

PENSION BOARD

MINUTES of a meeting of the Pension Board held at County Hall, Lewes on 8 February 2018.

PRESENT Richard Harbord (Chair) Councillor Kevin Allen,
Angie Embury, 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
Brian Smith, Regional Operations Manager
Jason Bailey, Lead Pensions Manager
Wendy Neller, Pensions Strategy and Governance Manager
Nigel Chilcott, Senior Audit Manager
Nick Lee, Principal Auditor
Heidi Judd, Information Manager
Harvey Winder, Democratic Services Officer

43 MINUTES

43.1 The Board agreed the minutes as a correct record of the meeting held on 16 November 2017.

44 APOLOGIES FOR ABSENCE

44.1 It was noted that Bernadette Carlyle had resigned from the Pension Board. The Board thanked her for her contribution over the previous year and a half.

44.2 The Board was informed that Jason Bailey and John Shepherd would be leaving East Sussex County Council. The Board thanked them for their assistance.

44.3 The Board welcomed Diana Pogson as the new pensioner representative on the Board.

45 DISCLOSURE OF INTERESTS

45.1 There were no disclosures of interest.

46 URGENT ITEMS

46.1 There were no urgent items.

47 PENSION COMMITTEE AGENDA

47.1. The Board considered the Pension Committee's agenda, which included a report on the latest version of the Investment Strategy Statement (ISS).

47.2. Ola Owolabi (OO), Head of Pensions, explained that the Pension Committee is due to consider amendments to the Investment Strategy Statement (ISS) in relation to changes to its investment allocation and whether to embark on stock lending.

47.3. Councillor Brian Redman (BR) asked for clarification as to why UBS was charging the East Sussex Pension Fund (ESPF) £400k to transfer the passive investment funds from State Street and Legal & General. OO explained that as part of the ACCESS pool, 8 Local Government Pension Schemes (LGPS) funds, including the ESPF, agreed to transfer £10.5bn of passive investment funds to UBS and the transition fee for this asset transfer had apparently been waived. The Pension Committee, however, at its last meeting agreed to allocate 5% of its passive funds into a separate climate aware fund held by UBS in addition to other assets allocation, which has resulted in the proposed charge of £400k. OO said that officers and the Pension Committee would continue to challenge this cost, as are other local authorities within ACCESS.

47.4. The Pension Board agreed that there should be an attempt to waive the £400k transaction cost. The Chair said that officers should try to negotiate the cost in light of the considerable sum of passive investments being transferred to UBS, and the risk that there may be other attempts by investment managers to claw back the savings ACCESS will achieve by reducing fees through economy of scale.

47.5. Angie Embury (AE) asked for clarification whether it was a requirement to invest in climate aware funds. OO said that it was at the Pension Committee's discretion whether or not to invest but there were a number of advantages in doing so.

47.6. AE asked for confirmation whether the ESPF had any investments in Carillion. OO said he was not aware that there were but would speak with the investment consultant (Hymans Robertson) to confirm that this was the case.

47.7. The Chair asked for clarification as to why the Pension Committee was being asked to agree to undertake stock lending having not previously done so. OO explained that 8 of the 11 pension funds in the ACCESS pool already engaged in stock lending. This would mean that if ESPF were to stay out of stock lending it would need to create a separate sub-fund within ACCESS and pick up the cost of running it, rather than share the risk amongst the other 10 funds.

47.8. The Chair said that he hoped that the Committee would be satisfied that the income from stock lending would be greater than the cost of creating a sub-fund and sufficient to offset the risk of stock lending. He added that he hoped that any risks would be suitably minimised by the way ACCESS engages in stock lending, and that ESPF would retain a say in how it was run via the ACCESS Joint Committee.

47.9. OO assured the Board that following any decision by the Committee that the ESPF would engage in discussions with its investment consultants – Hymans Robertson – about the risks involved in stock lending. He said that there was no expectation to jump into stock lending from 1 April 2018 (when ACCESS formally begins) rather sometime within the next 18 months to two years. If the Committee agrees to amend its ISS now, the ESPF will be poised to enter stock lending once it is ready to do so.

47.10. The Chair observed that there had not been any scandals regarding stock lending in the past 25 years, and OO added that the process has become more highly regulated since the stock market crash in 2008.

47.11. Sue McHugh (SM) asked for clarification why the Committee agreed to target an increase in the percentage of the fund invested in infrastructure. OO explained that this will always be a local decision and was not entirely in response to any government mandate, but also in relation to a commitment of ACCESS to be ambitious in its investment in alternative investments. Hymans Robertson reviewed all alternative investments – such as property, private equity and infrastructure – and recommended an increase in infrastructure from 2-4%. He added that most funds believe that their infrastructure allocation will remain under 10% over the next 10 years as there are not sufficient opportunities available to make significant infrastructure investments.

