

PENSION BOARD

MINUTES of a meeting of the Pension Board held at Council Chamber, County Hall, Lewes on 27 May 2022.

PRESENT Councillors Ray Martin (Chair), Councillor Tom Druitt,
Councillor Toby Illingworth, Stephen Osborn and Neil Simpson

ALSO PRESENT Ian Gutsell, Chief Finance Officer
Sian Kunert, Head of Pensions
Michael Burton, Pensions Manager - Governance and Compliance
Russell Wood, Pensions Manager: Investment and Accounting
Paul Punter, Head of Pensions Administration
Tim Hillman, Pensions Manager - Employer Engagement
Dave Kellond, Compliance and Local Improvement Partner
Danny Simpson, Principal Auditor
Paul Linfield, Pensions Communications Manager
Dillon Piggott, CIPFA Trainee / Apprentice
Mariana Obetzanova, Pensions Training Coordinator
Mya Khine, ESPF Accountant
Thea Synnestvedt, Governance and Democracy Officer
Harvey Winder, Policy and Scrutiny Officer

Sarah Hazlehurst, Lead Petitioner (for item 5)

1. MINUTES

1.1 The Board agreed the minutes of the previous meeting held on 10 February 2022 as a correct record.

2. APOLOGIES FOR ABSENCE

2.1 Apologies for absence were received for Lynda Walker and Niki Palermo.

3. DISCLOSURE OF INTERESTS

3.1 There were no disclosures of interests.

4. URGENT ITEMS

4.1 There were none.

5. REPRESENTATION ON THE PENSION COMMITTEE

5.1. The Board considered a report on the structure of the Pension Committee and comments on governance of the East Sussex Pension Fund (ESPF or the Fund).

5.2. Ian Gutsell (IG), the Chief Finance Officer presented the report and noted a report from Councillor Tom Druitt (TD) calling on East Sussex County Council to consider representation from Brighton and Hove City Council (B&HCC) on the Pension Committee and a petition received titled ““Stop investing Brighton & Hove’s pension fund in fossil fuels””.

5.3. Sarah Hazelhurst (SH) as the Lead Petitioner, spoke about the Pension Scheme investing in fossil fuels and the importance for institutions to act in response to the climate emergency. SH noted that when collecting signatures for the petition, the public were surprised to learn that there are no B&HCC elected members on the Pension Committee.

5.4. TD called on the Board to request a review of the governance arrangements of the ESPF, noting that the duty of the Board is to assist the scheme members and to consider whether the Pension Committee is taking decisions in line with the legal requirements of a scheme manager of a Local Government Pension Scheme (LGPS). TD expressed concerns around climate change and the effect on eco systems and biodiversity. TD emphasised the importance of not exceeding 1.5 degree global temperature increase which is predicted to occur in 2025 if greenhouse gas emissions continue to be produced at the current rate. As B&HCC and East Sussex County Council (ESCC) had declared a climate emergency, and because fossil fuels fuel global warming. TD said that B&HCC did not believe the Fund was fulfilling its fiduciary duty to its members. He argued that there was a need for B&HCC representation on the Pension Committee. as B&HCC fell outside the geographical area of East Sussex and so its residents did not currently have elected representation on the Pension Committee.

5.5. Councillor Toby Illingworth (TI) noted that the legislation clearly states who can sit on the Pension Committee and conversations around divestment should occur at the Pension Committee not the Pension Board, since Pension Board is not able to make financial decisions regarding the ESPF.

5.6. Neil Simpson (NS) noted that although the legislation states that only the administering authority (ESCC) can sit on the Pension Committee, there has been considerable reorganisation of local government at the time that B&HCC separated from ESCC. NS noted that this reorganisation has resulted in a lack of democratic representation for a substantial part of the fund membership who did not live in the East Sussex area. NS gave examples of other authorities who have co-opted representation on their Pension Committees who are not members of the administering authority, such as the West Midlands Pension Fund. He also suggested that the Pension Committee may not be a “finance committee” as set out in S.102 of

the Local Government Act 1972, as it is not making decisions on the financial affairs of the local authority or its area but of scheme members. NS asked if there is potential to review the governance of the Pension Committee in light of these factors.

