

PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at Council Chamber, County Hall, Lewes on 22 February 2023.

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

ALSO PRESENT Ian Gutsell, Chief Finance Officer
Sian Kunert, Head of Pensions
Russell Wood, Pensions Manager: Investment and Accounting
William Bourne, Independent Adviser to the Pension
Committee
Andrew Singh, ISIO
Barry McKay, Barnett Waddingham
Paul Punter, Head of Pensions Administration
Michael Burton, Pensions Manager: Governance and
Compliance
Mya Khine, Pensions Accountant
Bekki Freeman, Solicitor
Councillor Nick Bennett
Ray Martin, Chair of the Pension Board
Georgina Seligmann, Governance and Democracy Manager

50. MINUTES OF THE MEETING HELD ON 30 NOVEMBER 2022

50.1 The Committee RESOLVED to agree the minutes of the meeting held on 30 November 2022 as a correct record.

51. APOLOGIES FOR ABSENCE

51.1 Cllr Georgia Taylor attended remotely as a participant.

52. DISCLOSURE OF INTERESTS

52.1 The Committee noted that Cllr David Tutt is a District and Borough Councillor for Eastbourne, trustee of Southfields Academy Trust (part of the ESPF).

52.2 The Committee noted that Cllr Redstone is a member of the Fire Authority.

53. PENSION BOARD MINUTES

54.1 The Committee noted the Pension Board notes from the discussion held on 07 February 2023.

54. VALUATION REPORT AND RESULTS AND FUNDING STRATEGY STATEMENT

54.1 The Committee considered the reports introduced by Barry McKay, Barnett Waddingham and NOTED the following:

- 1) The full valuation report is the conclusion of all information, discussion, methodology and the applied assumptions.
- 2) The Section 13 valuation is required by the Government Actuaries Department and its purpose is for all English and Welsh funds to be set with the same methodology so that comparators can be applied. The 138% Funding level on a SAB basis is reflective of the different assumption factors applied.
- 3) The Fund is in a very health position particularly in terms of the surplus, with a Funding level of 123%.
- 4) The approach to amending cessation payments needs to be agreed and will depend on how gilt yields perform, the new methodology will be fairer and more consistent with prudence built in.
- 5) The climate risk report is a new requirement for the LGPS valuation process and needs more data and analysis as this area develops. The 3 year time period of the valuation is very short in terms of pensions so climate risk is unlikely to change contribution rates in the short term. The fund has a 20 year forward view so longer term concerns will not necessarily be reflected in the valuation. Further work is being undertaken on assessing the impact of Climate related risk on financial assets.
- 6) There have been some changes made to the Funding Strategy Statement compared to the 2019 statement including a new methodology due to the change in Fund actuary, revised assumptions and the introduction of the Academy Pool for contribution rate setting.

54.2 The Committee RESOLVED to:

- 1) Approve the draft 2022 Valuation report (Appendix 1)
- 2) Approve the revised Funding Strategy Statement (Appendix 2)
- 3) Approve the draft Contribution review policy for consultation (Appendix 3)
- 4) Approve the draft Deferred Debt and Debt Spreading Agreement policies for consultation (Appendix 4)

55. GOVERNANCE REPORT

55.1 The Committee considered a report introduced by Michael Burton who drew the Committee's attention to the following points:

- 1) Governance updates, a further consultation has taken around the annual revaluation date proposal to move from the 1st to 6th April, the Funds response is currently in draft and once issued will be shared with the Committee and the Pension Board. The timelines are very short with a two week consultation window.

- 2) Following Stephen Osbourne's departure, it is hoped that a new employer representative recommendation will be made to the Governance Committee in April to join the Pension Board.
- 3) GMB have been asked to propose a replacement for Nicoletta Palermo and a name has not yet been put forward, the wider membership will be asked if no recommendation from GMB.
- 4) There are District and Borough elections and Brighton and Hove City Council will be holding elections in May which will impact Board membership as the current representatives are standing down. Senior officers can be appointed as well as councillors which would increase continuity.
- 5) Applications have been received for the post of Chair of Pension Board.
- 6) Costs will be introduced to employers for processing multiple early retirement form enquiries. Officers are reviewing whether this is general practice in the wider market and the Committee noted that some Funds do charge for the work undertaken by their administration teams. A number of Local Authorities are looking into this and as part of the drive towards self service, there are online tools provided for free to members and employers.
- 7) More detail has been added to the Administering authority discretions against current processes following a request from the Pension Board.
- 8) The Pension Administration Strategy requires a review every three years and the draft report will go out to employers for consultation. Significant reformatting was required in order to meet accessibility requirements which means it is harder to provide track changes, the cover report therefore outlines the changes to the strategy for ease of reference.

