manager (Pension Fund)
Harvey Winder, Democratic Services Officer
Steve Tidy, Strategic Procurement Manager

29 MINUTES

29.1 The Board agreed the minutes of the previous meeting.

30 APOLOGIES FOR ABSENCE

30.1 Apologies for absence were received from Sue McHugh (substitute: Stephen Osborn) and Cllr Brian Redman.

31 DISCLOSURE OF INTERESTS

31.1 The Chair declared a personal interest as a close relative of someone employed by UBS.

32 URGENT ITEMS

32.1 There were no urgent items.

33 PENSION COMMITTEE AGENDA

33.1. The Board considered the non-exempt items of the Pension Committee's agenda for its 27 November meeting.

Item 10: Market analysis of Pensions Administration System

33.2. Steve Tidy (ST), Strategic Procurement Manager, presented the Board with a market analysis of pension administration systems providers.

33.3. Jason Bailey (JB), Lead Pensions Manager, explained that since the market analysis of pension administration systems has been completed, two of the four customers of Capita's pension administration system were reviewing their options for future service provision

33.4. Bernadette Carlyle (BC), asked how the market analysis had determined customer satisfaction ratings for the four providers. ST, explained that the intelligence had been gathered

by searching for publicly available product reviews from either councils using the service, or from employees. These are often testimonies published by the providers themselves, who are less likely to publish negative reviews. Pension administration systems are a niche product so there are no independent customer satisfaction surveys carried out about them. ST added that during the procurement process Orbis will be entitled to engage directly with the customers of the bidding companies to establish more accurate product satisfaction levels.

33.5. The Chair asked for clarification about the next stage in the procurement process. ST said that the current contract with Heywood expires in August 2021, so the procurement process will need to begin by the 2nd Quarter of 2019. The contract also contains break points that could be triggered before then, although these will contain penalty clauses.

33.6. ST said that the tendering process will be fair and transparent. However, there is no pre-existing framework that can be used to speed it up. It is, therefore, proposed that there is a restricted tendering process that contains pre-qualification answers that are likely to exclude a number of potential bidders.

33.7. The Chair asked whether the procurement will include only the four companies identified in the market analysis. ST said that it cannot be ruled out beforehand that other companies might say they can provide the service. If this happens then their ability to provide the service will also be tested.

33.8. The Chair asked what weighting quality will be given in the procurement process. ST said that the weighting will be in favour of quality over price and the ratio used is generally 60:40 but this can be varied. The cost of ownership burdens to the local authority of the providers' bids will be established and included in the price, not just the upfront cost.

33.9. Cllr Kevin Allen (KA) asked for clarification about the effect ACCESS will have on the pension administration in East Sussex. Ola Owolabi (OO), Head of Accounts and Pensions, confirmed that ACCESS will not have an effect at this stage as the pooling initiatives only relate to pension investments, not pension administration. He conceded that this is the current position and it could change in future years if the Government decided otherwise.

33.10. The Chair said that it will be up to the Pension Committee to decide when to begin the tendering process between now and 2019. Stephen Osborn (SO) observed that there did not seem to be another provider that looked significantly better than Heywood, from the information presented in the report. ST said that pension administration is a stable and static niche market that is unlikely to have many new providers drop in to or existing providers drop out of the market.

33.11. The Board RESOLVED to note the report.

34 PROPOSALS FOR A VICE CHAIR OF THE PENSION BOARD

34.1 The Board considered a report about the proposals for a Vice Chair of the Pension Board.

34.2 The Board RESOLVED to:

- 1) agree to the proposals set out in the report that the Vice Chair position alternates at each meeting between an employer and scheme member representative;
- 2) agree that the employer representatives will provide nominations for a Vice Chair for approval by Governance Committee;

3) agree that the scheme member representatives will provide nominations for a Vice Chair for approval by Governance Committee; and

4) agree that the employer representative will act as the Vice Chair for the 8 February 2018 Board meeting and that the role alternates on a meeting by meeting basis thereafter.

35 ANNUAL BENEFIT STATEMENT UPDATE

35.1. The Board considered a report providing an update on the Annual Benefit Statement.

35.2. JB explained that 480 of the employees who had yet received their statements were new employees of Brighton & Hove City Council (BHCC) who had joined in the previous year and who Orbis did not receive information about in time but this had since been resolved. The amount that they will have accrued will be minimal, but they will receive their statements shortly.

35.3. JB explained that there were 22,500 deferred members for whom a statement had been issued but there are more than 26,000 in existence, with the difference being those who moved without informing the East Sussex Pension Fund (ESPF) about their new address. This would have built up over 20 years or more as, until now, pro-active steps had only been taken to trace deferred members when their benefits were due for payment. Business Operations was now engaging a screening company to trace down the likely addresses of these deferred members as they are aware this is likely to be an area of future interest to the Pensions Regulator.

