

PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at Council Chamber, County Hall, Lewes on 22 February 2024.

PRESENT Councillors Gerard Fox (Chair) Councillors Ian Hollidge,
Paul Redstone and David Tutt

ALSO PRESENT Ian Gutsell, Chief Finance Officer
Sian Kunert, Head of Pensions
Russell Wood, Pensions Manager: Investment and Accounting
Andrew Singh, ISIO
William Bourne, Independent Adviser
Paul Punter, Head of Pensions Administration
Michael Burton, Pensions Manager: Governance and
Compliance
Mya Khine, Pensions Accountant
Paul Linfield, Pensions Communications Manager
Paula Jenner, Employer Engagement Officer
Dave Kellond, Compliance and Local Improvement Partner
James Sweeney, Pensions Investment Officer
Bekki Freeman, Solicitor
Councillor Nick Bennett, online
Neil Simpson, Pension Board
Georgina Seligmann, Governance and Democracy Manager

54. MINUTES

54.1 The Committee RESOLVED to agree the minutes of the meeting held on 16 November 2023 as a correct record noting that William Bourne attended the meeting.

54.2 The Committee discussed the amendments to the divestment report raised at the September meeting and when they could expect a report from officers.

54.3 The Committee noted that the report is in progress, but that sufficient information needs to be provided to members in order to support effective decision making and that officers will bring the report to a future scheduled meeting or to the strategy day in July if it is available at that point.

55. APOLOGIES FOR ABSENCE

55.1 None were received, Councillor Taylor was noted as being in attendance remotely.

56. DISCLOSURE OF INTERESTS

56.1 There were no interest to disclose.

56.2 Councillor Tutt requested that his membership of the Governance Committee and his role as the Director of the Cyber Centre of Excellence be recorded for transparency purposes in relation to items 7 and 12 of the agenda.

57. URGENT ITEMS

57.1 There were no urgent items.

58. PENSION BOARD MINUTES

58.1 The Committee RESOLVED to note the minutes of the Pension Board meeting held on 06 February 2024.

59. GOVERNANCE REPORT

59.1 The Committee considered an update report on the Governance of the East Sussex Pension Fund, introduced by Michael Burton who drew the Committee's attention to the following:

- 1) There has been an update to the Pension Board membership, Nigel Manvell is now the employer representative for BHCC.
- 2) The General Code of Practice has been issued by the Pensions Regulator and will be applied from 27 March 2024. Officers are reviewing processes to ensure the Fund is compliant with the Code; Officers will highlight any compliance gaps and the actions required and will bring these to the next meeting and will consider whether training is needed at that point or if a working group is required.
- 3) The Economic Activity of Public Bodies (Overseas Matters) Bill is going through parliament which may have a potential impact on decision making for investments as it prevents political, moral decision making for investments.
- 4) The Risk Management policy has had some minor updates but no material changes have been made.

59.2 The Committee thanked officers for the report and noted that Councillor Colin Swansborough is to be the named substitute for the Liberal Democrats' allocated place on the Committee.

59.3 The Pension Committee RESOLVED to:

- 1) Note the report; and
- 2) Approve the Risk Management policy.

60. GOVERNANCE CHANGE REPORT

60.1 The Committee considered a report on the changes to the Constitution following a review of decision-making responsibilities in line with the recommendations of the Scheme Advisory Board "Good Governance Review" introduced by Ian Gutsell (IG).

60.2 The Committee noted the changes proposed to the Debt Write off and the CFO Scheme of delegations and that the COO will still hold responsibility for HR Policy and HR function with

regards to the pension fund officers and that the changes have been made in consultation with the Chairs.

60.2 The Pension Committee RESOLVED to note the following recommended changes to the East Sussex County Council Constitution where it relates to the East Sussex Pension Fund (the Fund):

- 1) Agree the amendment to the write off of debt authorisation process in relation to the Fund; and
 - i) Agree the revisions to the Chief Finance Officer responsibilities in relation to the Fund (showing these separately from the responsibilities for the Council) as laid out in Appendix 1 of the report.
- 2) Recommend the recommended changes to the Governance Committee with the minor amendment from Councillor Tutt to debt write off.

