

PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at Council Chamber, County Hall, Lewes on 17 June 2022.

PRESENT Councillors Gerard Fox (Chair) Councillors Ian Hollidge,
Paul Redstone, David Tutt and Georgia Taylor

ALSO PRESENT Ian Gutsell, Chief Finance Officer
Sian Kunert, Head of Pensions
Michael Burton, Pensions Manager - Governance and
Compliance
Tim Hillman, Pensions Manager - Employer Engagement
Paul Punter, Head of Pensions Administration
Russell Wood, Pensions Manager: Investment and
Accounting
Danny Simpson, Principal Auditor
William Bourne, Independent Adviser to the Pension
Committee
Paul Linfield, Pensions Communications Manager
Dave Kellond, Compliance and Local Improvement Partner
Mya Khine, Pensions Accountant
Dillon Piggott, CIPFA Trainee
Bekki Freeman, Solicitor
Martin Jenks, Senior Scrutiny Advisor
Thea Synnestvedt, Governance and Democracy Officer

Councillor Nick Bennett (items 1 – 10)

1. MINUTES

- 1.1 The Committee noted that a discussion would take place at the Pension Committee meeting on the 20 of July regarding the East Sussex Pension Fund's (ESPF or The Fund) investment in companies that have activities within the Palestinian Territories Occupied by Israel, as Cllr Tutt advised a number of Councillors had been contacted by Larry Holden regarding this issue.
- 1.2 William Bourne proposed a correction to the minutes of the previous meeting under point 80.2 to amend the second action for consideration under the inflation report to increase investment in broader mandates as opposed to diversified growth funds.
- 1.3 Cllr Taylor confirmed that information regarding Dr Quigley's research had been sent to officers for their consideration regarding future training items.
- 1.4 The Committee RESOLVED to agree the minutes of the meeting held on 24 February 2022 as a correct record.

2. APOLOGIES FOR ABSENCE

2.1 There were no apologies for absence.

3. DISCLOSURE OF INTERESTS

3.1 Councillor Tutt declared a personal, non-prejudicial interest under item 20, Employer Admissions and Cessations, with regards to Eastbourne Leisure Trust, as the Leader of Eastbourne Borough Council and a non-executive Director of iESE.

3.2 Councillor Redstone declared a personal, non-prejudicial interest that he had recently been appointed to the Pension Board of the East Sussex Fire and Rescue Service.

4. URGENT ITEMS

4.1 There were no urgent items.

5. PENSION BOARD MINUTES

5.1 The Committee RESOLVED to note the minutes of the Pension Board on the 27 May 2022.

6. ANNUAL REPORT OF THE PENSION BOARD

6.1. The Committee considered a report covering the work completed in year by the Pension Board. Sian Kunert, Head of Pensions introduced the report, noting that the paper would also be included in the annual report on accounts.

6.2 The Committee RESOLVED to note the report.

7. GOVERNANCE REPORT

7.1 Michael Burton, Pensions Manager - Governance and Compliance, introduced the report, updating the Committee that the revised Governance and Compliance Statement was similar to the statement produced the year before, with a couple of additions including to make the comments around the Pension Committee closer to the terms of reference; and the inclusion of the Compliance Statement table.

7.2 The Committee considered the report and fed back that it would be helpful to include a more detailed organisational structural chart; and to include further detail regarding the membership of the Pension Committee. It was noted that further details relating to Governance of the Fund would be included in the Governance Matrix due to be reported to the Pension Committee in September.

7.3 The Committee RESOLVED to:

- approve the revised Governance and Compliance Statement (Appendix 1); and
- note the updates in the report.

