WRITTEN QUESTIONS PURSUANT TO STANDING ORDER 44

1. Question by Councillor Stogdon to the Chair of the Pension Committee

Could the Pension Chair outline what steps the ESPF Committee have taken to better align the Fund's investment approach with the challenges presented by sustainability and the Energy Transition? How does this approach compare with current guidance & best practice? What are the risks & opportunities associated with the course that the Committee have taken? How well positioned is the Fund to meet its obligations?

Answer by the Chair of the Pension Committee

The Fund Financial Position:

The Fund is worth £4.1 billion, it has approximately 78,000 scheme members and around 130 employers. The Funds primary responsibility is to provide defined benefit pensions as laid down in statute. The fund has an obligation to make these as affordable as possible for employers and members and as a result. Despite the challenges of managing a complex defined benefits scheme, the Fund has outperformed its benchmarks over the last 5 years. Its most recent actuarial solvency ratio approximates to 107% of projected fund liabilities, which means that it is very well positioned to pay pensions as they fall due. The Funds most recent solvency comparison reveal it to be approaching the top decile among LGPS Funds. This prudent stewardship of the Fund's assets means that it has been able to reduce employer contributions from 2020 and if the Fund continues to hold its solvency level it should be able to continue to do so again at the next triennial valuation.

The Fund's Approach to the challenges presented by Sustainability & the Energy Transition

Over the last four years the Pension Fund Committee has spent increasing focus and resource in better understanding and aligning its assets with the challenges and opportunities associated with Sustainability and the Energy Transition. It has recognised that the Energy Transition touches on all parts of the economy. The Fund acknowledges its overriding interest in preserving the largest investable set of companies as possible in line with the diversification requirement within the LGPS investment regulations. The Fund accepts that not all companies and sectors can move at the same speed, and that direction of travel rather than absolute alignment matters most and has therefore favoured robust and active collaborative engagement.

Because the Fund owns collective investment vehicles rather than segregated funds or individual stocks, bonds and other assets, this not a simple task. It can only be approximate, and is best done at an holistic whole portfolio level, by recourse to a diversified set of themed Fund Managers and investment styles, risk monitoring and collaborative company engagement with other Funds i.e. through its membership of engagement focused organisations like IIGCC, LAPFF and other ACCESS pool members.

There is mounting evidence that this collaborative engagement has led to substantial movement in pivoting business models (for example BP Shell) and incorporating Scope 3 emissions into company carbon accounting.

The Pension Committee's approach has always been forward looking and it was among the first LGPS Funds to carbon footprint its portfolio and to adopt a Climate Aware index fund mandate. The Fund has been recognised for its efforts, shortlisted by LAPFF Awards for the best ESG approach in 2018, and is perceived by its ACCESS partners to be the Pool leader in this field.

The Fund's Direct Exposure to Fossil Fuels in Context:

The Fund does not directly target its Oil and Gas Company exposure, nor does it tell its Active managers what to own as this would reduce the managers ability to manage performance and East Sussex Pension Fund is not the sole investor in any product. However, through manipulation of varying themed manager holdings the Fund has consistently sought an underweight exposure at a whole portfolio level to the traditional energy sector, reflecting the uncertainties associated with the Energy Transition. The Fund's Active Managers are also expected to absorb the ESPF Responsible Investment Principles and have due regard for our membership of IIGCC.

Whole fund direct exposure to Oil and Gas has fallen from an estimated 6.6% of assets in 2015 to around 4% in 2019, to 1.9% today, of which around 1.2% is in equities and absolute return funds. Recent investment decisions should see that whole portfolio number fall at the margin to around 1.5% (c£60mm) by mid-year.

Putting this into perspective: The Fund's exposure to Green Revenue Tilted, Climate Solutions focused, or Resource Efficient investment approaches will be over 15 times the size of its Oil and Gas exposure by mid-year.

What the Fund has done over the last 2 years:

Over the last 2 years the Committee under my Chairmanship has enacted the following changes to its approach:

- Conducted a major Governance Review, adopting its key recommendations
- Brought Pension Fund Administration in-house
- Doubled Pension Team resourcing to 12 FTE
- Instituted more rigorous cashflow forecasting to better monitor the alignment of Fund income with its obligations
- Conducted a major strategic asset allocation review to better align Fund holdings with Sustainability challenges
- Substantially updated its Responsible Investment Principles
- Become a UN PRI signatory
- Joined the Climate Engagement body IIGCC/Climate Action 100+ (representing over 275 member & €35 trillion in AUM)
- Conducted further Carbon foot-printing of its Funds, committing to regularly monitor their progress

