

**Report to:** Pension Board

**Date of meeting:** 16 November 2020

**By:** Chief Finance Officer

**Title:** Governance and Employer Engagement Report

**Purpose:** To provide an update on various governance and employer engagement work completed and changes effecting the LGPS and Fund

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## **RECOMMENDATIONS**

The Board is recommended to:

- (1) Note the update on the ACCESS Pool Amended and Re-stated Inter-Authority Agreement (IAA)**
  - (2) Note the Pension Fund Conflict of Interests Policy in Appendix 1**
  - (3) Note the update on the McCloud Working Group**
  - (4) Consider options on approach for ill health classification of employers in Appendix 5**
  - (5) Consider the draft Employer Forum agenda in Appendix 6**
  - (6) Note the draft response to the HM Treasury consultation on Guaranteed Minimum Pension (GMP) Indexation in Appendix 7**
  - (7) Note to progress in recruitment to the Pension Fund team and initiation of review of communications**
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## **1 Background**

1.1 This report is brought to Board to provide an update on various changes within the Local Government Pension Fund (LGPS) regulatory framework and governance items or employer engagement items with directly affect the East Sussex Pension Fund (ESPF).

1.2 This report provides a note on the changes to the Inter authority agreement for the ACCESS investment pool; the draft conflicts of interest policy as the final item resulting from the good governance review; an update on the status of the McCloud working group

## **2 Supporting information**

### **ACCESS Pool Inter-Authority Agreement (IAA)**

2.1 The ACCESS Pool Inter-Authority Agreement (IAA) is the central constitutional document for the relationship between the ACCESS funds and the pool. The original IAA was executed by the Funds on 12 July 2017. A review of the

terms of the IAA was required within two years of execution, however it was established that numerous amendments were needed to be taken into account as the pool had evolved beyond its original focus to procure an operator for an authorised contractual scheme (ACS).

2.2 The ACCESS Joint Committee requested that a full review be undertaken of the IAA, through the Governance Sub Group and their legal advisers to reflect the changes in the markets the pool are looking to invest in, operational changes, such as the ACCESS Support Unit and Officer Working Group responsibilities and the role of the s151 Officers role in business planning and advice to the joint committee.

2.3 The revised IAA seeks to take the ACCESS pool from its establishment phase into business as usual. The revised agreement has been reviewed by the Governance Sub-Group, the Officer Working Group and the Section 151 Officers. The ACCESS Joint Committee on 7 September 2020 received the updated document incorporating all changes to the draft and it was confirmed all Fund Monitoring Officers were content with the revised final draft.

2.4 Pensions Committee will be asked to approve the revised document for execution at their meeting on the 30 November 2020.

### **Conflict of Interest Policy**

2.5 In continuation of the Good Governance review, the last remaining item for completion is for the Pension Committee, on 30 November 2020 to consider and agree the Conflict of Interest Policy. The draft version is at **Appendix 1. Appendix 2-4** are the annexes of the Conflict of Interest Policy.

### **McCloud Working Group**

2.6 The recent consultation on amendments to the statutory underpin in the LGPS, in response to the McCloud judgement has now closed. Although it will take some time for responses to be considered, there are actions that administering authorities should be taking now in preparation for implementation of the remedy to the scheme regulations. As a result, and as discussed at the previous meeting of the Board, The McCloud Working Group will be established.

2.7 The McCloud Working Group is the body responsible for overseeing the implementation of the McCloud ruling in the ESPF within a prescribed timeframe and addressing any gaps and barriers preventing progress and ultimately delivery of the project. The Working Group will:

- oversee the McCloud project, drive the delivery and receive project updates

- tackle employer related issues that become or continue to be a barrier to the effective collection and use of data; and,
- be aware of and manage dependencies across third parties.

2.8 Working group members will consist of Councillor Fox, Lynda Walker, Stephen Osborn, Dave Kellond, Paul Punter and Sian Kunert.

