

PENSION BOARD

MINUTES of a meeting of the Pension Board held at County Hall, Lewes on 5 November 2018.

PRESENT Richard Harbord (Chair), Councillor Kevin Allen,
Angie Embury, Rezia Amin, Sue McHugh, Diana Pogson and
Councillor Brian Redman

ALSO PRESENT Councillor Richard Stogdon, Chair of Pension Committee
Ian Gutsell, Chief Finance Officer
Ola Owolabi, Head of Pensions
Wendy Neller, Pensions Strategy and Governance Manager
Brian Smith, Head of Business Operations
Michael Mann, Lead Pensions Manager
Danny Simpson, Principal Auditor
Russell Wood, Principal Pensions Officer
Harvey Winder, Democratic Services Officer

15 MINUTES

15.1 The minutes of the previous meeting were agreed as a correct record.

15.2 The Board thanked Brian Smith for his service over the past few years and welcomed Michael Mann as the new Lead Pensions Manager.

16 APOLOGIES FOR ABSENCE

16.1 There were no apologies for absence.

17 DISCLOSURE OF INTERESTS

17.1 There were no disclosures of interest.

18 URGENT ITEMS

18.1 There were no urgent items.

19 PENSION COMMITTEE AGENDA

19.1. The Board considered the draft agenda of the Pension Committee's next meeting.

19.2. Ola Owolabi (OO) explained that all of the reports being considered by the Committee were also being considered by the Board later on its agenda.

19.3. The Board RESOLVED to note the report.

20 RESPONSIBLE INVESTMENT POLICY

20.1. The Board considered a report on the proposed Responsible Investment Policy for the East Sussex Pension Fund (ESPF).

20.2. The Board agreed to discuss this item and item 7 at the same time due to the similarities of the issues in the reports.

20.3. The Board RESOLVED to endorse the Responsible Investment Policy.

21 FINANCIAL REPORTING COUNCIL - UK STEWARDSHIP CODE

21.1. The Board considered a report on the proposal to publish a statement regarding the Fund's compliance with the Financial Reporting Council's UK Stewardship Code.

21.2. Diana Pogson (DP) asked why the draft ESPF UK Stewardship Code Statement contained relatively few references to the ACCESS pool, of which ESPF is a member. OO explained that whilst ESPF is a member of ACCESS, stewardship codes apply only to individual Local Government Pension Schemes (LGPS) – as they are the legal administrative authorities – and not to ACCESS pool as a whole. He added that three of the 11 ACCESS pool members are planning to adopt a stewardship code, including the ESPF.

21.3. Angie Embury (AE) asked how ESPF can ensure that it is a responsible and engaged corporate owner, as is required in the stewardship code, if the rest of the ACCESS pool is not signed up to a similar code. OO explained that the decision regarding asset allocation remains with individual Funds and not with ACCESS. This means that whatever the ESPF agrees it wishes to invest in, it will be down to the ACCESS pool operator (in consultation with the ESPF) to find a suitable investment manager with whom the Fund can invest.

21.4. Councillor Kevin Allen (KA) welcomed the Responsible Investment Policy and in particular its core principle to “evaluate and manage carbon exposure in order to mitigate risks to the Fund from climate change”. He agreed that personal engagement as a shareholder may get companies such as Shell to deal with bad publicity around poor governance or one-off incidents, but expressed scepticism – which he expected others would share – whether it would have the effect of fundamentally moving the company away from its core business of fossil fuel extraction. OO said that the fund works collectively with the Local Authority Pension Fund Forum (LAPFF) to have an impact on certain companies. Councillor Richard Stogdon (RS) added that if pension funds did not engage companies through the LAPFF as shared holders then who would.