61. PENSIONS ADMINISTRATION REPORT

61.1 The Committee considered a report introduced by Paul Punter who drew the Committee's attention to the following points:

KPIs

- 1) Lower performance figures were expected for the next quarter with various projects requiring resources including GMP rectification, the McCloud judgement changes, i-Connect onboarding and supporting the helpdesk.
- 2) The McCloud data is not complete on the system but the team is making good progress and all data except for 1 active employer is with Heywoods at present.
- 3) Automation of some calculations through robotics will go live soon which will ease the strain on resources.
- 4) PAT performance numbers are 81% which is lower than the target at 95% with the impact of completing the BHCC work now being felt. It was highlighted the performance data includes a widening of reportable indicators to include aggregations and the volume of work completed by PAT has significantly increased. Performance is not expected to be at target level until the end of the next quarter at earliest.
- 5) 6.7% increase in pension benefits this year will be implemented to benefits in the coming weeks which will impact liabilities.
- 6) The BHCC April 23 i-Connect file went onto the system this week, some work required to assess joiners and leavers.
- 7) A couple of large projects will finish in the next couple of months and at that point should see a positive shift in numbers.

Helpdesk

- 8) PAT have been helping to cover the helpdesk in the short term (only 2 FTE remaining in the team) as 2 staff members have left, the staff TUPE consultation is ongoing, and the helpdesk will transfer into the East Sussex team from SCC on 1 April 2024. Bank staff are not covered by the TUPE process so are unlikely to accept offers to transfer to East Sussex as like for like pay is less. As a result PAT are recruiting 3 new staff to join the Help Desk. PAT have resolved a huge number of enquiries via email while phone service was prioritised by the helpdesk and matters are now back under control.

Staff

- 9) Focus on recruitment to fully staff the Helpdesk. Working on recruiting apprenticeships and building up a staff base that way to develop and retain staff effectively. It is very difficult to find experienced pension administrators, particularly with LGPS experience.
- 10) Officers noted the support the board and committee have expressed to the Fund for additional resource to help with the backlog and KPI strains and reassured members that new staff will be onboarded in March and that workloads will be more manageable when some of the transactional work is processed by robotics. Staff will be responsible for checking the automated work.

Projects

- 11) GMP: expecting data back from Mercers in February 202, some decisions will be required depending on what is received. Such decisions will be taken forward through Pension Administration Working Group. This project has been time consuming and once completed will result in more capacity for the team.
- 12) The Member Self Service (MSS) project has been rescheduled to launch in later in the year, as part of the user acceptance testing the Fund will involve the Trade Union representative on the Pension Board and then pilot the service with ESCC staff.

61.2 Committee members were given assurance that despite the challenges, statutory requirements are being met and will remain the focus.

61.3 The Committee noted and welcomed officer's transparency of the work received and completed during the reported period. It was noted that the team have received an unusually high volume of work which could not be completed within the expected timeframes but that this will improve over the next few months.

61.4 The Committee RESOLVED to note the updates.

62. Q3 BUDGET MONITORING REPORT AND 2024/25 BUSINESS PLAN AND BUDGET

62.1 The Committee considered a report on the Quarter 3 forecasted financial outturn of the East Sussex Pension Fund (ESPF) for the 2023/24 financial year and the Draft Budget for 2024/25, introduced by Russell Wood who drew the Board's attention to the following points:

- 1) There was an increase in the current year forecast of £70k due to the Fund Officer costs; the previous figures had not included an amount for the pay award.
- 2) Audit costs have increased significantly to £90k.
- 3) The cost of investment advice for some outstanding areas of work relating to the investment strategy and work plan is not yet known so a higher contingency has been provided for in the budget.

Draft budget

- 1) Slight increase from the current year of £98k, several assumptions made and the cost of the helpdesk is not known.
- 2) The budget is based on an assumption of being fully staffed and that those who are due an increment will receive one. An assumed pay award of 3% has been included in line with the East Sussex Council budget.

- 3) A number of one-off payments have been removed as they related to last year only but there is sufficient contingency for projects.

62.2 The Committee RESOLVED to:

- 1) Note the report; and
- 2) Approve the Business Plan and Budget for 2024/25 as set out in Appendix 1 of the report.