2.9 The first meeting of The McCloud Working Group will take place in late November 2020.

2.10 In preparation, Pension Fund officers have received a high level analysis on the numbers of ESPF members who could have been impacted by the McCloud ruling (these are members who would have been active on 1 April 2012); an initial draft of terms of reference and Hymans are working on a proposed project plan which should be available shortly.

### **III Health Insurance**

2.11 The ill health risk management workstream was added to the Fund's 2020/21 business plan as part of the June Board and Pension Committee meetings. This has since been progressed by officers working alongside the Fund Actuary to investigate the potential risk management options (including obtaining a range of indicative insurance quotes from Legal & General) and a proposed categorisation of scheme employers.

2.12 At its meeting on 21 September 2020 the Pensions Committee received a report on Managing Ill Health Early Retirement Risk. This paper had previously been considered at Pensions Board on 7 September, where the Board suggested recommendations on approach. The suggestions from Board were discussed at the Committee meeting. The Pensions Committee as a result of the paper and discussions agreed that they were not sufficiently sighted to make an informed decision and asked for a further paper on approach.

2.13 Hymans have completed a supplementary paper which can be seen in **Appendix 5** to this report. The paper refreshes on the report presented in September and looks into the Board's suggestion of splitting employers into three groups with group 1 being compelled to have cover, group 2 being automatically included unless they opt out and group 3 only covered if they opt in. The report categorises employers into three groups based on number of active members as an option, however, it also raises the consideration to treat similar employers the same as they will have the same risk profile.

2.14 The Employer Covenant review of the high risk employers is not yet complete which could feed into establishing the allocation of employers for mandatory inclusion in the ill health insurance. The covenant providers will carry out a high level

financial assessment of employers and a deeper more granular assessment on selected employers

2.15 The Board is asked to consider its preferred option for passing to the Pension Committee.

### **Employer Forum Agenda**

2.16 The Annual Employer Forum has been booked for 20 November 2020. The draft agenda is included at **Appendix 6** for consideration and comment.

### **Guaranteed Minimum Pension (GMP) indexation consultation**

2.17 On 7 October 2020, HM Treasury (HMT) issued a Public Service Pensions: Guaranteed Minimum Pension (GMP) Indexation consultation. The Pension Fund has until 30 December 2020 to respond to the consultation if it wishes to respond. Attached in **Appendix 7** are the consultation questions and proposed responses.

2.18 The consultation considers continuation of past commitments to public service employees regarding the full indexation of their pensions for any GMP related pension. This has come as a result of the government's introduction in April 2016 of the new State Pensions which removed the mechanism for public sector pension schemes to be contracted-out between 1978 and 1997 to have their GMP price protected. The current interim solution providing full indexation runs until April 2021.

### **Pension Fund Structure Update**

2.19 As a result of the Pension Fund restructure, officers have begun recruiting to the new positions and appointments have now been made to the three Pensions Manager roles to head up the three streams of Governance and Compliance, Employer Engagement and Investments and Accounting.

2.20 Now the Pension Manager roles have been recruited further positions will shortly be advertised to continue to expand the team and increase the quality of service provision by the Pension Fund.

2.21 In addition to the recruitment process a communications review process has been initiated to help ensure the Pension Fund communications are timely, engaging, accessible and accurate. This will allow for the fund to promote engagement with member and employers.

2.22 The Communications review outline document can be seen in **Appendix 8** to this report.

### **Advisors**

- 2.23 At the Pensions Committee on 21 September 2020 contracts were awarded to
- ISIO as Investment Consultants from 1 February 2021 for 3 years with the possibility to extend 1 year;
  - Barnett Waddingham LLP from 1 January 2021 for 3 years with the possibility to extend 1 + 1 years
  - PWC as covenant adviser for management of high risk employers.

2.24 Initial conversations have taken place with the new advisers and contracts are being written with any data protection impacts and risk assessments of IT systems taken into account as part of the process.

### **3. Conclusion and reasons for recommendations**

3.1 The Pension Board is requested to note the updates provided in the report.

3.2 In addition Pensions Board is requested to consider the options for rolling out ill health insurance and make any relevant recommendations to Pensions Committee.

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