

PENSION BOARD

MINUTES of a meeting of the Pension Board held at County Hall, Lewes on 17 June 2019.

PRESENT Ray Martin (Chair), Councillor Carmen Appich,
Councillor Doug Oliver, Stephen Osborn, Diana Pogson,
Niki Polermo and Lynda Walker

ALSO PRESENT Kevin Foster, Chief Operating Officer
Ian Gutsell, Chief Finance Officer
Ola Owolabi, Head of Pensions
Andrew Marson, Interim Lead Pensions Manager
Danny Simpson, Principal Auditor
Harvey Winder, Democratic Services Officer

1 MINUTES

1.1. The Board agreed the minutes as a correct record of the meeting held on 4 February 2019.

2 APOLOGIES FOR ABSENCE

2.1 There were no apologies for absence.

3 DISCLOSURE OF INTERESTS

3.1 There were no disclosures of interest.

4 URGENT ITEMS

4.1 The Chair requested confirmation from officers as to the length of terms of the Pension Board members.

4.2 Ian Gutsell (IG) confirmed that the employer representatives from Brighton & Hove City Council (Cllr Carmen Appich) and Rother District Council (Cllr Doug Oliver) had been appointed for two years; and the additional three new Board members (Stephen Osborn, Lynda Walker and Niki Palermo) had been appointed for four years each. Furthermore, Diana Pogson (Pensioners Rep) had already served a year of her four term so had three years left. IG explained that this would ensure a staggered process of appointments to the Board in future.

5 PENSION COMMITTEE AGENDA

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

5.2 The Board RESOLVED to note the report.

6 NOMINATION OF VICE CHAIRS

6.1 The Board considered a report seeking nominations for the Vice Chair positions on the Pension Board.

6.2 The Board RESOLVED to:

- 1) Nominate Diana Pogson as the employee Vice Chair
- 2) Nominate Stephen Osborn as the employer Vice Chair.

7 PENSION ADMINISTRATION UPDATES

7.1. The board considered a report providing an update on matters relating to Pension Administration activities.

7.2. Councillor Carmen Appich (CA) asked why JLT (Jardine Lloyd Thompson), who have recently merged with Mercer, had been chosen to conduct the Guaranteed Minimum Pension (GMP) Reconciliation process on behalf of the East Sussex Pension Fund (ESPF).

7.3. Kevin Foster (KF) explained that JLT had been commissioned by the Fund, following a procurement process, to provide the work on the basis that they had been deemed to be the best provider and had a track record of doing similar work for other pension authorities.

7.4. Lynda Walker (LW) asked why a reference scheme test had replaced the guaranteed minimum pension system in 1997, and whether the ESPF was in a good position relative to other Local Government Pension Schemes (LGPS) in regards to the GMP reconciliation process.

7.5. Andrew Marson (AM) explained that the original GMP system of requiring pension schemes contracted out of the State Second Pension Scheme (S2P) to provide a Guaranteed Minimum Pension for contracted out employees broadly similar to the pension amount an employee would have received if they had not been contracted out had proven very complex; so instead a reference scheme test was introduced to allow comparison whether a pension scheme's benefits were greater overall than the S2P benefits and if so it was permitted to contract out. This was felt to be a more straightforward approach. LGPS had easily passed the test and had remained contracted out. AM said that ESPF's GMP Reconciliation programme was making good progress in relation to others around the country.

7.6. The Chair explained that GMPs were calculated as weekly amounts and asked whether the discrepancy threshold of £2 meant a discrepancy of 4p a week of pension, which would amount to £2.08 over the course of the year or whether it would be 3p a week, which would mean £1.56 per year. AM said he would confirm how the figure of £2 is arrived at.

7.7. Diana Pogson (DP) asked when the process may be complete. AM said it depended on HM Revenue & Customs' (HMRC) own deadlines, which have continuously moved in the past. He said that the reconciliation and rectification process, i.e., resolution of over and under payments to scheme members, should be complete by 31 March 2020 based on current HMRC guidance.

7.8. The Chair asked whether the number of critical errors contained within the data held by ESPF is recorded and reported as a percentage, as is a requirement of pension schemes in the private sector.

