

PENSION BOARD

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

PRESENT Richard Harbord (Chair), Councillor Kevin Allen,
Angie Embury, Rezia Amin, Stephen Osborn and
Councillor Brian Redman

ALSO PRESENT Councillor David Elkin, Lead Member for Resources
Councillor Richard Stogdon, Chair of the Pension Committee
Ian Gutsell, Chief Finance Officer
Ola Owolabi, Head of Pensions
Nigel Chilcott, Audit Manager
Wendy Neller, Pensions Strategy and Governance Manager
Danny Simpson, Principal Auditor
Russell Wood, Principal Pensions Officer
Harvey Winder, Democratic Services Officer

62 MINUTES

62.1 The minutes of the previous meeting were agreed subject to amending paragraph 47.5 to read:

“Angie Embury (AE) suggested that investment in climate aware funds should be a requirement and asked whether that was the case. 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.”

63 APOLOGIES FOR ABSENCE

63.1 Apologies for absence were received from Diana Pogson and Sue McHugh (substitute: Stephen Osborn).

63.2 The Chair welcomed Rezia Amin as the new employee representative on the Board

64 DISCLOSURE OF INTERESTS

64.1 There were no disclosures of interest.

65 URGENT ITEMS

65.1 There were no urgent items.

66 PENSION COMMITTEE AGENDA

66.1. The Board considered the agenda and reports of the Pension Committee’s next meeting.

66.2. Ola Owolabi (OO), Head of Pensions, informed the Board that the Pension Committee agenda comprised mainly of items being considered by the Board in its own right, which was why there were no Committee items included as appendices of this report.

66.3. The Board RESOLVED to:

1) note the report;

2) request that the Hyman's Robertson Quarterly Performance report and Stock Lending presentation by Northern Trust be circulated to the Board by email.

67 PENSION FUND 2017/18 ANNUAL REPORT

67.1. The Board considered a draft of the Pension Fund 2017/18 Annual Report.

67.2. OO explained that the Annual Report was still in draft form and subject to the receipt of data from the East Sussex Pension Fund's (ESPF) custodian, Northern Trust. He said that the external auditors, KPMG, will audit the Annual Report prior to it being approved by the Pension Committee at its next meeting on 16th July 2018.

67.3. Councillor Richard Stogdon (RS), Chair of the Pension Committee, asked whether the Fund actuary's claim that there is a 66% chance the Fund will be fully funded in 20 years was overly pessimistic considering that the most recent triennial evaluation had concluded that it was nearly at full funding already.

67.4. The Chair said that the funding level can vary depending on how it is calculated, for example, using the Government's actuary's figures would give the ESPF a funding rate of 114%. He also said that the Fund could well be self-funding in 2 years but liabilities could outstrip contributions in the long term so that in 20 years it was no longer self-funding. OO added that the Fund's actuary (Hymans Robertson) is very prudent and different actuaries may give a different funding figure.

67.5. Stephen Osborn (SO) observed that the markets were in the midst of the longest 'bull run' in history and that when it comes to an end there could be a negative impact on the Fund's assets.

67.6. SO asked whether the £3m reduction in investment manager fees from £7.6m in 2017/18 to £4.6m in 2018/19 would be offset by transition costs and other one off fees. OO said that there are some transition costs but taking these into account still results in a net reduction in fees due to ACCESS delivering economies of scale.

67.7. SO asked why some pension funds in ACCESS are looking at longer time periods before receiving savings through pooling. OO explained that some funds have lot more liquid assets that can be pooled immediately and see a reduction in investment manager costs, for example, the movement of ESPF £1.6bn of passive investments to UBS had seen ESPF costs for passive fund managers halved. Those funds with greater illiquid assets such as infrastructure and private equity cannot pool them immediately and so will see less benefit in the short term. OO explained that the cost of investment managers would decrease from £7.6m to £4.6m during 2018/19 as a large part of fees would be paid through ACCESS rather than directly to fund managers, along with transition costs and operator costs.

67.8. SO asked whether the fees deducted by some managers at source (and therefore not included in the £7.6m figure) would be similar following the transfer of those assets to ACCESS. OO said that fees deducted at source tend to be for managers of illiquid assets such as private

equity, as they are not yet transferring into the ACCESS pool the fees deducted at source are expected to stay the same but could change in the future.

67.9. Angie Embury (AE) asked whether there are any employers that are persistently paying pension contributions late. OO said that he would clarify which employers were making late payments.