8. EMPLOYER ENGAGEMENT AND CONTRIBUTIONS REPORT

8.1 The Committee considered the report providing updates on Employer Engagement activities including the progress of the i-connect project and the Annual Benefit Statements (ABS). The Committee's discussion included the following areas:

- The Committee asked whether there were any employers unlikely to be onboarded onto the i-connect system end of the financial year. Tim Hillman, Pensions Manager - Employer Engagement, fed back that officers were confident that all employers would be onboarded before the end of the financial year and that further updates would be provided before then.
- The Committee asked whether there were any measures available on the error rate of the Pension Dashboard's mechanism used for matching. Officers responded that data was cleansed on a monthly basis through the i-connect project. The Pension Regulator (tPR) Common data had a score of 96.3% and the conditional data score was 95.76%, so data quality was perceived to be of a high quality. Pension Dashboard were working with suppliers regarding onboarding and working closely with Heywoods. Further communications would be shared regarding the process next year, but no major problems were anticipated for this project.
- The Committee discussed the patterns relating to late payments by employers. It was noted that generally, no particular employer had repeatedly submitted late payments. Late payments were typically a couple of days to maximum a week late. One employer had been warned and charged an administration fee regarding repeated late payments, but this was understood to be caused by the employer having recently gone through payroll and staff changes.

8.2. The Committee RESOLVED to note the report.

9. COMMUNICATIONS REPORT

9.1 The Committee considered the report to inform the Pension Committee of the changes for the 2022 Communication Strategy and activity since the previous meeting. The Committee suggested amendments to the revised policy including:

- to remove members of the public and other cohorts not directly linked to the scheme from the list of stakeholders outlined on page 3 of the Communication Strategy;
- to consolidate the aims and objectives set out on page 14 of the Communication Strategy; and
- the Committee requested that the employer and active member newsletters to be shared with the Committee for information following the meeting.

9.2 The Committee discussed the recent surveys and noted the low completion rate by employers. Officers fed back that newsletter and surveys had recently started using a different technological solution which would hopefully improve engagement. Engagement from the member survey had been significantly higher, with over one thousand responses

9.3 It was noted that the surveys would be a helpful tool to identify where further explanation may be required in order to get insightful input from scheme members; and develop communications to explain investments and climate change in an accessible way. Input from scheme members would be a valuable asset to the Fund but it was noted that ultimately, the administering authority has a fiduciary duty to all scheme members and so, investment advisors and officers had final responsibility to ensure investment decisions deliver benefits as laid out in statute.

9.4 The Head of Pensions fed back that Committee Members were welcome to join the communication working group.

9.5 The Committee RESOLVED to note the report and approve the communication strategy.

10. PENSIONS ADMINISTRATION REPORT

10.1 The Committee considered a report providing an update on matters relating to Pensions Administration activities.

10.2 The Committee welcomed the report and noted the improved Key Performance Indicators (KPIs) since previous years. The discussion covered the following areas:

- The Committee noted the current recruitment problems within the industry. Paul Punter, Head of Pensions Administration updated the Committee that the unchanged 9 vacancies mentioned in the report were due to a focus on the existing team, ensuring that all new staff were offered an East Sussex County Council (ESCC) contract and pay at the appropriate level. This project was recently completed, and work had commenced to update job descriptions for vacancies within the team, seeking both internal and external candidates. A number of job descriptions had been approved by Human Resources.
- The Committee discussed the telephone helpdesk noting that currently, there were no mechanism for officers to arrange a call-back if unable to answer the phone. Officers were looking into improving the technology used, including adopting the use of robotics in the telephone service. It would be particularly useful for callers to be informed of their number in the queue to limit people ending the call before reaching the call handler. Information were still being handled manually by the call handler, but it was noted that this was a wider organisational issue.
- The telephone survey results were incomplete, and an amended version would be circulated to the Committee following the meeting.
- The Committee discussed the ABSs and the risk that Brighton and Hove City Council (B&HCC) would not be onboarded in time, meaning scheme members of the employer would not receive their ABSs. The risk remained amber but would be amended and reported to the Pensions Regulator if B&HCC were unable to provide complete and timely data for this year's statutory letters. Following the Chair of the Pension Committee's letter to the employer, a response had been received indicating that senior management of the employer organisation were supportive and understanding of the situation.
- Paul Punter updated the Committee that the GMP rectification project was held up due to the April 2022 pension increases. An extract of the pensioners data was required, and it was likely that the project would miss the implementation date, with the rectification now likely to be implemented end of December. As long as implemented ahead of the next pension increase it was unlikely that the delay would cause any significant issues.