5.7. IG noted that beneficiaries of the ESPF are worldwide and not just those living in East Sussex or Brighton and Hove. IG advised that ESCC as the administering authority supports all beneficiaries.

5.8. TI noted that if the Pension Committee allowed representation from B&HCC, this could open the possibility for co-opted members from many other locations requesting representation, as the Fund has members living across the country and abroad.

5.9. Sian Kunert (SK) said that there had been more than one legal opinion published that had concluded a pension committee is a finance committee and the Fund had also taken its own legal advice on the matter. SK noted that Pension Committees that do have co-opted members on the Committee in many of these cases will have an investment sub-committee comprising solely of administering authority members to make investment decisions in order to get around the restrictions of S.102 of the 1972 Act.

5.10. TD noted that beneficiaries who may now be living internationally or nationally outside of East Sussex or Brighton and Hove would all have once worked within East Sussex or Brighton and Hove, and therefore representation of both geographic areas should be considered for the appointment of Pension Committee. TD noted that since B&HCC is no longer part of ESCC, there is a democratic deficit giving rise to an asymmetry in representation on the Committee. TD questioned why the Pension Committee is subject to proportional representation regarding elected members from the administering authority and why the committee consists solely of elected members and not advisors or other co-opted members.

5.11. TI noted that residents of Brighton & Hove are already represented via B&HCC membership of the Pension Board, which has the role of assisting the Fund and ensuring it is fulfilling its obligations to employers and scheme members.

5.12. TD acknowledged that he represents B&HCC as an employer on the Pension Board however B&HCC has no representation on the Pension Committee where decisions on investments are made. TD asked whether consideration could be given to restructuring the Pension Committee similarly to local authorities who have co-opted members including councillors from other authorities on their Pension Committee.

5.13. TD argued that divestment from fossil fuels will directly impact companies selling fossil fuels by reducing the value of their share price and impacting their ability to raise capital.

5.14. The Chair noted that fossil fuel companies already have enough capital to invest in exploration of new oil and gas fields meaning that divestment from their stocks would have no impact on their capital reserves. This means divestment, or disengagement, will not encourage the fossil fuel companies to reduce their carbon footprint. Engagement with the companies has more impact on tackling climate change and engagement can only occur whilst the Fund is a shareholder.

5.15. The Chair noted that all Pension Board members share concerns regarding climate change, however, total divestment, which is in effect disengagement, will not be in the best interests of scheme members and will not influence fossil fuel companies to change their behaviours in response to the climate emergency. The Chair noted that at the recent Pensions and Lifetime Savings Association Investment Conference 2022, it was collectively agreed by the

delegates that engagement has more impact and influence over climate change than divestment.

5.16. TI urged the Board to read the revised stewardship codes containing examples of how engagement produces better results regarding Environmental, Social and Governance (ESG) responsibilities, particularly in emerging markets.

5.17. TD suggested that there are examples where engagement with fossil fuel companies has not been effective in changing their behaviour or strategy relating to climate change.

5.18. Stephen Osborne (SO) noted that whilst the Fund considers ESG factors in its investment decisions, the objective of the Fund is to maximise financial benefit for scheme members and employers have their own objectives to reach carbon net zero. SO asked if any work has been done to consider whether the Fund's investment strategy aligns with its employers' climate objectives.

5.19. SK explained that the Fund has increased communications including engaging with employers and members through the communication strategy of the Fund, which will be discussed in more detail at agenda item 13. It was noted that engagement has increased due to appointment of a new Communications Manager, more involvement through the Employers' Forum where there is an investment topic presented, newsletters and surveys. The goal of the Pension Fund is to generate return, however, climate change is an identified financial risk which is included in the risk register and influences decision making, the fund is reporting on this area and the Fund will need to set net zero target and plans in the coming work plans to meet TCFD requirements.