7.9. AM explained that the quality of the data held by ESPF is periodically scored as a percentage and this will be run again in September after the Annual Benefit Statements have

gone out. He said that the quantity of errors has reduced considerably – with over 10,000 data items having been corrected – and the Fund has improved the quality of its data in comparison to other LGPSs

7.10. LW asked how many employees there are in the one employer that has still not submitted its returns for the Annual Benefit Statement.

7.11. AM said that the employer had a single employee in the ESPF, who is also the Chief Executive of the company.

7.12. The Chair asked whether the ESPF had considered meeting regularly with payroll staff in employers to ensure they were aware of their obligations as members of the ESPF, including the provision of up-to-date data to the Fund.

7.13. IG said that the ESPF holds an Annual Employers' Forum and the Pension Regulator attended the most recent one to explain to the employers' their responsibilities around supplying data. He added that the Pension Board members were also in a good position to report back these responsibilities to the employers they represent. AM explained that there was a new team member joining the Pensions Administration Team (PAT) whose role is around engagement with and education of employers. He said the PAT realises that more work needs to be done engaging with employers, particularly as there are increasingly large numbers of them and the ESPF normally only contacts them formally on an annual basis and during the intervening period key contacts may leave, along with institutional knowledge of their obligations regarding the ESPF.

7.14. The Chair commented that maintaining this relationship with employers was key because the GMP issue arose as a result of a lack of contact with employers, who then gave different data to the administering authorities and HMRC that now no longer reconcile.

7.15. The Chair asked why, according to the Key Performance Indicators (KPIs), the PAT's performance dipped during April.

7.16. AM explained that the dip in performance was due to staff vacancies during that month. He said they had now been filled and figures for May were improving back towards normal levels. He added that whilst performance had slipped the cases that were overdue were only over by 1 to 2 days.

7.17. The Chair said it was worrying to see the Award for dependent benefits (Death Grants) target missed given the impact this can have on families who may be in immediate need of assistance. He also asked that the KPI summary include details of what the longest overdue cases were and the average response time, not just the number within target, as it can be difficult to see any improvements particularly when all targets are green.

7.18. Ola Owolabi (OO) said that the Board would have the opportunity in the future to review the KPIs as the pension administration system is re-procured.

7.19. LW asked how the KPIs were set.

7.20. AM explained that the KPIs have been set locally by ESPF and other LGPS will do the same. This means that there is variation in the KPIs, but an exercise could be undertaken to benchmark these measures against others to get a sense of the industry standard.

7.21. The Chair asked whether the allocated duration of a 'successful' completion of an activity listed in the KPIs, e.g., payment of lump sum made within 5 days, was for the entire activity or just the part the PAT was responsible for.

7.22. AM confirmed that these allocations were for the period of time the PAT was dealing with the case. Death cases, for example, would take a lot longer than 5 days and would involve other individuals, eg the member's family, dependents and the legal personal representatives of the deceased member.

7.23. The Chair asked whether the new pension administration system would be subject to a full procurement process.

7.24. Kevin Foster, (KF) confirmed that the contract with Heywood to provide a pension administration system would be ending in 2021. The procurement of the new software would be a meaningful one involving extensive research into the current market and how it has changed since 2016; the quality of the competition; and the performance of the current provider. AM added that preliminary engagement was ongoing with providers to compare the PAT's requirements with the capabilities of their systems.

7.25. The Board RESOLVED to:

- 1) Note the report; and
- 2) Request a future report on how the ESPF KPIs for pension administration compare with those of other local government pension schemes.

8 DRAFT EAST SUSSEX PENSION FUND INTERNAL AUDIT STRATEGY

8.1. The Board considered a report containing the draft ESPF Internal Audit Strategy, and Internal Audit reports on Pension Fund Governance and Investments and Pension Fund External Control Assurance.

8.2. LW asked how the East Sussex Internal Audit is not duplicating the work of other internal audit teams in the other 10 ACCESS local authorities in auditing externally managed investments held under the ACCESS pooling agreement.

8.3. Danny Simpson (DS) said that he will liaise with other internal audit officers to ensure that they are not duplicating work. OO added that an audit plan is being developed for ACCESS that will avoid duplication by enabling individual internal audit teams to use the assurance report of whichever internal auditor conducts the externally managed investment audit of ACCESS. He confirmed that these reports would comply with the Institute of Chartered Accountants' AAF 01/06 Assurance Reports so could be used by East Sussex County Council's Internal Audit team in lieu of its own assurance reports.