67.10. The Chair observed that it can be a sensitive and difficult task to reclaim overpaid pensions following the death of a scheme member, but the figure for 2017/18 of £1k of write-off showed that the process was being handled effectively.

67.11. The Chair asked whether investment managers report back to ESPF about voting, governance and engagement activities with companies. OO said that the Fund has always empowered managers to vote in accordance with the Investment Strategy Statement (ISS) and they generally have let the Fund know how they voted. However, it will now be mandatory for them to report back to the Fund and make their voting decisions public.

67.12. The Chair asked whether the fact that investment managers generally vote with companies' management was an issue. OO said that the Local Authority Pension Fund Forum (LAPFF) provides Funds with its viewpoints on proposed votes. The Fund will then forward these viewpoints to investment managers ahead of the vote.

67.13. AE asked for the number of scheme members over the age of 55 who withdrew their pension pot following a change in regulations. OO said that the ability to withdraw a lump sum was initially thought to become popular but most scheme members were advised to consider their options. He thought the number who have done so was zero but would clarify.

67.14. The Chair asked what type of organisations the five new employers who have joined the ESPF were. Wendy Neller (WN), Pension Strategy and Governance Manager, explained that they were either admitted bodies or academies and that none of them have had financial difficulties as far as she was aware.

67.15. The Board RESOLVED to note the report and request the following to be circulated by email:

- 1) a list of employers that were making late payments;
- 2) the number of scheme members who withdrew their pension as a lump sum at 55.

68 DRAFT INTERNAL AUDIT PENSION FUND STRATEGY AND INTERNAL AUDIT REPORTS

68.1. The Board considered a report containing the draft East Sussex Pension Fund Internal Audit Strategy and two recently completed Internal Audit reports on the ESPF.

68.2. Danny Simpson (DS), Principal Auditor, said that the current strategy was three years old and it was felt necessary that a new Internal Audit Strategy for the ESPF needed to be developed that could be applied to the two sovereign organisations in Orbis (East Sussex County Council and Surrey County Council) that are responsible for managing pension funds, subject to the approval of their respective committees. The strategy was currently a draft at the consultation stage. DS said that the main change from the existing strategy was the addition of an audit of the ACCESS pooling process. He said that it was prudent to have this as a separate audit for now but as it became part of business as usual it may be subsumed into the more general governance and investments audit. He confirmed that it was proposed that the other audits would carry on as before.

68.3. The Chair observed that Pensions Regulator requires that pension funds hold 11 common data sets for all scheme members. He said it would be useful for internal audit to carry out an audit of these data sets to confirm whether or not they adhered to the Pensions Regulator's requirements. Nigel Chilcott (NC), Senior Audit Manager, agreed that Internal Audit would look into including regulatory compliance as an area for audit.

68.4. Councillor Brian Redman (BR) asked whether the internal audit team audited the whole of Orbis and how costs were shared between the two sovereign organisations comprising Orbis. NC said that the Internal Audit Strategy would be for the East Sussex Pension Fund (of which Brighton & Hove City Council is a member) and that there would be a very similar, but separate Strategy for Surrey's pension fund.

68.5. Ian Gutsell (IG), Chief Finance Officer explained that there is an integrated internal audit team for Orbis. All members of this team work under the Orbis banner but are employed by their sovereign organisations. It is an integrated service that delivers the internal audit function across the three organisations and has an integrated pooled budget; the team then charges respective individual organisations for their internal audit work. This means that there is no additional cost for any of the three organisations for internal audit compared to if internal audit was provided in-house, and the pooled arrangements in fact deliver some efficiency savings. All three organisations' section 151 officers sign off their respective internal audit strategies.

68.6. BR asked whether there are plans in the future to sell-off Orbis as a business separate from local authority control. IG said there were no plans to do so.

68.7. In introducing the Pension Fund Administration Internal Audit report, NC said that this has received reasonable assurance and that there were no areas of improvement deemed to be high risk. In addition, assurance had been obtained that all required actions from the previous review in this area had been completed by the relevant responsible officers.

68.8. The Chair asked whether Internal Audit checks whether actions have been implemented on an individual basis, or whether they are checked when the next audit is carried out. NC explained that implementation dates for actions for improvement are agreed as part of each audit. For all high priority actions, internal audit will seek confirmation that they have been implemented as part of the ongoing action tracking process. In addition, any audits that receive minimal (and sometimes partial) assurance are subject to a follow-up review in their own right. However, where medium or low priority actions are agreed and the audit opinion is better than partial assurance checks to confirm they have been implemented will be completed as part of the next audit. Failure to implement agreed actions would result in reports to the Pension Board and Audit Committee.