5.20. TD moved a motion to "Request that the Governance Committee review the governance arrangements of the Pension Committee, taking into account other examples". The motion was carried.

5.21. The Board RESOLVED to request that the Governance Committee review the governance arrangements of the Pension Committee, taking into account other examples.

6. PENSION COMMITTEE AGENDA

6.1 The Board considered a report containing the draft agenda for the Pension Committee meeting due to be held on 17 June 2022 and on the 20 July 2022.

6.2 The Board RESOLVED to note the report.

7. GOVERNANCE REPORT

7.1 The Board considered a report providing an update on various governance workstreams completed and changes affecting LGPS and the ESPF.

7.2 NS asked whether the dialogue with ACCESS Joint Committee regarding representation has been collective between East Sussex and other LGPSs. SK confirmed that other Boards

had fed into the ACCESS Joint Committee with similar concerns regarding their proposal for rotating representation and an amended motion was put forward however this was not successful. SK advised that Board member representatives will be able to attend meetings of ACCESS Joint Committee as observers following changes to the Inter Authority Agreement (IAA) to legally permit attendance.

7.3 SK said that two nominations for observers of the ACCESS Joint Committee are being sought and suggested one nominee be a Member representative. The Chair nominated himself and noted that two of the three Board member representatives not currently present at the Pension Board meeting would be given the opportunity to put themselves forward.

7.4 Michael Burton (MB) advised that a Vice Chair is to be appointed for the Pension Board from amongst the scheme member representatives. It was suggested the Board consult with absent Board Members Lynda Walker and Niki Palermo to ascertain interest in nomination for Vice Chair for consideration by the Governance Committee. NS advised that as he had just joined the Pension Board his preference would be for one of the other Member representatives to take on the position of Vice Chair.

7.5 TD questioned why Board members were listed under the section "Committee Membership and Representation" in the Governance Compliance Statement.

7.6 SK clarified the wording was from a standard template and that the Board is considered the "secondary committee structure" within the terminology.

7.7 The Board RESOLVED to:

- 1) Note the report and its appendices;
- 2) Request that officers seek a Vice Chair nomination via email from the two scheme member representatives who sent their apologies for the Board meeting;
- 3) Agree to nominate the Chair as an observer for the ACCESS Joint Committee; and
- 4) Request that officers seek a second ACCESS Joint Committee observer via email from the two scheme member representatives who sent their apologies for the Board meeting.

8. EMPLOYER ENGAGEMENT AND CONTRIBUTIONS REPORT

8.1 The Board considered a report providing updates on Employer Engagement activities and the collection of Employer contributions up to March 2022 which were due on 19 April 2022.

8.2 TD asked for an update regarding B&HCC and their data problems.

8.3 Tim Hillman (TH) advised that there have been some issues regarding data that has not come through from B&HCC yet and officers have liaised with B&HCC to reconcile the data the Pension Fund holds with data received by B&HCC payroll team to be able to upload data within the i-Connect system for the Annual Benefits Statements. Paul Punter (PP) noted that B&HCC were written to by the Fund last year and were reported to the Pensions Regulator the year before that, for the quality of the data provided to the Fund. PP advised there have been issues with new starter and leaver data, casual workers and people changing roles. PP advised that a

significant amount of data has now been received and B&HCC is looking to be moving into a more positive position from its previous poor position.

8.4 The Chair asked TD to feedback to B&HCC regarding their failure to meet their legal requirements to provide data to the Fund , acknowledging the efforts it has made to rectify issues to date.

8.5 TD advised that he will feedback and acknowledged that efforts have been made regarding the software interface and working with third party providers.

8.6 NS asked about i-Connect engagement and what opportunities there have been to engage with other employers.

8.7 The Chair advised that there is an engagement team which has been supported by the Board and extra budget has been allocated to improve engagement. SK noted that the engagement team have been tied up with i-Connect and have not had capacity to do outreach work with employers yet, since the resource shortages from bringing pension administration back in-house. The Chair noted that late payments have decreased which shows how communication with employers appears to be working well.