8.4. SO asked whether it was unusual to have two internal audit reports without any actions arising.

8.5. DS confirmed that it was unusual but external assurance – the subject of one of the reports – is usually straightforward to obtain substantial assurance for. The other four areas where internal audit seeks to provide assurance on (set out in 2.5 of the strategy) tend to be more complex. OO added that the substantial assurance of governance and investments was the result of several years of hard work in improving the governance arrangements of the ESPF.

8.6. The Chair asked whether Internal Audit proactively liaises with the external auditor, Grant Thornton, when seeking to provide assurance.

8.7. DS said that Internal Audit does not, but the external auditor may contact the team. IG added that the reliance of external auditors on seeking assurance from Internal Audit has

diminished over the years and they generally seek their own assurance, however, Grant Thornton – which is newly appointed – has contacted the Internal Audit team this year.

8.8. The Board RESOLVED to:

- 1) note the report; and
- 2) recommend the following changes to the draft Internal Audit Strategy:
 - change 2.3b) to read “provide strong governance and decision making”;
 - remove from 2.3c) reference to “improve value”; and
 - amend 2.5 to read “Pensions administration – people, processes and systems”, given the need to have assurance that there are competent people in place to manage the process and systems.

9 DRAFT PENSION FUND ANNUAL REPORT - 2018/19

9.1. The Board considered a report seeking comment on the Draft Pension Fund Annual Report for 2018/19.

9.2. DP asked whether it was realistic to lower the forecast management expenses for 19/20 when outturn for 18/19 was higher than forecast.

9.3. OO explained that the increased costs for 18/19 included a number of one-offs that were not expected to be incurred again for 19/20, for example the additional costs under supplies and services due to the triennial valuation, GMP, etc.

9.4. SO asked why there is no forecast for fees deducted at source.

9.5. OO explained that these were very difficult to predict as they depended on the performance of the assets from which they were deducted, which vary in value depending on market conditions.

9.6. CA asked whether any of the increase in return on investments from £86m in 17/18 to £260m for 18/19 was the result of pooling investments in ACCESS.

9.7. OO confirmed that some of it would have been as with the capacity and potential to invest significant larger amounts collectively, there are more opportunities to benefit from economies of scale as a result of investing into specialist areas. The Chair added that increase is also due to the considerable increase in the markets, which had seen significant increases during the year. Due to the reliance of return on investment on the markets, the figure is likely to always be volatile.

9.8. SO asked why payments from the fund varied by £30m between 17/18 and 18/19.

9.9. OO said that this was due to employers moving in and out of the scheme at varying degrees of regularity. The Chair added that death benefits and transfers of employees can also result in significant changes to payments from year to year.

9.10. The Chair asked whether there was a simplified version of the Pension Fund Annual Report and recommended it be sent out with the Annual Benefit Statement as people are more likely to read it.

9.11. OO confirmed that a summary will be included within the pension fund newsletter. IG added that the first 10 pages of the accounts are already a summary statement and the remainder of what is included is governed by reporting requirements.

9.12. The Board RESOLVED to:

- 1) note the report; and
- 2) request that the following are included in the Pension Fund Annual Report - 2018/19:
 - an explanation for the increased outturn in expenses being caused by one-off expenditure.
 - An additional line underneath management expenses total to include the expenses total minus the fees deducted from source.
- 3) recommend that the newsletter summarising the Annual Report is dispatched alongside the Annual Benefit Statement.

10 UK STEWARDSHIP CODE

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

10.2. LW asked how the ESPF compared to comparative Funds in terms of its responsibilities as a shareholder.

10.3. OO estimated that of the 89 LGPS, ESPF would be in the top 25% in terms of the strength of its stewardship arrangements. He said ESPF is one of few funds that meets the reporting expectations for Tier 1 – Asset Owner allocation from the Financial Reporting Council (FRC).

10.4. The Chair asked whether the Fund subscribes to Local Authority Pension Fund Forum (LAPFF)

10.5. OO confirmed that the Fund is a member of LAPFF, and fund managers are recommended by ESPF to vote in accordance with LAPFF guidelines. The Fund receives a report at the end of year to see how fund managers voted. LAPFF also nominated ESPF for an Environmental, Social and Governance award.