55.2 The Pension Committee RESOLVED to:

- 1) Note the updates
- 2) Approve the updated Administering Authority Discretions policy
- 3) Approve the draft Pensions Administration Strategy for consultation with employers

56. PENSIONS ADMINISTRATION REPORT

56.1 The Committee considered a report providing an update on matters relating to Pensions Administration activities led by Paul Punter, Head of Pensions Administration who drew the Committee's attention to the following points:

- 1) The administration team met its 95% target for performance and the Helpdesk also performed well against KPIs.

- 2) Two additional appendices were shared; one relates to benchmarking to KPIs compared against the Local Authorities in the region. Overall ESPF's targets are shorter and more stretching and should offer reassurance to the Committee that excellent service is sought for members. Another appendices relates to recruitment which outlines that only two open vacancies remain.
- 3) Project progress is detailed within the report. Pension increases for this year are significant due to the CPI increase of 10.1%
- 4) Data was received late for BHCC members however at least 95% of active member annual benefit statements were issued.
- 5) There is significant automation through the Heywoods software, all processes are being reviewed and where there are simple tasks with limited touchpoints the aim is to use robotics for those processes. The intention is not to cut jobs but to free up staff for more complex tasks and resolve queries from members, the help desk will not change but the intention is to add capacity through robotics if possible.
- 6) Data quality is tracked as required by the regulator, there is a live tool on the system so analysis can be undertaken into any discrepancies, the data is currently at about 95% which was also checked by the Actuary as part of the triennial valuation. There will be further changes required with the implementation of the national dashboard, where training will be provided to the Committee.

56.2 The Committee RESOLVED to note the report.

57. INTERNAL AUDIT REPORTS

57.1 The Committee considered the Internal Audit Report introduced by Danny Simpson, Principal Auditor and noted that the following points:

- 1) There were two low risk findings from the i-Connect IT Application Audit and therefore reasonable assurance given.

57.2 The Committee RESOLVED to:

- 1) Note the i-Connect IT Application Audit report (Appendix 1); and
- 2) approve the 2023/24 Internal Audit Strategy for Pensions and Annual Plan (Appendix 2).

58. BUSINESS PLAN AND 2023/24 BUDGET AND QUARTER 3 BUDGET REPORT

58.1 The Committee considered a report on the 2022/23 Q3 forecast financial outturn position and the Business Plan and Budget for 2023/24 introduced by Russell Wood, Pensions Manager, who drew attention to the following points:

Full cost outturn

- 1) There is a reduction due to staff vacancies not being filled as early as anticipated and on investment related items due market conditions

Business plan and budget

- 2) Investment manager fees have removed as they obscured the position and cannot be controlled by Committee.
- 3) There are increases to staffing costs based on the County Council's assumptions, one off IT costs and inflation increases on contracts. There is an allocation of £50k for the divestment report for the July strategy day. Additional spend items are partially offset by it being a non-valuation year.
- 4) Investment Fees are deducted from source by many of the Investment managers with only a handful directly invoicing and therefore the new reporting method is more transparent. The Budget categorisation has been changed to better reflect activities and figures reported in the Fund's financial statements. Overheads have also increased which are linked to the number of staff employed.

58.2 The Committee RESOLVED to:

- 1) Note the 2022/23 Q3 forecast financial outturn position

59. RISK REGISTER

59.1 The Committee considered the ESPF Risk Register and noted the following points:

- 1) The Governance risk has increased due to change over in board membership and related quoracy issues.
- 2) The Investment pooling risk has increased, a government consultation is still outstanding and there are two contracts associated with pooling which are adding to uncertainty.
- 3) The risk associated with employer data will be added to an exempt risk register ahead of the next meeting to reflect the increased concern of one employer.

59.2 The Committee RESOLVED to note the Pension Fund Risk Register

60. INVESTMENT REPORT

60.1 The Committee considered a report introduced by Russell Wood, Pensions Manager and Andrew Singh ISIO, who drew the Committee's attention to the following points:

- 1) The Investment work plan has focused on the divestment report, UK stewardship code submission which was successful with the report now published on website. The Committee congratulated officers on being listed as a signatory to the UK Stewardship Code which puts the ESPF ahead of many other Local Authority funds.
- 2) The new infrastructure investment through IFM is not in quarterly report as funding was allocated in early January 2023.
- 3) ACCESS have agreed their budget and business plan and is included in the appendices to the report.
- 4) Quarter 4 market conditions were more positive, UK equities performed strongly, there has been a bounce back following mini budget in October 2022 and stability returned to the bond market, and there was a slight drop in inflation.