21.5. AE asked whether there is a requirement that the eight pooled funds, including ACCESS, reduce their carbon footprint. The Chair said that the approach to addressing carbon exposure is retained by the 89 individual funds and they may choose how to address the issue. OO added that it is a requirement under the Local Government Pension Scheme Regulations 2016, that the Pension Fund Investment Strategy Statement (ISS) include a policy on how social, environmental or corporate governance considerations are taken into account; in the selection, non-selection, retention and realisation of investments. .

21.6. Sue McHugh (SM) observed that it made sense for members of ACCESS to pool assets in order to achieve efficiencies. However, the more divergent individual funds were in their approach to ESG matters, the more sub-funds would need to be created and the less economies of scale would be realised. She said it would therefore be worth working towards having all 11 members of ACCESS adopting a responsible investment policy like the one ESPF may adopt. OO said that ACCESS members have agreed common policies on other issues such as stock lending and in the long term will be working towards a common ESG policy.

21.7. The Chair observed that it was particularly vital that the Fund had strong policies around corporate governance as it plays a very important role in helping to choose wise investments,

for example, there is a tendency for companies in some parts of the world with weak corporate governance to offer high returns to tempt investors and the Fund should have clear policies to avoid such high risk investments. He said that LAPFF could help to improve corporate governance by encouraging LGPS to vote on pay and remuneration.

21.8. The Board RESOLVED to endorse the adoption of the UK Stewardship Code Statement.

22 INTERNAL AUDIT REPORT - PENSION ADMINISTRATION

22.1. The Board considered a report on the outcome of Internal Audit's audit of Pension Fund Processes and Systems 2018/19.

22.2. The Chair said that the issue of Membership Data Cleansing is one that the Board has discussed before as being of high importance due to it being a requirement of the Pensions Regulator. He said it is of concern that it is an outstanding area for Business Operations to address.

22.3. The Chair asked why the annual schedule of tasks was not developed for 2018 despite requests from the council. He noted that the lack of a schedule did not look good in the context of the missed statutory deadlines for the annual benefits statements. Danny Simpson (DS) confirmed that Internal Audit expected to see the 2019 schedule in place by the start of the next calendar year.

22.4. The Chair recognised that the lack of an annual schedule may be a minor audit issue but was a major issue for the Pension Board given its role in assisting with the management of the pension administration. He also asked whether the annual schedule for 2019 would be developed by 31 December. Brian Smith (BS) said that he believed it would be.

22.5. BS clarified that the statutory deadline for data cleansing exercise for the purpose of the Triennial Valuation was March 2019 and this was different to the deadline agreed between management and Internal Audit of 31 December 2018.

22.6. AE asked whether Internal Audit's deadline for changes to the record keeping of common data items by 12 October had been met. BS confirmed that he would check, but that in any event the 6 November deadline for submitting the annual scheme return to the Pensions Regulator – which includes common data set data – had been met.

22.7. Ian Gutsell (IG) clarified that this report was signed off on 22 August and that, given its audit score, Internal Audit would not have gone back to review progress towards any of the target implementation dates – which usually only happens with 'three-star' agreed actions, or for a report with a 'no' or 'partial' assurance opinion.

22.8. The Board RESOLVED to:

1) note the report;

2) request a report by Business Operations providing an update on the progress against the Internal Audit agreed actions and implementation dates for Membership Data Cleansing, Record Keeping, the Annual Schedules and Annual Review of System Access.

23 GUARANTEED MINIMUM PENSION (GMP) RECONCILIATION PROJECT UPDATE

23.1. The Board considered a report on the progress of the Guaranteed Minimum Pension (GMP) Reconciliation programme and a presentation from Steve Jones (SJ), Senior Manager, and Jane Garton (JG), Project Manager – Data Assurance Services, of JLT.

23.2. Michael Mann (MM) clarified that the contract for the final phase of GMP reconciliation was awarded to JLT in April but contracts were not signed until August. This was due to delays caused by General Data Protection Regulations (GDPR) issues around sharing sensitive data with third parties. JG acknowledged that JLT started the process late but is putting all available resources into resolving the queries, which comprised 12-15 staff who were working on weekends.