68.9. In relation to the External Control Assurance review which received substantial assurance, the Chair asked whether investment managers are required to provide specific information for this review. NC explained that investment managers are required to obtain and provide external independent assurance on how robust their administrative and accounting control procedures are in accordance with regulations. OO added that some investment managers are also audited by their own internal audit function and all have to report separately to the Financial Conduct Authority (FCA).

68.10. The Board RESOLVED to

1) note the reports; and

2) recommend that internal audit consider an audit of the common data sets provided to the Pensions Regulator

69 2018 ANNUAL BENEFIT STATEMENT EXERCISE - UPDATE

69.1. The Board considered a report on the progress of the planned production of Annual Benefit Statements for 2018 ahead of the 31 August deadline.

69.2. OO said that it is critical that the deadline for completion is not missed as it has been for the past three years. He said that despite one or two outstanding issues the Orbis Business Operations team has indicated confidence in meeting the deadline. Deferred members should receive their statements 2 months before the deadline as they are not dependent on end of year (EOY) returns from employers.

69.3. The Chair asked how many additional EOY returns had been received from employers since the 26 April, particularly since the deadline was 30 April. OO said that he believed the number had gone up.

69.4. The Chair said it was concerning that there were 105 contacts but 134 employers and suggested that employers need to all have a responsible person for ensuring that duties around the EOY returns deadlines are met. OO said that where officers have details of a contact they will chase them and offer to provide them with help.

69.5. IG observed that officers are well aware that the deadline cannot be missed this year and that they are working very hard to ensure they meet requirements. Progress is being made against the Production Plan set out in appendix 1 and that the Board would be updated on progress on a monthly basis until the 31 August deadline.

69.6. RS asked whether there are any concerns about major employers, including East Sussex County Council, providing EOY returns. OO said that there are weekly updates with the Pension team to track missing returns with relevant support from the Governance team. The Chair requested that information on employer EOY returns be provided in the monthly progress updates.

69.7. BR asked whether the ESPF is not already aware of how much employers contribute based on their monthly contributions. WN said that employers are required to provide monthly contributions to the pension scheme on the 19th of each month, but that the final employer contributions are calculated based on the EOY returns, which takes until 31st May.

69.8. The Chair said that the data quality of deferred members can be poor as it is not always easy to keep track of them as they move on to other employment, but it is still a requirement to collect this data.

69.9. The Board RESOLVED to:

1) note the report;

2) request monthly updates on the progress of the annual benefit statement exercise, including confirmation of any outstanding EOY returns from employers.

70 OFFICERS' REPORT - BUSINESS OPERATIONS

70.1. The Board considered a report providing an update on the performance and activities of Orbis Business Operations in relation to the ESPF.

70.2. The Chair asked for clarification as to why the draft Pension Fund Annual Report recorded that three complaints were received but that the Key Performance Indicators (KPIs) here recorded that there were none. OO said that he would seek clarification.

70.3. BR expressed concern that there was no indication of the potential liabilities to the ESPF of GMP reconciliation even though the number of cases where the tolerance was greater than £2 was known, following ITM's previous work. He also questioned why the tender requested bids based on tolerance levels of £1-3 when ITM had already identified the number of cases with a tolerance level of £2. He noted that £500,000 had originally been earmarked for GMP reconciliation but £29,000 had been spent to date. He, along with the Chair, requested assurance that there would not be further expenditure beyond the next stage. The Chair also noted that there would have been considerable internal cost for the project.

70.4. OO said that Business Operations had received assurance from the Procurement team that the contract with JTL would cover the remainder of the GMP process. The contract is on behalf of five pension funds so there is a significant incentive for JTL to deliver the desired results within the deadline. He confirmed that ITM would transfer the data they had produced to date to JTL.

70.5. The Chair asked whether it would have been more economically viable to have procured the GMP Reconciliation process as a single contract rather than breaking it into three stages. OO said that it had not been clear at the start what amount of work would have been required to complete the process, so a single procurement may not have been cost effective.

70.6. The Board RESOLVED:

1) note the report;

2) request a report on GMP reconciliation at the end of the process including the full costs, evaluation of the success of the process, and lessons learned.

71 OFFICERS' REPORT - GENERAL UPDATE

71.1. The Board considered a general update on matters related to the ESPF.

71.2. The Chair asked whether employers had seen a draft of the Memorandum of understanding (MOU) due to be issued by ESPF to its employers as part of the changes brought about by the General Data Protection Regulations (GDPR). He also asked whether all 134 employers would sign up for it in time for the 25 May introduction of GDPR rules.