47.12. Councillor Richard Stogdon (RS), Chair of the Pension Committee, welcomed input from the Pension Board.

47.13. The Board RESOLVED to note the report.

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

48.1. The Board considered a report providing an update on the ACCESS pooled fund.

48.2. OO said that an announcement was expected in the next two weeks confirming the appointment of an operator to manage the pooled investments of ACCESS.

48.3. The Chair explained that he had written to other Pension Board chairs in the ACCESS pool to agree a joint approach to requesting information from ACCESS to avoid ACCESS officers having to provide bespoke ways of presenting information to each board. Other chairs had been positive about the idea.

48.4. AE asked whether there will be union representation on the ACCESS Joint Committee as there is for the Brunel pooled fund. OO explained that union membership of the Joint Committee has been raised and discussed but no decision had yet been made. RS said that there was a difference between ACCESS and Brunel in so far as the latter was building its own operator and would therefore have direct control over it as the shareholders of the company. The Chair reminded the Board that it would still have the opportunity to influence the Committee and that the Committee would still decide which sub-funds ESPF funds were invested in.

48.5. The Board RESOLVED to note the report.

49 EXTERNAL AUDIT PLAN - EAST SUSSEX PENSION FUND

49.1. The Board considered a report on the External Audit Plan for the ESPF for 2018/19.

49.2. OO explained that the External Auditor's main focus for this year is on the valuation of hard to price investments, which it considers a risk to the ESPF. The Fund custodian (Nortner Trust) has been approached to produce a paper on private equity for this purpose.

49.3. The Chair asked how the price of the external audit was agreed. OO confirmed that it was the same figure as last year and that it was set by Public Sector Audit Appointments (PSAA).

49.4. SM asked whether internal or external auditors would be investigating the probity of the transition to ACCESS. Nick Lee (NL), Principal Auditor, confirmed that it is in the Internal Audit Plan for 2018/19 and would be conducted once ACCESS arrangements are in place after 1 April.

49.5. OO confirmed that 2017/8 audit would be the final audit conducted by KPMG. PSAA has confirmed the appointment of Grant Thornton (UK) LLP to audit the East Sussex Pension Fund annual report from 2018/19 to 2022/23.

49.6. The Board RESOLVED to note the report.

50 PENSION FUND GOVERNANCE AND INVESTMENTS - INTERNAL AUDIT REPORT

50.1. The Board considered a report about an Internal Audit report on Pension Fund Governance and Investments.

50.2. Nigel Chilcott (NC), Senior Audit Manager, explained that the Internal Audit Strategy 2017/18 and Annual Plan included planned audits of the ESPF in relation to Pensions Governance, Investments and External Control Assurance; and Pension Fund Process and Systems. Audits of these areas are carried out on an annual basis.

50.3. NC said that internal audits of the ESPF had not previously gone to the Pension Board as a matter of course. Quarterly internal audit progress reports, however, are reported to both Corporate Management Team and the Audit, Best Value & Community Services Scrutiny

Committee (ABVCS). The ABVCS and Cabinet also endorse each iteration of the Internal Audit Strategy and Annual Plan.

50.4. The Chair said he believed that the Pension Board should receive all internal audit reports on matters relating to the ESPF and be a consultee of the Internal Audit Strategy and Annual Plan. Ian Gutsell (IG), Chief Finance Officer, agreed that the Pension Board would be a consultee for future Internal Audit Strategies because of its role in scrutinising the performance of the ESPF.

50.5. SM asked to what extent the Internal Audit team can be sure that its recommendations will be implemented. NL responded that relevant officers are required to implement all three of the agreed actions. These actions will have been agreed in consultation with management and so are all achievable.

50.6. The Chair questioned whether all staff would necessary be able to identify what constituted a breach in order to then report one. NL said that making everyone in the pension administration team aware of what constituted a breach is part of the agreed actions around reporting breaches. He added that the agreed actions relating to collaborative working between teams – in order to address the risk of missing statutory deadlines – should also go some way to alleviating instances of breaches, as these missed deadlines are often the cause of breaches.

50.7. The Chair observed that the Pension Regulator has advised that if Pension Boards ignore breaches then they can be fined. There should, therefore, be a clear understanding of what constitutes a breach and a clear chain of command that the breaches are reported to that result in the Pension Board being informed. NC confirmed that it is the responsibility of the pension administration team to report breaches and that procedures are in place to ensure that individuals within the team do.