- Expects its equity Investment managers to join the Institutional Investment Group on Climate Change (IIGCC)
- Committed to report in line with the updated UK 2020 Stewardship code
- Committed to report in accordance with the Taskforce for Climate Related Financial Disclosures
- Committed to explore Climate Scenario risk reporting at a whole portfolio level
- Doubled its target exposure to infrastructure assets
- Put 25% of its equity fund exposure into Impact Equity Managers focused on resolving global social, environmental & sustainability challenges
- Adopted Green Revenue Tilted, Climate Solutions focused or resource efficient approaches to its index Fund exposure
- Removed direct fossil fuel exposure from all of its index funds
- Presided over a fall in direct Oil and Gas exposure from 6.6% of AUM in 2015 to a projected 1.5% by mid-year 2021
- The Fund has 15x as much exposure to Impact, Green Tilted & Climate solutions focused Equity as it does to Oil & Gas in all forms

The Consistency of the Fund's Approach with Best Practice & Guidance:

The approach outlined above aligns well with recent guidance from DWP, and is consistent with our membership of IIGCC, LAPFF & UNPRI signatory status. It is also fully endorsed by the Fund's Independent advisor and by both its former and current external advisors (Hymans & ISIO).

The most recent DWP Guidance to Pension Funds, outlined in a recent speech by the Pensions Minister, emphasised the following:
https://www.gov.uk/government/speeches/pension-schemes-and-climate-related-risks

1. Triennial Scenario Testing of Climate Risks with annual interim reviews
2. Adoption of absolute & intensity based GHG metrics
3. Strong emphasis on improving engagement
4. Clear opposition to blanket divestment from high carbon sectors
5. A strong steer to green infrastructure
6. Mandated reporting in line with TCFD
7. No requirement for decarbonisation targets

He subsequently reiterated the DWP's opposition to the principle of "Divestment" referring to it as "Reverse Green Washing."

The Fund is therefore clearly well positioned relative to best practice and guidance.

The Risks and Opportunities associated with the approach adopted by the Fund:

The Funds Statement of Responsible Investment Principles outlines where it sees the longer run opportunities for the Fund associated with ESG themes.
https://www.eastsussexpensionfund.org/east-sussex-pension-fund/client-area/news/espf-responsible-investment-and-fund-fossil-fuel-exposure/

Impact, Resource Efficient & Green revenue tilted Risks & Opportunities: It is the Committee's belief that there may be substantial long-run opportunities presented by exposure to companies that operate in a resource efficient way, and/or provide solutions to social, environmental, climate, sustainability, and energy transition challenges. Those with a higher exposure to green revenues may offer better growth and returns while suffering lower impairment costs from policy and regulation as governments seek to promote the energy transition. Green infrastructure presents opportunities, but also some hazards associated with overpaying for assets and over-reliance on subsidy regimes.

Energy Transition Risks: The Fund recognises that a prolonged Energy Transition is under way. It also acknowledges that a number of energy incumbents through their size, capacity to mobilise capital and engineering expertise offer the potential to play a substantial role in that transition. We see evidence of this from the pivot in the business models of companies like BP and Shell.

The Fund seeks to balance the economic reality that fossil fuels currently provide just under 80% of the world's primary energy and that energy demand will grow by up to 50% by 2050, with global commitments, as yet not fully backed by detailed policy, to decarbonise the energy system by the second half of the century. Where viable opportunities arise, the Fund will seek to increase its exposure to renewable infrastructure assets.

Stranded Asset Risks: In terms of risks to the Fund from this approach, the substantial underweight exposure of the Fund to the fossil fuel sector, and its concentration in the hands of active managers who can exit positions at will, means that there is no appreciable stranded asset risk to the Fund.

Income risks: The nature of the new Active managers recently acquired means that the whole portfolio generates less cashflow. This is not an immediate concern for the Fund, although it needs to be continually monitored. There is a perennial challenge to the Fund in that income generating equities are required to pay current pensions, but traditionally income generation tends to reside in the older more carbon intensive sectors.

Substantial underweight exposure to Fossil Fuels: There is a theoretical near-term risk of Fund underperformance if Oil and Gas prices rally substantially in the immediate years post Covid.

2. Question by Councillor Lambert to the Lead Member for Transport and Environment

Regular complaints are received from residents about the quality of pothole repairs. No sooner is a pothole repaired, than it deteriorates again.

This is not an efficient use of resources at a time when residents are becoming increasingly frustrated with the state of our roads which are already among the most dangerous in the country for killed and seriously injured. The number of potholes and the amount of broken and degraded road surfaces adds to the constant danger not just for cars, but for motorbikes, pushbikes and pedestrians. It is bad enough that pothole repairs are so constrained by the lack of adequate funding but even worse when they are carried out to an inadequate standard.