71.3. WN said that the MOU would be a statement informing employers of the GDPR changes and would not require them to sign it, although it was not yet complete so had not been sent to employers.

71.4. In regards to the Breaches Log, the Chair observed that for Churchill to have not been paying over pension contributions for some of its members appeared to be very concerning. OO agreed that it was definitely a breach of the law. He said that it had involved an administrative error whereby a handful of employees' and employer contributions had been collected by Churchill but not passed on to ESPF. The company had been informed about the breach and that it was to be reported, and were asked to consider ways of improving their payment system to ensure that these errors are picked up in future. He said that the company employs some 200 people so there is a monthly fluctuation in the amount of money coming to the Fund due to people leaving and joining their workforce (which comprised mainly of cleaners).

71.5. Rezia Amin (RA) asked how long this issue had occurred for and whether employees knew. OO said that it had gone on for a few years but that employees had not reported it as

they had not been receiving annual benefit statements setting out their pension contributions. WN said that they would receive statements in the future.

71.6. BR asked why it had not previously been picked up by Orbis Business Operations that employers were not providing these contributions. WN said that Churchill is an admitted body so Business Operations was aware of the individuals who were on the company's payroll, however, monthly payment statements do not include a breakdown so it was not clear that the employee contributions were not included for certain individuals. The breach had not been identified as part of previous EOY returns, which do include breakdowns, due to staff not following up on the procedures in place to identify missing contributions.

71.7. WN said that she was confident that all of the outstanding contributions can be identified and retrieved through the annual reconciliation process.

71.8. RA asked whether there would be any penalties applied to Churchill. WN said that they were considering applying interest to the owed monies.

71.9. RA asked if any of these staff had been TUPE'd to Churchill from East Sussex County Council in the past 2-3 years. OO said that he would produce the relevant figures for circulation.

71.10. RA asked how individual employees had been affected financially. WN confirmed that they would not have been affected as the deductions were made to the employees each month by Churchill but had just not been paid on to the Fund.

71.11. The Board RESOLVED to:

1) note the report;

2) provide figures for the number of employees TUPE'd from the Council to Churchill in recent years.

72 PENSION FUND POLICIES - DISCRETIONARY POLICY STATEMENT, PENSION FUND CESSATION POLICY AND ADMINISTRATION STRATEGY STATEMENT

72.1. The Board considered three recently updated pension fund policies.

72.2. OO confirmed that the Board had seen previous iterations of two of the policies but not the Pension Fund Cessation Policy.

72.3. The Chair requested that in future updated policies include tracked changes so that the Board can see clearly what is being changed.

72.4. BR asked in relation to the Pension Fund Cessation Policy why the new policy replaced previous policies on employer termination from 1 April 2017, i.e., a year ago. WN explained that this back dated from the publication date of the most recent triennial evaluation, which would have effected employer's share of the Fund – the issue that the policy deals with.

72.5. The Chair observed that it could be controversial that employers leaving the fund whilst in surplus would not be entitled to payments but it is correct for the cessation policy to seek payment where the employer was in deficit. OO said that the purpose of the policy is to protect the Fund. Where a leaving employer has a deficit the Fund's actuary would become involved to make sure employers leave the fund amicably. He said that any notification of a cessation would be reported to the Pension Committee for decision as it may involve the transfer of assets or cash out of the Fund.

72.6. The Board RESOLVED to note the report.

73 PENSION FUND RISK REGISTER

73.1. The Board considered the risk register for the ESPF.

73.2. The Chair asked whether risk number 28 around the timeline for an FCA submission was related to ACCESS. OO confirmed that it was and that a couple of emerging issues had delayed the original submission date of 28 April. It was now planned that the FCA submission would be made within the next few weeks.

73.3. The Board RESOLVED to note the report.

74 FORWARD PLAN

74.1. The Board considered its forward plan.

74.2. The Chair encouraged Board members to raise any topics they may wish to be considered at the joint training sessions so that everyone would gain from the sessions.

74.3. The Board RESOLVED to note the report.

75 EXCLUSION OF THE PUBLIC AND PRESS

75.1 The Board agreed to exclude the press and public.

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

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

76.2 The Board agreed to exclude the press and public for the duration of this item due to it containing exempt information under paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, namely information relating to financial and business affairs of an individual.

76.3 The Board RESOLVED

1) to note the report;

2) to request a report on the governance arrangements for ACCESS once they have been finalised.

The meeting ended at 12.30 pm.

Richard Harbord
Chair