8.8 TI asked whether any particular employer was making regular late payments to the Fund.

8.9 TH confirmed that there has been one employer who has been warned and fined in the last six months due to late payments, however, the employer engagement team is in regular contact to ensure employers improve the timeliness of their payments.

8.10 The Board RESOLVED to note the report.

9. PENSIONS ADMINISTRATION REPORT

9.1 The Board considered a report providing an update on matters relating to Pensions Administration activities.

9.2 NS asked about the helpdesk call answering time target of 20 seconds, since it was not being achieved.

9.3 PP noted that the in-house administration service was brought in-house relatively recently with a step up in standard expectations of the helpdesk and was not yet meeting the target, which he said is very ambitious given the call answering time for many utility and telephone companies can be several minutes. Nevertheless, call answer times have seen improvement from minutes to seconds. PP agreed to share the answering times at the next meeting of the Pension Board.

9.3 TD noted that although most new pensions admin targets are more ambitious than old targets, for 6A and 6B, the new target is less ambitious and asked why this is the case.

9.4 PP advised that the targets were discussed at previous Board meetings and the new targets align better with industry averages. PP noted that it was agreed that targets would be

reviewed after 6 months and will therefore bring target proposals to the next Pension Board meeting.

9.5 The Board RESOLVED to:

1) note the report; and

2) note that call answering times and new target proposals will be included in the next Pension Administration Report.

10. INTERNAL AUDIT REPORTS

10.1 The Board considered two internal audit reports contained in appendices 1 and 2 of the report.

10.2 The Board RESOLVED to note the reports including:

- Pension Fund Investments 2021/22 (Appendix 1); and
- Pension Administration – People, Process and Systems 2021/22 (Appendix 2).

11. EAST SUSSEX PENSION FUND 2021/22 BUDGET QUARTERLY REPORT

11.1 The Board considered a report on the 2021/22 Financial Outturn.

11.2 TD asked for clarity regarding value for money of investment managers and the additional cost involved in bringing the Pensions Administration Team back in-house

11.3 Russell Wood (RW) noted that although it is difficult to establish cost regarding investment manager fees, there is a cost transparency initiative to establish a baseline for the Industry and more information can be brought to the next Board meeting. RW noted that it is difficult to compare costs of the new Pension Administration Team with the team within Orbis, as the charging mechanism was different, and the Team have been through a number of outsourcing providers in the preceding years. The Chair suggested that the current year should be considered the baseline for value for money of the function and that bringing administration in-house was not motivated by cost saving but by improved oversight and quality of service. SK clarified further that it is not easy to compare investment manager fees as they are paid as a percentage of the assets that they manage, which are subject to market fluctuations.

11.4 TD asked for more information on cost breakdown of investment manager fees at a future meeting.

11.5 SK advised that Board members will be able to see these figures in the accounts and annual report that will be considered at the next meeting of the Board. The Chair noted that until the cost transparency initiative has been undertaken, it will be difficult to observe the full picture regarding cost.

11.6 SO asked if the underspend in the staffing budget is due to ongoing recruitment of staff.

11.7 RW confirmed that the underspend is mostly due to in-sourcing of the Pension Administration Team and the ongoing work to recruit the right people to the roles. PP confirmed that there are currently between 8 and 10 vacancies within the team.

11.8 The Board RESOLVED to note the report.

12. EAST SUSSEX PENSION FUND RISK REGISTER

12.1 The Board considered a report on the updated risk register for the Fund. The Chair commented that this document was difficult to read and asked if the Officers could summarise it to make it easier for Board members to comprehend. IG suggested that a summary format that was used for Audit Committee when considering risk register items of the Council could also be used for the Pension Fund. SK agreed to investigate this possibility.