Will the Lead Member please detail the material used in pothole repairs, the cost of this material and the length of guarantee provided by the contractor?

Answer by the Leader and Lead Member for Transport and Environment

The Council's maintenance contractor uses two materials to repair potholes. The vast majority (over 90%) of potholes are repaired using a hot bitumen based macadam (commonly known as tarmac). However, during the wetter winter months, particularly during periods of heavy or prolonged rainfall, it is not always possible to use hot materials and a cold proprietary (bagged) material is used. These products are commonly used across the country and are designed to be used as an instant repair and is poured straight from the bag with little preparation of the hole required. The repair material needs water to enable a chemical reaction to set (and consequently can be used when surfaces are very wet) and requires only regular trafficking to compact it. This material is also used on occasion to carry out temporary repairs until a more permanent repair can be completed such as in an emergency situation or in an awkward location for example.

Each pothole repair costs approximately £50 to repair. And because of the nature of the fixed-price contract we have with the contractor, they are paid the same for each repair whether they use hot tarmac or a cold-lay material. A cold-lay proprietary product is actually almost four times more expensive per tonne than tarmac.

Under the terms of the Council's contract all pothole repairs are guaranteed for two years. Regular audit checks of the quality of the repairs are undertaken by Council Officers, and any failed repairs are repeated by the contractor at their own cost.

3. Question by Councillor Field to the Lead Member for Education and Inclusion, Special Educational Needs and Disability

The Schools Admissions Team report that all schools across East Sussex are fully subscribed apart from one school in Eastbourne. This means that pupils are being offered places at schools that are often a considerable distance from their homes. Pupils in Seaford, for example, are being offered places at Longhill school in Brighton – another education authority outside East Sussex. Parents have been told that they can appeal or be put on the waiting list for their first choice of school.
Our children and young people have already been through perhaps the most difficult year of their lives in terms of their access to education. For those making the key transition between primary and secondary school, this is now an added anxiety for both them and their parents, separating them from their friendship groups and placing further barriers to education in their way because of the practical travel arrangements they will have to make.

Are schools in East Sussex now at crisis point?

Answer by the Lead Member for Education and Inclusion, Special Educational Needs and Disability

Recent high numbers in primary schools are now being reflected in rising Year 7 secondary school intakes. Year 7 numbers are predicted to peak around 2022/23 or 2023/24, with total numbers on roll in secondary schools likely to peak around 2024/25 or 2025/26.

For September 2021, there are currently three secondary schools with Year 7 spaces, as reported by the School Admissions Team. As in previous years, more places are likely to become available in schools which initially filled up as families who decide to use the private sector or make other arrangements are factored in, and these places will be allocated out to new applicants and families on the waiting list after the deadline for appeal and accepting places has passed on 1 April, as happens every year.

To address the growing demand for secondary school places, the local authority has:

- provided additional places in the Havens area by expanding Seahaven Academy by a form of entry (30 places per year group, 150 places overall)
- provided additional accommodation at Willingdon Community School in readiness for a projected rise in demand in the wider Eastbourne area
- supported Beacon Academy in Crowborough to increase its intake by a form of entry
- begun construction on expanding Hailsham Community College by two forms of entry

Further temporary increases in capacity may also be necessary in some areas to address short term increases in demand for places.

With regard to the situation in Seaford, this year, as in previous years, a number of families in Peacehaven, Newhaven and Seaford did not apply on time for their local schools. As Seaford Head was again oversubscribed this year, it was not able to offer places to every child who applied. This led to some families having to be placed elsewhere. Although Seahaven Academy had places for some of these children, it did fill nearly all its places with children who had requested places there (including some from Brighton & Hove), and could not, therefore, offer places to all the children living in Newhaven whose preferences elsewhere could not be met. Peacehaven Community School filled up with families who had applied to go there.

For information, seven students from Brighton & Hove were offered Peacehaven for September 2021 (all with siblings or EHCPs) and eight were offered Seahaven. Longhill accepted 45 East Sussex residents, of whom 13 were first preferences, one was a second, and the remaining 31 were unplaced, seven of whom were late applications. Of the 31 unplaced children, only two live in Seaford (both late applications). The remaining 29 live in Newhaven, Peacehaven and East Saltdean. East Saltdean falls within the community area for Longhill, and the journey to Longhill from Peacehaven (and most of Newhaven) is shorter than the journey to Seaford Head.