50.8. The Board RESOLVED to:

- 1) note the report;
- 2) request that the draft Internal Audit Strategy 2018/19 and Annual Plan be circulated to the Board for comment;
- 3) request that previous Internal Audit reports on areas relating to the ESPF be circulated by email;
- 4) request a report at its next meeting on the recent Internal Audit report on Pension Fund Processes and Systems; and
- 5) request that future internal audit reports and that future versions of the Internal Audit Strategy are considered at Board meetings.

51 PENSIONS ANNUAL BENEFIT STATEMENT UPDATE

51.1. The Board considered a report on the planned production of Annual Benefits statements for ESPF members for 2018.

51.2. RS suggested elected members could assist officers in encouraging those employers who look likely to miss the deadline for End of Year (EoY) returns to complete the necessary work (which is a major factor in missing the Annual Benefit Statement deadline). The Chair suggested that this may be possible for employers such as academies that may have elected members on their governing boards.

51.3. Wendy Neller (WN), Pensions Strategy and Governance Manager, explained that officers could engage with employers that have had issues submitting their EoY returns in the previous year to see whether they have any payroll issues that may prevent them submitting the EoY return by 30 April. She added that sometimes an employer has outsourced its payroll so officers need to ensure that requests for EoY returns are sent to the correct people. The employer will be copied into any correspondence to the outsourced payroll provider.

51.4. Jason Bailey (JB), Lead Pensions Manager, confirmed that as per the schedule the EoY templates are being issued to employers in February along with a confirmation of receipt request and a request that employers raise any potential issues that Orbis could assist with; Orbis will follow up with any employers during March that do request assistance.

51.5. The Board RESOLVED to note the report.

52 PREPARING FOR GENERAL DATA PROTECTION REGULATION COMPLIANCE (GDPR)

52.1. The Board considered a report on the work being undertaken to prepare the ESPF for the new data protection legislation due to come into force in May 2018.

52.2. The Chair requested that breaches of data protection regulations by the ESPF should be reported to the Board along with breaches of pension regulations.

52.3. Heidi Judd (HJ), Information Manager, said that the new data protection legislation is unlikely to have a major effect on the underlying business of pension administration as there is an existing statutory power to hold personal data in order to perform the necessary functions of administering pensions. There will, however, be a need to verify that no unnecessary data is being held.

52.4. JB added that the Orbis is clarifying whether there is a statutory basis to continue the monthly mortality screening of pension records against the General Register of Deaths in the UK. There is a legitimate reason to carry out this process – in order to stop over payment of pensions and avoid causing distress to next of kin – and it would be an onerous task to write to the 22k ESPF members in order to receive positive consent.

52.5. The Board RESOLVED to note the report.

53 OFFICERS' REPORT - BUSINESS OPERATIONS

53.1. The Board considered a report providing an update on activities undertaken by the Business Operations team, including an update on the progress of Guaranteed Minimum Pension (GMP) Reconciliation.

53.2. JB explained that phase 2 (B) of the GMP Reconciliation will take approximately five months to complete and will involve conducting a mini tender. The winning bidder will be expected to look in detail at the 15,004 unreconciled cases of pension liabilities between HM Revenue & Customs' (HMRC) records and those of ESPF. Treasury guidance recommends that pension funds accept cases where the variation of GMP amount between HMRC and ESCC records is £2 or less per week; the tender document will therefore include a requirement for any potential provider to highlight the potential costs in pension administration and pension fund liability of agreeing varying tolerance levels outside of the £2 recommendation.

53.3. JB clarified that Part (A) of phase 2 of the GMP reconciliation project had involved HMRC providing data to ITM and ITM carrying out an accelerated 'bulk querying' leading to the identification of the 15,004 unreconciled cases. Part (B) of Phase 2 will involve a more detailed investigation of these unreconciled cases and further correspondence with HMRC regarding the cases already queried under Part (A).

53.4. BR expressed concern that the Board did not have in front of it a breakdown of the number of unreconciled cases within various tolerance ranges, .e.g., £2-£4, £4-£6, etc., so that a sense of the potential costs of varying tolerance levels could be made available. This meant that the Board did not know the potential liabilities that the ESPF faced, nor could it make an informed judgement of where the tolerance level could be set. RS added that the Pension Committee had also not seen the data broken down in this way, and he expressed concern regarding the manner and quality of presentation of information regarding the administration function.

53.5. JB said that a breakdown of the number of unreconciled cases for each tolerance range could be identified as a result of ITM's recent work, but the project was not yet at the stage where potential liabilities could be estimated. This meant that it was not yet possible to provide an accurate cost implication to the ESPF of GMP Reconciliation until after phase 2 was completed. Ian Gutsell (IG), Chief Finance Officer, said that the Board would be sent these initial tolerance ranges.