23.3. MM clarified that the 31 October deadline for submission of queries to HMRC was for queries that would be reviewed manually by an HMRC employee and that automatic queries would be accepted up to 21 December. MM advised that the actual number of over and underpayments of ESPF members' pensions and the total liability to the Fund would not be known until all queries had been processed by HMRC, which is unlikely to be before Quarter 1 of the 19/20 financial year.

23.4. The Chair said the four-month delay in agreeing the contract with JLT could prove costly and observed that other administering authorities had not suffered delays in commencing the final phase due to GDPR issues. The Chair said it was likely that HMRC would end up delaying responses to administering authorities due to the volume of work they are facing. This was not a concern for the Board, however, but the timely submission of all queries by 21 December was, especially given the concerns raised about the process over the past three years by the Board and Committee, and the delay in signing contracts with JLT until August. Cllr Brian Redman (BR) added that it was disappointing that the Board still did not know about the Fund's potential liabilities despite asking for them for 3 years.

23.5. JG explained that in order to remove a liability from the Fund's balance sheet where records do not match those held by HMRC, JLT must provide evidence to HMRC that an individual transferred out of the East Sussex pension scheme and moved on to a different scheme, e.g., that of a London Borough council. If evidence of this transfer cannot be provided by JLT then HMRC will not move the liability and it will remain with the ESPF, even if the ESPF records show the scheme member moved on. JLT will spend the remaining period from now and 21 December reviewing, matching and querying with HMRC either membership queries (where either HMRC has a record that the Fund should be holding GMP benefits and the fund doesn't, or HMRC doesn't have a record of GMP benefits that the fund is holding), or queries where both have a record of a GMP liability but the differences in the value of GMP between the records held by HMRC and the Fund are greater than the £2 tolerance level. The presentation quoted 18,383 outstanding queries with 8,926 having been submitted to HMRC by 31 October and 9,459 remaining to be investigated by JLT and submitted to HMRC before the deadline of 21 December. As at the time of the meeting the number had come down to 17,552.

23.6. SM asked whether the automated process could result in any controversial queries not being resolved by the end of the process. MM said that it would not be known if a query had failed the automatic process until the very end when JLT hears back from HMRC, but the automated process has been continuously improved over the past three years. Nevertheless, he expected that there will be a small cohort of cases that will not be resolved for each administering authority. HMRC is likely to need to consider whether dedicating clerical resource to them, or administering authorities will need to decide whether to bear the cost of the liability of these individuals. JG added that some queries will not be submitted to HMRC by December as there will not be enough detail about the individual to do so. Administering authorities will need to make a decision whether to accept the liability for these individuals as well.

23.7. AE asked whether ESPF members are aware of the potential impact the process could have on their state pension. MM said that until the process is complete and all discrepancies are

reconciled with HMRC it will not be clear who will be effected and by how much. This will determine what needs to be communicated to Members. DP said that most people do not realise the relationship between their public and private pension resulting from contracting out until they look at the HMRC website to see their eligibility for the full flat-rate state pension; she did not believe it worthwhile to confuse the situation until more is known. JG confirmed that HMRC has not done any advertising about potential liabilities. JLT will advise the Board about its own communications plans once it has a clear idea from HMRC about the extent of the Fund's liabilities in the new year.

23.8. The Board RESOLVED to:

- 1) note the report;
- 2) request that the report on GMP going to Pension Committee is circulated to the Board; and
- 3) request a further update following the end of the December deadline for submissions to HMRC.

24 ANNUAL BENEFIT STATEMENT BREACH

24.1. The Board considered a report providing a summary of the circumstances which led to a breach of the deadline for issuing Annual Benefit Statements (ABS).

24.2. KA asked why the breach of the deadline for issuing the ABS was being blamed on an individual member of the team. BS explained that management took responsibility for the plan which involved switching ABS production to East Sussex rather than Surrey, which left a single person to achieve the goal without sufficient supervision in place from Kingston. MM said that he believed that the issue would not happen in future years.