Where parents express a preference without following our guidance (i.e. they either do not use all three of their preferences, they do not state their local school amongst their three preferences or they are late submitting their application), they can end up with a longer journey to a school they did not apply for if that is the closest alternative school with space. The other available alternative schools (Ringmer or Causeway) would have been a longer journey than that to Longhill. Seaford Head was able to offer places to children living outside the area this year so, had the two families not missed the closing date, they would certainly have been offered places there. We do make every possible attempt to encourage families to apply on time. Families obviously have the right to appeal any negative decision.

4. <u>Question by Councillor Ungar to the Lead Member for Adult Social Care and Health</u>

As the Lead Member for Adult Social Care and Health will remember, through the various waves of the Covid pandemic elderly vulnerable residents in care homes, many of whom are very frail, were disproportionately affected by the ravages of Covid-19.

Does the Lead Member agree with me that the Adult Social Care Department should, prior to placement, carry out a fully informed risk assessment for each client the place in a care home? In doing that they should take into account the percentage of staff in a home who have been vaccinated. Would he agree with me that without this information they are unable to carry out a fully informed risk assessment?

Answer by the Lead Member for Adult Social Care and Health

The Covid19 pandemic has brought unprecedented challenges, deeply impacting on all aspects of social care provision. There is no avoiding the sad reality that this includes the loss of care home residents and carers lives to Covid19.

There is also no doubt that the effects of Covid19 and the need to control the virus to protect vulnerable people and those who care for them, will continue for the foreseeable future and the Council will continue to provide support throughout this period.

I can confirm that the Department is carrying out its duties in line with all relevant Government guidance and following best practice when ensuring the appropriate risk management of people placed in care homes, including:

- The Department of Health and Social Care
- NHS England
- Public Health England
- The Care Quality Commission
- East Sussex Clinical Commissioning Group (Quality and Safety Team)
- East Sussex Healthcare NHS Trust (Infection Prevention and Control Team)
- ESCC Public Health

The Department's placement risk assessment process for each home takes into account a number of factors including contractual compliance (including elements relating to Health and Safety, Infection Prevention and Control – not just COVID, etc.), CQC Ratings and Reports, Safeguarding (current and previous), feedback from NHS and ASC staff assessments, reviews and visits, client and carer compliments and complaints, staffing levels, staff and managerial qualifications, etc.

It does not include the proportion of care workers vaccinated in any particular Care Home as there is no Government guidance or best practice advice that recommends this approach.

There are a number of reasons why the inclusion of this metric would be ineffective, including no conclusive scientific evidence is available that the vaccine prevents an individual from carrying and spreading the virus. This is why, whether a care worker has been vaccinated or not, they are still required to wear full PPE and be subjected to regular COVID testing.

5. <u>Question by Councillor Philip Daniel to the Lead Member for Transport and Environment</u>

The problem of litter and debris on shoulders and verges of roads in the County seems to be getting worse. Other countries, such as the United States and France, manage to maintain clean verges and shoulders. While some main highways, such as the A27, are the responsibility of Highways England, other important roads a such as the A259 and A26 are the responsibility of the County. I understand that Districts and Boroughs are responsible for some aspects of the maintenance of shoulders and verges. Since the problem is now not only unsightly but probably also unsafe, will the Lead Member please explain how co-ordination, if any, between the County and the Districts or Boroughs on the maintenance of verges and shoulders is carried out?

Answer by the Lead Member for Transport and Environment

Street cleansing and litter picking is the responsibility of borough and district (local) councils under Section 89 of the Environmental Protection Act 1990 and is generally a function carried out by the local authority's waste collection service. In Wealden and Rother Districts and in Hastings Borough this falls to the Joint Waste Partnership contractor BIFFA, and the subject is regularly discussed at the Partnership Committee. In Lewes District and Eastbourne Borough the service is carried out by in-house teams.

A small number of roads in this county; namely the A27 between Falmer and Polegate, A26 south of Lewes, and parts of the A259 are trunk roads and whilst street cleansing of these falls to the local authorities, ESCC has no jurisdiction over trunk roads. Elsewhere in the county maintenance activities carried out by East Sussex Highways and street cleansing / litter picking on those faster roads like the A22 Hailsham bypass is planned and coordinated.

Across the rest of the county, where maintenance priorities may differ, the county council's maintenance contractor publishes its grass verge cutting and weed control programmes and share these with borough and district councils, and there is regular engagement between officers and contractors. By way of examples; officers from

Lewes District Council are in dialogue with the County Council's maintenance contractor about litter picking in certain parts of the town in advance of grass cutting and weed spraying. And the Joint Waste Partnership's contractor BIFFA is similarly in dialogue with the County Council's maintenance contractor about coordinating its activities.

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