53.6. JB added that he was only aware of a couple of funds who had reached rectification and these had accepted the £2 tolerance level with HMRC without more detailed exploration ; Phase 2 work needs to be completed in order to identify the potential cost to the ESPF of varying tolerance levels before rectification

53.7. BR asked for confirmation of the cost of the GMP reconciliation exercise, and the Chair asked for assurance that there would be no additional costs beyond the end of phase 2. JB said that the most recent accelerated two month project by ITM had cost £29k. The expected cost of Part B of phase 2 is estimated at £50k but this will be known after the mini-tender is completed. This is much less than estimates seen from other funds where Orbis had seen previously estimated total costs around £200k; the mini-tender involves a commitment to investigate all 15,004 unreconciled cases. There should be no further external work necessary after Part B of phase 2 is complete as payments to pensioners can be adjusted in-house by Orbis, though there will be resource time involved in this.

53.8. The Board RESOLVED to:

1) note the report

2) request a breakdown of the number of unreconciled cases falling within various tolerance levels to be circulated by email.

54 PENSIONS ADMINISTRATION

54.1 The Board RESOLVED to defer this item to the next meeting.

55 GOVERNANCE POLICY AND COMPLIANCE STATEMENT

55.1 The Board considered a report about the Fund's Governance Policy Statement.

55.2 The Board RESOLVED to note the report

56 COMMUNICATIONS POLICY STATEMENT

56.1 The Board considered a report about the revised Communications Policy Statement.

56.2 The Board RESOLVED to note the report.

57 REPORTING BREACHES POLICY

57.1 The Board considered a report providing an update to the Reporting Breaches Policy and the latest version of the breaches log.

57.2 The Chair said that it was important to consider the breaches log at every meeting, including any minor breaches. This is because the Board has a legal responsibility to report identified breaches of the law in relation to the management and administration of the ESPF.

57.3 The Board RESOLVED to:

1) note the report;

2) request that the breaches log is a standing item on future Pension Board agendas.

58 EAST SUSSEX PENSION FUND 2017/18 BUDGET MONITORING AND 2018/19 BUDGET REPORT

58.1. The Board considered a report on the ESPF budget.

58.2. The Chair asked why there had been an overspend of 58k on Orbis Finance Support Services. OO said that it was believed this was an incorrect figure and the revised version would be provided.

58.3. The Chair asked what the £50k overspend on Legal Fees had been. OO said that this is the cost of legal fees spent on behalf of employers. The ESPF is discussing recovering these fees, for example, those spent on behalf of Sussex Courier, which has now gone into liquidation.

58.4. OO said that £600k savings to management fees have been made for 2018/19 from transferring passive funds to UBS. He clarified, however, that the apparent decrease to the management fee of £4.2m is largely because the ESPF has tended to be invoiced directly by managers but from 1 April some funds will be with managers in the ACCESS pool. These managers will take their fees directly from the investments– as is currently the case for those managers holding private equity and infrastructure on behalf of ESPF. The Chair said that the Board will need to look at these unknown costs being drawn directly from the ACCESS funds in the future.

58.5. OO confirmed that all information on ACCESS' performance, management and investment manager charges will be provided to the Board and Committee. CIPFA is working with the Pool representatives and funds to develop a national approach to how this information is reported so that it can be compared across pooled funds. The Chair added that this makes it important that the 11 pension boards in the ACCESS area agree a standardised approach to receiving all of this information.

58.6. AE asked how management fees are divided amongst the 11 ACCESS member funds. OO said that management fees are based on the proportion each fund puts into each sub-fund (each of which will be managed by a fund manager). The cost of setting up ACCESS was split equally amongst the 11 members.

58.7. The Board RESOLVED to note the report.

59 RISK REGISTER

59.1 The Board considered the risk register for the ESPF.

59.2 The Chair welcomed the proposal to include the risk register on each future meeting of the Board and asked that changes to risk levels for individual risks be highlighted. IG said that the risk register will be revised from the next quarter onwards to conform to the new corporate design and this would include changes to risks from quarter to quarter.

59.3 The Board RESOLVED to note the report.

60 OFFICERS' REPORT - GENERAL UPDATE

60.1 The Board considered a general update report.

60.2 The Board RESOLVED to note the report.

61 PENSION BOARD FORWARD PLAN 2017/18

61.1 The Board considered its work programme.

61.2 The Board RESOLVED to:

- 1) note the work programme;
- 2) request a word version of the training toolkit be circulated by email so that individual members can record their progress.

The meeting ended at 12.35 pm.

Richard Harbord (Chair)

Chair