24.3. SM asked whether the breach of the ABS demonstrated to Internal Audit that there were issues with the control environment for the pension administration team. DS said that Internal Audit had looked at the ABS internal control environment at the time of its recent audit of pension administration and noted slippage in the plan, but had not raised a formal action in the report (though it was noted) as management was working to a revised plan which appeared to be on course.

24.4. The Chair expressed concern that the ABS deadline was breached despite the concern the Board expressed earlier in the year and the reassurance that officers gave through monthly updates leading up to the 31 August deadline. He said that this meant that there was a gap in the credibility of what was being said during the year and the eventual outcome. He hoped that a breach would not occur again as many other administering authorities were able to avoid breaching the deadline, whereas the ESPF had done so now for the previous four years in a row.

24.5. The Chair asked whether officers planned to write to Gildredge House Free School to highlight its role in the breach of the ABS deadline and potential fine from the Pensions Regulator it could have incurred on the Fund.

24.6. OO said that the Pensions Regulator has confirmed that no fine or further action will be taken against the ESPF for the breach caused by Gildredge House.

24.7. The Board RESOLVED to note the report.

25 OFFICERS' REPORT - BUSINESS OPERATIONS

25.1. The Board considered a report providing an update on the services provided to the Fund by Orbis Business Operations.

25.2. The Chair commented that if it had not been for the ABS breach the Business Operations team would have not failed to meet all of its key performance indicators (KPIs) for September, which will have had a demonstrable effect on fund members.

25.3. The Chair suggested that given the complexity of Annual Allowance Statements that when they are sent to members they are accompanied by an explanatory document. BS agreed that this could be provided next year.

25.4. AE asked where the request for an employee presentation at Brighton & Hove City Council (BHCC) had come from and how invites had been disseminated to employees. BS said that he believed the request was made by the council's Human Resources Team and that it had been left to them to send invitations to employees. He added that he would send the details to Board members and inform them as a matter of course of future events.

25.5. The Board RESOLVED to:

1) note the report;

2) request that officers send invitations to Board Members to attend future employee presentations.

26 OFFICERS' REPORT - GENERAL UPDATE

26.1. The Board considered a general update on matters related to the Board's activity.

26.2. The Board RESOLVED to note the report.

27 PENSION FUND - RISK REGISTER

27.1. The Board considered a report providing an update on the Pension Fund's risk register.

27.2. DP asked why some post mitigation risk scores were higher than the pre-mitigation scores. OO said that the risk score calculations would be reviewed.

27.3. The Board RESOLVED to note the report.

28 FORWARD PLAN

28.1. The Board considered the latest version of its forward plan.

28.2. The Chair said that there should be another discussion either at a training event or board meeting about the Pension Administration KPIs.

28.3. BR asked how the Board can influence the pension fund administration process. RS confirmed that the Committee, as the scheme manager, considered the Board's minutes at each meeting and he welcomed any recommendations that the Board may wish to make to the Committee.

28.4. AE agreed to check with Unison about rumours that the Pension Scheme Advisory Board was planning to recommend that the scheme manager role was removed from local authority control.

28.5. The Board RESOLVED to:

- 1) note the report;
- 2) request that information about how the administration of the pension scheme works is circulated to the Board.
- 3) request a future report on potential recommendations from the Pensions Scheme Advisory Board that the scheme manager role is removed from local authority control.

29 EXCLUSION OF THE PUBLIC AND PRESS

29.1 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).

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

30.1 The Board considered a report providing an update on activities undertaken by the ACCESS pool.

30.2 The Board RESOLVED to note the report.

31 PENSION EMPLOYERS UPDATE

31.1 The Board considered a report providing an update on participating employer pension issues.

31.2 The Board RESOLVED to note the report.

The meeting ended at 12.35 pm.

Richard Harbord
Chair