63. INTERNAL AUDIT REPORTS

63.1 The Committee considered the draft Internal Audit strategy for Pensions and annual plan presented by Danny Simpson (DS) and noted the following points:

- 1) The Strategy has been drafted in liaison with the Section 151 officer and the Chairs of the Board and Committee.
- 2) There are 4 key areas that will be focused on in the year. DS advised the regulatory compliance audit has been rescheduled to Q4 as changes to the General Code are coming in this year.
- 3) The annual plan sets out the outline objectives of the planned audits, when they will be conducted and the key risks which will be addressed within these audits.

63.2 The Committee RESOLVED to approve the 2024/25 Internal Audit Strategy for Pensions and Annual Plan.

64. AVC REPORT

64.1 The Committee considered a report on the management and governance of the Additional Voluntary Contribution arrangements with Prudential, introduced by Sian Kunert, and noted the following points:

- 1) There are 10 self-selection funds available and their performance is set out in the appendices. The number of funds and range of products available is appropriate for members.
- 2) There were no areas of concern identified, Prudential is one of the largest providers and offers appropriate funds.
- 3) Charges are consistent with other AVC arrangements in the LAPF.
- 4) Prudential offer a Sharia fund and officers have not received any questions about inclusion of such a Fund. It was also noted that the LGA have confirmed that the LGPS is Sharia compliant. The fund can be added this if there is interest and the Pension Board had suggested at their meeting it would be reasonable to make this available to members.
- 5) The employers provide the access and information to members, ESCC has recently launched AVC Wise which is an intermediary approach that most employers use. There is a Prudential AVC website which provides the detail of the investment options but the administration is done by the employer until a member wants to draw the

investment at which point the Fund manages the withdrawal.

- 6) Officers advised that the standard of living requirement and gender discrepancies should be a communication and training focus for employers. AVCs are a good way to address this gap and will be an area of focus over the next 12 months.
- 7) Officers agreed that an external adviser be selected to advise the Fund on the most appropriate default approach going forward.

64.2 The Committee agreed that it is the employers' role to promote and provide information about AVCs and noted the Board's agreement and that the focus of the review is to ensure that the options available to Fund members are appropriate. There should be sufficient choice for members but not an overwhelming number of options.

64.3 The Committee noted that a Corporate Bond Fund is not offered, having been removed in 2008. There are three dynamic growth bonds with different returns on them dependent on the level of risk. Officers agreed to explore if any corporate bond funds may be available to members through Prudential and to review all options available to ensure an appropriate offer to members.

64.4 The Committee RESOLVED to note the report.

65. RISK REGISTER

65.1 The Committee considered a report introduced by Sian Kunert who drew the Committee's attention to the following risks:

- 1) Risk E3 – Employer Covenant, has been increased in likelihood, moving the overall risk score to a 6. This is because an increasing number of Local Authorities are at risk of a s.114 notice and not having sufficient cash to meet their expenditure. Pension payments would be expected to continue in such circumstances but it is unclear what would happen in the event of a Local Authority not being sufficiently solvent. This rationale has also seen the suggested pre-mitigation likelihood increase. Officers advised that other funds have not reported issues with collecting contributions where Section 114s have been issued so the mitigation is appropriate.
- 2) Risk G1 – Key Person Risk, has increased. A member of the Officer leadership team has recently left, it is believed there may be delays in finding a suitable candidate for the vacant position and agency support for the team has not yet been successful.
- 3) The definition of risk G5 – Data Breach, has been updated to make it clear that the risk does not just apply to GDPR, other Regulations exist which determine how data is handled and used. The language has been updated to reflect a wider perspective.
- 4) Risk G6 - Fraud, has seen its likelihood being reduced. Fund Officers have not seen material cases of fraud either against the Fund or its members. Mitigations in place are believed to be effective, however, it is recommended that the risk remain on the register as both a point of good practice and the potential pre-mitigation risk level.
- 5) Risk I6 – ESG, has seen both pre and post mitigation likelihood scoring increase. There is expected to be an increase in the level of political interest in this area which will mean it is more likely further action will need to be taken by the Fund. Risk I7

– Climate Change has had its post mitigation risk increased for the same reasons. There are high levels of complexity which must be approached with effective stewardship.