35.4. BC asked what will be done differently to ensure that the Annual Benefit Statement deadline will be achieved next year. JB said that a more robust plan is in place to meet next year's 31 August 2017 deadline. This includes publishing the Statements between May and the end of July in phases, which is possible because of the new online system; a more robust approach to be taken with employers who fail to make their submissions by the end of April; employers will be offered support to assist with producing their reports.

35.5. SO asked how the sent rate of 93% of statements compared to other local authorities. JB said that a large number of other pension funds had reported breaches of the statutory deadline and that the sent rate for East Sussex was similar to elsewhere.

35.6. The Board RESOLVED to:

1) note the report; and

2) request a report for the 8 February meeting on what lessons have been learned from the production of Annual Benefit Statements for 2017 and what will be done next year to meet the deadline in full.

36 LOCAL GOVERNMENT PENSION SCHEME (LGPS) POOLING - ACCESS UPDATE

36.1. The Board considered an update on the activities undertaken by the ACCESS group.

36.2. The Chair informed the Board that he had emailed the chairs of the other 11 pension boards in the ACCESS Group with the intention of agreeing what regular information the boards will request from ACCESS. This is to avoid placing excessive demands on ACCESS to produce different sets of data on an ad hoc basis for each board. He was of the understanding that the Pensions Regulator did not intend to mandate a pension board for Local Government Pension Scheme (LGPS) pooled groups, so it would be up to local authorities to develop their own arrangements.

36.3. The Chair asked for clarity about when ACCESS will be able to deliver the projected annual £30m savings. OO said that individual funds will begin to transfer liquid assets to the pooled fund from 1 April 2018. This process will take 2-3 years and the savings should be realised at the end of this process. OO added that the £5.2m annual saving from pooling passive funds to a single pool managed by UBS has reduced the management fees for passive investments for the ESPF from £1.2m to £600k.

36.4. OO said that the Operator has been shortlisted to three potential organisations. A decision will be made by the ACCESS Joint Governance Committee (JGC) on 13 December 2017 to select an Operator. The Pension Committee will consider the issue further at their 27 November meeting.

36.5. OO explained that only 1% of ESPF's assets are allocated to infrastructure and the Pension Committee will be asked to agree to the principal of increasing them to 4% to meet the aspirations of the ACCESS Group.

36.6. Angie Embury (AE) observed that the pooling groups had been set up in the first place to help fund national infrastructure. The Chair wondered whether pooled groups will be directed by government to invest in infrastructure, whether this would include affordable housing, and what effect this would have on return on investment.

36.7. OO explained that investment in specific infrastructure will not be straightforward as current infrastructure investments will take up to 15 years to mature before they can be moved elsewhere. The definition of infrastructure is also unclear, with LGPS defining it as utilities, roads etc. and not housing. Investment also needs to reduce a pension fund's deficit and the burden on its employer representatives; this may not be achieved investing in certain infrastructure.

36.8. AE asked whether there will be union representation on the JGC. OO said that there was not at the current time as the composition of the JGC includes a single representative of each of the 11 members who is nominated from the local authority's pension committee. The JGC is, however, due to consider the matter of its composition in the future. OO added that the JGC will be responsible primarily with the hiring and firing of investment managers but the rest of the functions will remain with local pension committees, who will be assisted by pension boards and will be able to influence the JGC. This means there will still be union representation to the decision making process for the ESPF.

36.9. The Chair observed that the ACCESS arrangements are likely to be tested once they are up and running, for example, how member organisations respond when investment managers' performance is below the expectations of some member LGPSs and above the expectations of others. He also expected employers may take a keen interest if lower returns start to impact their burden of contributions to their funds.

36.10. The Board RESOLVED to note the report.

37 ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORT (FROM 4 SEPTEMBER PENSION COMMITTEE)

37.1. The Board considered an update on the ESPF's stance on Environmental, Social and Governance (ESG) investments.

37.2. OO explained that the Pension Committee has been taking ESG issues very seriously. This included signing up to the UK Stewardship Code on responsible investment; discussions with an organisation True Cost about carbon exposure of ESPF's investments; investing 10% of

passive equity into UBS's carbon related investment tracker; and working with 71 other funds through the Local Authority Pension Fund Forum (LAPFF) to influence companies' behaviour. He added that elected members who are asked by campaign groups about divestment have been provided with a response that sets out the position of the ESPF.

37.3. AE observed that local authorities have a duty to reduce their carbon footprint, for example, by installing double glazing in their buildings, and it is important that this commitment is replicated through ESPF investments.

37.4. KA said that he applauded the Pension Committee for taking the subject seriously. He asked that future reports on ESG reflect that BHCC, Eastbourne Borough Council and Hastings Borough Council (who are all members of the ESPF) have all passed motions to divest from fossil fuel investments and that BHCC is sceptical about the influence shareholders can have on a company's behaviour.