10.3 The Committee RESOLVED to note the report.

11. INTERNAL AUDIT REPORTS

11.1 The Committee considered a report by the Chief Internal Auditor outlining the results of two internal audits completed since the last meeting.

11.2 The Committee discussed the action planned regarding trimming down the spreadsheet used to record the transfer amounts due and received to two years, and the potential GDPR risks of the proposed action. Paul Punter reassured the Committee that this would not increase GDPR risks and fed back that work was progressing to request that records are extended further back in order to process requests from scheme members relating to historical data.

11.3 The Committee RESOLVED to note the following Internal Audit reports:

- Pension Fund Investments 2021/22 (Appendix 1); and
- Pension Administration – People, Process and Systems 2021/22 (Appendix 2).

12. EXTERNAL AUDIT PLAN FOR THE EAST SUSSEX PENSION FUND 2021/22

12.1 The Committee Considered a report on the content of the East Sussex Pension Fund external audit plan for 2021/22. Russell Wood, Pensions Manager - Investment and Accounting, introduced the report outlining the risks requiring audit consideration.

12.2 The Committee discussed the assessment of future risk, such as climate related factors and how this could be accounted for in future evaluations and data analysis. Grant Thornton is not currently completing assessments regarding future risk factors, however, the audit sector is aware of the gap and recognise the need for further evaluations on what audit will need to cover in future. Although officers were not currently able to incorporate such level of detail into evaluations, the lack of assessments of future risks would be highlighted in the accounts as an area of uncertainty in asset valuation.

12.3 Atlas Infrastructure worked on assessing specific risks associated with revenue streams, with a particular focus on climate change. Officers were due to meet with Atlas in September and were working to showcase some of the Fund's managers on the website. This would likely be a short video to showcase how decisions are taken and how risks are assessed ahead of adding an asset to the portfolio. It was agreed that officers would investigate opportunities for inviting Atlas Infrastructure or Pantheon to do a session with the Pension Committee to showcase their work on assessing climate specific risks and discuss how climate change is being included in valuation methodologies.

12.4 The Committee noted the increased audit fees. Increased audit fees remain a national matter and the Government have issued specific grant funding contributing towards the increased costs. If additional work is required, the proposed fee for 2021/22 would likely increase. The quote for the core fee was provided by the Public Sector Audit Appointments (PSAA) and could be challenged through the PSAA themselves as the final arbiters.

12.5 The Committee RESOLVED to note the report.

13. QUARTERLY BUDGET REPORT

13.1 The Committee considered a report by the Chief Finance Officer providing an update on the 2021/22 Financial Outturn position.

13.2 The Committee RESOLVED to note the report.

14. RISK REGISTER

14.1 The Head of Pensions introduced the report and provided an update on the ESPF risk register and highlighted the changes made since the last report.

14.2 The Committee discussed the risk register including:

- Ukraine - The Committee discussed the Ukrainian conflict and whether this should be included in the risk register. The Fund had limited exposure to the conflict and, after some discussion it was agreed that the broader risks were picked up under the risk of inflation. Investment managers are assessing the situation and utilising opportunities where possible, but as a specific risk it would be difficult to identify what mitigations to put in place.
- Environmental Social Governance (ESG) - the Committee asked for clarification on why corporate governance and corruption was reported within the ESG risk. The Head of Pensions clarified that corruption is a specific governance risk for all underlying companies and managers will assess labour standards and the risk of corruption when investing in geographies and companies, such as identifying areas where corruption is more prominent.
- Climate Change –
 - The Committee queried the climate change risk regarding increased capital cost and the Head of Pensions agreed that the risk was unclear and would be amended.
 - The Fund had an underrepresentation of fossil fuel companies as well as a disproportionate exposure to growth funds. There was a risk therefore, that this would result in loss of investment/underperformance due to the energy sector being one of the highest performing sectors as seen in previous months. All managers investing away from energy had underperformed, but it was noted that this would not necessarily be the case going forward. Diversification of investments remained the key strategy.
 - The Committee discussed engagement with partners regarding ESG priorities. The Fund engaged directly with managers, for example through The Institutional Investors Group on Climate Change (IIGCC), whom has a collaborative climate change engagement programme, as well as via the ACCESS pool. The Chair updated the Committee that he is the current ESG spokesperson for the ACCESS pool, whose documents correlate closely with the ESPF. Most local authorities were aligned regarding ESG priorities, but as the only Fund investing in climate solutions, the ESPF were working to request that these assets be approved by ACCESS as part of the pooling environment.
 - MBOS - The Committee agreed to update the risks relating to MBOS to focus specifically on risks related to the ESPF.
 - Cyber Security - The Committee agreed to include further mitigations on the risk of Cyber Security regarding the ESPF's ability to recover from bare metal ransomware such as highlighting that bare metal restore capabilities are in place. The Head of Pensions updated the Committee that the cyber security project was currently ongoing.