- 5) It is a very difficult market for UK commercial properties, the position has improved from 6 months ago but still muted, so officers and advisers are closely watching for appropriate timing to reduce the property mandate to the revised strategic asset allocation target.
- 6) Since the last reported position, the valuation of the Fund has decreased from £4.502bn as at 30 September 2022 to £4.496bn as at 31 December 2022 (a decrease of £0.006bn). This performance reflects a negative absolute return of -0.1% in the quarter to December. The Fund marginally underperformed its benchmark in the period by -0.2%.
- 7) Despite negative returns over recent quarters, longer term returns at Fund level remain strong, with equity assets adding significant value over the last decade, and unhedged exposure also having benefited from the depreciation in Sterling.
- 8) Regarding the overall asset allocation position; property and private credit are underweight and there will be further discussion on private credit later in the year. The Schroders property fund, although posted a significantly negative absolute return over Q4 the portfolio outperformed the benchmark by 6% over the period. Some further price falls expected within the commercial property market before stabilisation later in the year. A discussion took place on valuation of the asset class where it was discussed that some information is not publicly listed, independent valuers will make their own assumptions and have different levels of prudence.
- 9) Longview and Atlas provided strong absolute returns (5.3% and 9.3% respectively) and relative returns to the benchmark (3.5% and 7.7%) for the quarter.
- 10) The Committee welcomed the asset allocation information
- 11) Regarding the performance of utility companies including water companies, as regulated utilities the Regulator has a role to moderate returns if they get too high, companies fall into two categories and the effective companies generate better returns
- 12) Regarding the Strategy re-test; following the shift in market regime to a higher interest rate environment over 2022, ISIO prepared a short paper on the potential opportunity within the Index-Linked Gilts market. The yield triggers to exploit this opportunity, should it occur again, have been agreed by the Committee. UBS are due to come back to Officers with a monitoring and implementation proposal for the allocation very soon.
- 13) ISIO will prepare a detailed paper on the broader strategic asset allocation of the Fund and the appropriateness in the current market environment, for the July strategy day.
- 14) The Committee will receive a full exempt report considering the legal and financial implications of divestment to consider for the strategy day in July and a public report will follow later in the year.
- 15) Regarding the Engagement report; this is published each quarter, ESG is considered for the entire Fund, sample examples are given within the published information each quarter covering a range of ESG topics. When timing allows, this information is appended to reports for Committee packs. The team meet with managers and engagement on ESG matters is a key part of the meeting.
- 16) It was confirmed that comments about the fiduciary duty of the fund were made in relation to divestment for non-financial reasons.

60.2 The Committee RESOLVED to note the investment report.

61. WORK PROGRAMME

61.1 The Committee considered its work programme.

61.2 The Committee RESOLVED to agree the work programme.

62. 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).

63. INVESTMENT REPORT

63.1 The Committee considered a report introduced by Russell Wood, Pensions Manager and Andrew Singh, ISIO.

63.2 The Committee RESOLVED to note the report.

64. GOVERNANCE REPORT

64.1 The Committee considered a report introduced by Michael Burton.

64.2 The Pension Committee RESOLVED to:

- 1) Note the updates
- 2) Approve the updated Administering Authority Discretions policy
- 3) Approve the draft Pensions Administration Strategy for consultation with employers

65. EAST SUSSEX PENSION FUND (ESPF) BREACHES LOG

65.1 The Committee received an update on the Breaches Log, introduced by Michael Burton, Pensions Manager, who provided an update on outstanding or new Internal Dispute Resolution Procedure (IDRP) cases.

65.2 The Committee RESOLVED to:

- 1) Note the breaches of law and steps being taken.
- 2) Note the new IDRP complaint raised and the offer to be made to resolve it.

66. EMPLOYER ADMISSIONS AND CESSATIONS

66.1 The Committee noted a report on the latest admissions and cessations of employers within the Fund.

66.2 The Committee RESOLVED to:

- 1) Note the ongoing proceedings for the admission of admitted bodies to the Fund.
- 2) Note the ongoing proceedings for the cessation of employers from the Fund.

Councillor Gerard Fox (Chair)