37.5. The Chair wondered whether the considerable size of the eight pooled LGPSs would allow them to engage directly with companies to influence their behaviour, rather than through intermediaries. KA said that there also needs to be active divestment in fossil fuels not just directing companies' behaviour.

37.6. SO observed that the key message of the ESPF is to receive a return on investment for pensioners and employers in line with their fiduciary duty and that there was not a clear commitment to divestment if it affected these returns. AE said that the mood amongst in BHCC members appears to be in favour of divestment.

37.7. The Board RESOLVED to note the report.

38 ANNUAL REVIEW OF PENSION BOARD TRAINING PLANS

38.1 The Board considered a report about the training plan for board members.

38.2 The Board RESOLVED to:

- 1) note the report;
- 2) approve the Board Members Training Plan as proposed in Para 3;
- 3) agree to complete the Pensions Regulator online toolkit within the 12 months.

39 GUARANTEED MINIMUM PENSION (GMP) RECONCILIATION UPDATE

39.1. The Board considered a report providing an update on the progress of the Guaranteed Minimum Pension (GMP) Reconciliation Exercise.

39.2. JB explained that ITM has completed its project and identified 11,760 unreconciled deferred and pension aged ESPF members requiring further review. The next stage is to carry out a mini tender for a company to assess these 11,760 members and ITM have been asked to provide a cost for this exercise.

39.3. The Chair expressed concern that 11,760 was a high figure. JB said that a lot of the cases will be able to be resolved in bulk as they will relate to discrepancies between ESPF and HM Revenue & Customs (HMRC) records where people left their jobs and HMRC did not track their movement. The figure of 1,875 pensioners of post GMP age is expected to come down on review.

39.4. The Chair observed that it was difficult to get a feel for the benefits of this exercise for individual scheme members and the cost reconciliation will have on the ESPF.

39.5. The Chair asked whether the figure of 9,586 cases awaiting data from HMRC along with 88 other funds requesting similar information would make it very unlikely that HMRC will have cleared the backlog before its deadline of 31 December 2018. JB said that HMRC has committed more resources to dealing with the volume of data requests.

39.6. The Board RESOLVED to note the report.

40 OFFICERS' REPORT - BUSINESS OPERATIONS

40.1. The Board considered a report about the Business Operations Team.

40.2. The Chair asked how ESPF is performing against the national key performance indicators for pension administration. JB said that there were no definitive national indicators, though CIPFA used a set of indicators which were issued by the Local Government Association (LGA) a number of years ago.

40.3. JB explained that the feedback results of the staff survey were 70% positive out of 140 responses. He added the caveat that some of the complaints or negative responses were in areas outside of the Business Operations Team's control, for example, scheme members requesting that ESPF disinvest from fossil fuels. This survey was part of a wider Business Operations survey and next year would seek to target just pension administration issues rather than investment concerns.

40.4. JB said that it would be difficult to identify the potential numbers of partners eligible for survivor benefits under the ESPF scheme, following the Brewster court decision but they would produce a report of cases for internal investigation. AE asked whether there are legal issues determining whether someone was a surviving co-habiting partner. JB said that there are defined eligibility criteria including co-habitation for two years, financial interdependency and that the partner had been free to marry the deceased person. The difficulty now arises for the surviving partner in providing supporting documents as many will have been destroyed since the 2008-2014 time period. BC observed that this exercise would likely bring a lot of additional administrative costs.

40.5. The Board RESOLVED to:

- 1) note the report; and
- 2) request an update on the number of scheme members effected by the Brewster court decision and the cost it will have on the ESPF; and
- 3) request an example of how Business Operations key performance indicators is performing relative to the national key performance indicators.

41 OFFICERS' REPORT - GENERAL UPDATE

41.1 The Board considered a general update on pension issues.

41.2 OO clarified that the interview panel for the new employee representative Pension Board member will be the Section 151 Officer, the Chairs of the Pension Board and Committee, and himself.

41.3 The Board RESOLVED to note the report.

42 WORK PROGRAMME

42.1 The Board considered its work programme

42.2 The Board RESOLVED to note the report.

43 EXCLUSION OF THE PUBLIC AND PRESS

43.1 The Board RESOLVED to exclude the public and press from the meeting for the remaining agenda item on the grounds that if the public and press were present there would be disclosure to them of exempt information as specified in paragraph 3 of Part 1 of the Local Government Act 1972 (as amended), namely information relating to the financial or business affairs of any particular person (including the authority holding that information).

44 PENSION COMMITTEE AGENDA

44.1 The Board considered the exempt items of the Pension Committee's agenda for its 27 November meeting.

44.2 The Board RESOLVED to note the report.

The meeting ended at 12.20 pm.

Richard Harbord
Chair

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