14.3 It was agreed that Committee Members would share further questions and comments with officers following the meeting.

14.4 The Committee noted that in order to include a broader range of risks, the risk register could include risks with a set of adaptations rather than specific mitigations where specific mitigations cannot be determined, such as in the case of future climate change. However, it would be important to keep the risk register concise, and it was noted that officers would look to adopt a similar format to that being presented to the Audit Committee in future.

14.5 Given the inflation outlook, a training item would be included at the Pension Committee in July, covering the likely actuarial assumptions planned for the 2022 Triennial Actuarial Valuation.

14.6 The Committee RESOLVED to:

- approve the removal of Risk A4 - Risk on Dissolution of Business Operations from Orbis to ESCC;
- approve the removal of Risk A6 - Major Incident preventing staff access to office; and
- approve the increased risk rating of Risks I5 for Funding risk due to higher inflation and I10 - External Fraud.

15. TRAINING REPORT

15.1 Michael Burton provided an update on the delivery of the annual training plan and changes to the training strategy, noting that Mariana Obetzanova, Pensions Training Coordinator would be sending out invitations to attend further training on areas identified in the self-assessments.

15.2 Cllr Taylor confirmed that information regarding Dr Quigley's research had been sent to officers for their consideration. Officers confirmed that they would assess the training programme to identify gaps and contact Dr Quigley if appropriate.

15.3 The Committee RESOLVED to:

- note the progress being made against the training plan; and
- approve the changes to the training strategy.

16. WORK PROGRAMME

16.1 The Committee considered a report on the Committee's work programme.

16.2 The Head of Pensions updated the Committee that the stewardship code submission and a carbon footprinting report, produced by the Fund managers, would be reported to the Committee in July. Moody's, the independent carbon footprinting provider would not be presenting the report on carbon footprinting at the upcoming meeting.

16.3 The Committee fed back that it would be useful to have updated information on the following areas:

- The Task Force on Climate-Related Financial Disclosure (TCFD) to highlight where the Fund feels there are inconsistencies. The Head of Pension updated the Committee that a report would be taken to the Committee in September on the TCFD.
- The implementation of the Pension Dashboard. Officers would look into rolling out information on Pension Dashboards, likely via training routes.
- Assets invested in companies extracting fossil fuels. Officers were working on pulling together information which would be reported to the Committee once finalised.

16.4 The Committee were encouraged to inform officers when having completed training or attended relevant events.

16.5 The Committee RESOLVED to:

- agree the changes to the work plan standing items; and
- note the work programme.

17. EXCLUSION OF THE PUBLIC AND PRESS

The Committee 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).

18. BREACHES LOG

18.1 The Committee considered a report providing an update on the Fund's Breaches Log.

18.2 A summary of the discussion is set out in an exempt minute.

18.3 The Committee RESOLVED to agree the recommendations as set out in the report.

19. EMPLOYER ADMISSIONS AND CESSATIONS

19.1 The Committee considered an update on the latest admissions and cessations of employers within the Fund.

19.2 A summary of the discussion is set out in an exempt minute.

19.3 The Committee RESOLVED to agree the recommendations set out in the report.

The meeting ended at 1.10 pm.

Councillor Gerard Fox (Chair)