12.2 The Board RESOLVED to:

- 1) Endorse the removal of Risk A4 - Risk on Dissolution of Business Operations from Orbis to ESCC
- 2) Endorse the removal of Risk A6 - Major Incident preventing staff access to office
- 3) Endorse the increased risk rating of Risks I5 for Funding risk due to higher inflation and I10 - External Fraud
- 4) Agree that there are no further risks to include on the risk register

13. COMMUNICATIONS REPORT

13.1 The Board considered a report providing updates on the 2022 Communications Strategy and activity since the previous meeting.

13.2 The Board RESOLVED to note the report.

14. TRAINING REPORT

14.1 The Board considered a report providing updates on the delivery of the annual training plan and change to the training strategy.

14.2 The Chair noted that he had tried the online training system and asked if it was going to be made available to all Board members.

14.3 PP confirmed that the system is available for all Board members and Pension Committee members and that the training co-ordinator would get in touch with Board members to ensure they could access.

14.4 The Board RESOLVED to note the report.

15. EXTERNAL AUDIT PLAN FOR THE EAST SUSSEX PENSION FUND 2021/22

15.1 The Board considered a report on the content of the East Sussex Pension Fund external audit plan for 2021/22.

15.2 The Board RESOLVED to note the report.

16. ANNUAL REPORT OF THE PENSION BOARD

16.1 The Board considered a report on the work completed by the Pension Board and the actions taken by the ESPF, including training undertaken in the past 12 months.

16.2 The Chair asked if there had been consideration of the request to increase the number of people on the Pension Board. SK confirmed that officers have been looking into the request and a report will be ready for the next Board meeting.

16.3 TD noted that the Communication Working Group has completed a lot of work and communications have improved. He asked if the work of the Communication Working Group could be included in the Annual Report of the Pension Board.

16.4 SK noted that she will work with the Chair to include something about the Communication Working Group in the final version of the Annual Report of the Pension Board. The Chair agreed this would be welcome.

16.5 The Board RESOLVED to note the report.

17. WORK PROGRAMME

17.1 The Board considered report on the combined Pension Board and Pension Committee work programme.

17.2 The Chair asked if any members of the Board have completed any training since the last meeting of the Board.

17.3 TD noted that he had completed some online training modules. SK asked that Board members communicate all training completed or events attended to Mariana Obetzanova so that it can be recorded as part of the statutory requirement.

17.4 SK noted that the accounts, audit report and covenant review report are due in September and there is work currently being undertaken regarding a good governance decision making matrix. SK noted that the draft funding strategy statement is due at the September Board meeting. SK noted that there may be a recommendation to treat academies under a pooled basis.

17.5 The Chair asked if a November date has been set for the Employer Forum.

17.6 TH confirmed that Thursday 24 November is a provisional date and asked the Chair to confirm availability for this date.

17.7 The Chair congratulated the Pensions Team for achieving LGPS Fund of the Year (assets over £2.5bn) at the recent Local Authority Pension Fund (LAPF) awards.

17.8 The Board RESOLVED to note the report.

18. EXCLUSION OF THE PUBLIC AND PRESS

18.1 The Board RESOLVED to exclude the public and press from the meeting for the remaining agenda item on the grounds that if the public and press were present there would be disclosure to them of exempt information as specified in paragraph 3 of Part 1 of the Local Government Act 1972 (as amended), namely information relating to the financial or business affairs of any particular person (including the authority holding that information).

19. PENSION FUND BREACHES LOG AND INTERNAL DISPUTE RESOLUTION PROCEDURE CASE REPORT

19.1 The Board considered a report providing an update on the Breaches Log and outstanding or new Internal Dispute Resolution Procedure (IDRP) cases.

19.2 A summary of the discussion is set out in an exempt minute.

19.3 The Board RESOLVED to agree actions which are set out in an exempt minute.

20. EMPLOYER ADMISSIONS AND CESSATIONS REPORT

20.1 The Board considered a report on the latest admissions and cessations of employers within the Fund.

20.2 A summary of the discussion is set out in an exempt minute.

20.3 The Board RESOLVED to agree actions which are set out in an exempt minute.

The meeting ended at 1.00 pm.