11. The Board RESOLVED to note the report.

11 LOCAL GOVERNMENT PENSION SCHEME (LGPS) REGULATORY UPDATE

11.1. The Board considered a report on the current regulatory environment, and consultations that could impact the LGPS.

11.2. CA asked what the Section 151 officer's response was to the Good Governance Review.

11.3. IG said that the response had included a recommendation for the development of guidance for officers, including Section 151 Officer, and Members around conflict of interest and their roles within the pension board and pension committee, and the role of the administering authority in relation to pension funds, rather than of structural changes to the arrangements.

11.4. CA asked whether other employers than East Sussex County Council should respond to the Good Governance review consultation.

11.5. IG said that it is open for all employers and that Board members should encourage the employers to do so. CA said she would raise it with her Section 151 Officer.

11.6. The Chair commented that it seemed odd that the valuations for LGPS were recommended to go from every three to every four years when the private sector funds were moving to annual valuations.

11.7. OO explained that the purpose of the Government's proposal was to align the LGPS scheme valuation with other public sector schemes and allows for outcomes of each valuation to be looked at in parallel, and for Government to make consistent decisions for the public sector as a whole. He said it was a considerable risk to the accuracy of the valuation, as it would increase the chance of receiving information on employers that was very out of date. There may be a need for the administering authority having the option to perform an interim valuation if circumstances require changes to contribution rates.

11.8. The Board RESOLVED to note the report.

12 GENERAL UPDATE

12.1. The Board considered a general update on matters relating to the Board activities.

12.2. The Board RESOLVED to:

- 1) note the report
- 2) request the inclusion of communications of the Board to employers as part of the item on Communications Policy Statement.

13 PENSION FUND - RISK REGISTER

13.1. The Board considered the ESPF's Risk Register.

13.2. CA asked whether the mitigations put in place were reducing the likelihood and impact of risks.

13.3. OO explained that the risk register only showed risks that had not turned green. There were many risks that had been reduced considerably through mitigations but they were deliberately excluded from the register to make it a more useful document. It was also the case that some risks, like not achieving the Annual Benefit Statement deadline, would remain with the same post mitigation score until the deadline has passed.

13.4. CA said that it seemed surprising to see so much risk given the substantial assurance provided by the internal audit reports.

13.5. IG explained that the risk register was designed to show a degree of openness and understanding on the part of the ESPF around the fact that, whilst the risks may not occur, the Fund is aware of them and has taken steps to prepare for them. Risks such as cyber attacks will always be there and likely remain as red scored risks, but the mitigations demonstrate that the Fund recognises and is taking action against it as a possibility. DS said that Internal Audit recognises that some risks can never be fully mitigated against, so as long as there is evidence of an appropriate level of mitigation then Internal Audit will not raise any concerns.

13.6. DP asked why several risks did not reduce even after mitigations.

13.7. The Chair said this was probably because the scale for impact and likelihood were only from 1-3 so it may not always show a change unless it is fairly significant.

13.8. Councillor Gerard Fox (GF) said that paying pensions and making financial investments both pose a significant risk, so mitigations may only ever reduce the likelihood or impact of something happening by a small amount.

13.9. SO asked whether the Fund was investing in any management portfolios like those of Neil Woodford with a high portion of illiquid assets.

13.10. OO confirmed that the fund was not investing in any such illiquid funds, although the fund does as a long term investor aim to benefit from an illiquidity premium in appropriate long term assets such as property and private equity.

13.11. GF added that after many years of a low interest rates and continued bull markets investors are likely to be chasing higher risk assets in order to achieve a return on their investments like the Woodford fund and high yield bonds.

13.12. The Board RESOLVED to:

- 1) note the report;
- 2) request that the risk register shows whether a risk is increasing or decreasing over time.

14 WORK PROGRAMME

14.1 The Board considered its work programme.

14.2 The Board RESOLVED to note the report.

15 EXCLUSION OF THE PUBLIC AND PRESS

15.1 The Board RESOLVED to exclude the public and press.

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

16.1 The Board considered a report on the activities undertaken by the ACCESS Pool group.

16.2 The Board RESOLVED to note the report.

The meeting ended at 12.35 pm.

Ray Martin
Chair