

Report to: **Pension Committee**

Date of meeting: **30 November 2020**

By: **Chief Finance Officer**

Title of report: **Governance and Employer Engagement Report**

Purpose of report: **To provide an update on various governance and employer engagement work completed and changes affecting the Local Government Pension Scheme (LGPS) generally and East Sussex Pension Fund (ESPF) specifically**

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**RECOMMENDATIONS – The Committee is recommended to**

- (1) Approve the ACCESS Pool Amended and Re-stated Inter- Authority Agreement (IAA) (appendix 1);**
- (2) Note the update to the ACCESS link operator agreement;**
- (3) Approve the Pension Fund Conflict of Interests Policy (Appendix 2);**
- (4) Note the update on the McCloud Working Group;**
- (5) Approve Option 3 approach for classification and inclusion of employers for ill health insurance implementation as set out in 2.16 and Appendix 6;**
- (6) Note the draft Employer Forum agenda (Appendix 7); and**
- (7) Note the progress in recruitment to the Pension Fund team and initiation of review of communications (Appendix 8).**

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**1 Background**

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

1.2 This report provides a note on the changes to the Inter Authority Agreement (IAA) 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; and a follow-up to the report on ill-health insurance received in September. This report also provides an update on the ESPF Team restructure, an update on contract changes, a draft consultation response on Guaranteed Minimum Pension (GMP) indexation, and the agenda for the November Employer Forum.

## 2 Supporting information

### ACCESS Pool Inter Authority Agreement (IAA)

2.1 The ACCESS Pool 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 A copy of the revised agreement is included as **Appendix 1**. The Committee are asked to approve the revised document for execution.

### 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 2**. **Appendices 3-5** are the codes of conduct referenced in the Conflict of Interest Policy and are attached for information.

### 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 on 8 December, with a selection of papers being shared in advance.

2.10 In preparation, Pension Fund officers have received a number of papers from Hymans Robertson to initiate this project. These include 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 a proposed project plan.

### 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 potential recommendations on approach. The Pension 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 Robertson has completed a supplementary paper which can be seen in **Appendix 6** to this report. The paper refreshes on the report presented in September and looks into the suggestion of splitting employers into three groups with group one being compelled to have cover, group two being automatically included unless they opt out and group three 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 At its meeting on 16 November 2020 Pension Board discussed the Hymans report and suggested that consideration is made to treating all academies the same with the group two cut off at 200 active scheme members. Pensions Board also

stressed the importance of reducing the risk to the fund and its employers by implementing this insurance and that communications to employers should be carefully considered to recognise the existential risk of ill health strain costs to smaller employers and that the insurance approach would not increase employers costs, but reallocate existing contributions.

2.16 Options for Pensions Committee to consider are

- a. Option 1 - Split Employers into three groups. Assign groups based on type of body.
- b. Option 2 – Split Employers into three groups. Group 1: compelled to have cover; employers defined as small employers with less than 50 active members or employers considered high risk. Group 2: automatically covered unless they opt out; medium employers with less than 100 active members. Group 3: only covered if opt in; large employers.
- c. Option 3 – Split Employers into three groups. Group 1: compelled to have cover; employers defined as small employers with less than 50 active members or employers considered high risk. Group 2: automatically covered unless they opt out; medium employers with less than 200 active members. Group 3: only covered if opt in; large employers.
- d. Option 4 – Employer “Choice” insurance where each employer holds its own policy should it elect to do so.

2.17 Pensions Board and officers recommend that Pensions Committee agree to implement **Option 3**. This will ensure high risk and small employers are protected against an existential risk from ill health strain costs and similar organisations are treated the same.

## **Employer Forum Agenda**

2.18 The Annual Employer Forum has been booked as a virtual event on 20 November 2020. The draft agenda is included at **Appendix 7** to note.

## **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 In addition the Fund have also appointed two Chartered Institute of Public Finance and Accountancy (CIPFA) trainee apprentices, which will help the fund in succession planning and benefit from utilisation of the apprenticeship levy for costs of training.

2.21 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.

2.22 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.

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

### **Advisors**

2.24 At the Pension 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.

2.25 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 Pension Committee is requested to approve the amendments to the ACCESS Inter Authority Agreement for sealing in line with the decisions made at the ACCESS Joint Committee in liaison with S151 officers and Monitoring officers of each constituent fund.

3.2 Pension Committee is requested to consider the options and approve the recommendation for rolling out ill health insurance to cover regarding impact of ill health strain costs on employers, based on classification of employers as per option 3. Employers will be grouped into compulsory inclusion, opt out and opt in based on the risk profile and size of active membership with group 2 including employers with less than 200 active members.

3.3 Pension Committee is requested to note the updates provided in the report.

### **IAN GUTSELL**

#### **Chief Finance Officer**

Contact Officer: Sian Kunert, Head of Pensions

Tel. No. 07701394423

Email: [sian.kunert@eastsussex.gov.uk](mailto:sian.kunert@eastsussex.gov.uk)