65.2 The Committee noted that some risks are being closely monitored and are set out in the report. Whilst the rating has not changed these risks are being regularly reviewed by officers this includes the long run inflation assumptions in the funding position.

65.3 The Committee RESOLVED to note the Pension Fund Risk Register.

66. INVESTMENT REPORT

66.1 The Committee considered a report introduced by Russell Wood and David O'Hara who drew the Committees attention to the following points:

- 1) The PIRC benchmarking showed the LGPS as a whole performed well, the Fund was just below the average performance for Q4 and 1 year returns and a slightly higher return looking at the 3 year 3 year figures.
- 2) The Joint ACCESS committee have set the business plan and budget, there is a £155k contribution per council.
- 3) The Fund has successfully maintained its Stewardship status (as of 21 February) the Fund will try to report in May going this year depending on resources so the report is being drafted in a time period closer to the data set it is reporting on.
- 4) The first PRI report was submitted this year, the Fund is over the median score for all areas and at least 4 stars for all items, the report will be submitted again in June/July. The Fund is well above the median and this is an achievement.
- 5) The Competition and Markets Authority's (CMA) Investment Consultancy and Fiduciary Management Market Investigation Order 2019 has an annual requirement for all LGPS funds to submit a compliance statement, the Fund submitted this on 4 January 2024. .
- 6) Due to the timing of the November meeting the usual Quarterly Performance Report for Q3 2023 was partially incomplete, the full report has now been completed and is attached as Appendix 2 of the report.
- 7) The Quarterly report for December has also not been completed in full in time for the publication for papers. Isio have provided the report as complete as possible attached as Appendix 3 of the report with the detail pages for Ruffer, UBS infrastructure, Pantheon, IFM to follow once complete.
- 8) The quarterly performance was reflected a 4.3% positive absolute return and the Fund also outperformed its benchmark, there was strong performance across all markets, equity and bond markets are up significantly but some uncertainty remains regarding inflation.
- 9) The active impact public equity mandates have continued to struggle relative to their benchmarks over the last 12 months. Private equity mandates have delivered very strong performance over the 3 and 5 year periods, however the performance has been largely negative over the last 12 months.
- 10) Infrastructure has mostly performed strongly over the last quarter except for UBS and Pantheon. Of the managers that have been in place for the longer term, UBS infrastructure has most significantly underperformed its benchmark. This is primarily driven by the disappointing performance of Archmore Fund I.

- 11) There was outperformance in equity mandates, private equity underperformed, reflecting a period of over performance which is now starting to cool as valuations catch up.
 - 12) Newton's improved performance was noted, however Ruffer have a more cautious approach which was reflected in their performance, property markets continued to struggle however Schroders have advised that they think this is flattening. Ruffer has outperformed over 5 years. Newton's long term performance is slightly under the benchmark but broadly inline. The medium term performance has been lack lustre so there are some concerns over this as an asset class and whether sufficient risk is being taken to ensure a good return and this will be kept under review.
 - 13) The Chair of the Pension Committee and Officers met with Ruffer and drew some comfort about approach, the high conviction rates proved prudent during the pandemic.
 - 14) Wellington; the lead portfolio manager has stepped down and the fund was downgraded to amber as result, this will be kept under review with regular meetings to ensure comfort levels.
 - 15) M&G Alpha opportunities; this is one of the best performing funds in sector with strong ESG credentials and now has a sustainable version of the fund which is positive. Having reviewed the proposition, restraints are the size of the fund which is currently too small to invest in, along with a limitation created by the investments which get screened out reducing the investable universe (these are screened out due to lack of data available rather than being bad investments/not meeting ESG requirements).
 - 16) Returns are driven by having the correct asset allocation and excluding asset classes due to a lack of data is challenging from a return perspective. ISIO are exploring this with M&G as this is a significant consideration for the Committee in assessing the sustainable version of the Fund.
 - 17) ATLAS; performing well, 60% was owned by global managers, now acquired by Blackrock however not a concern at this point.
 - 18) The Committee noted that the Fund is slightly overweight in private equity against the agreed strategic allocation and underweight in private credit, work is ongoing looking at moving into private credit, looking at what this will comprise of and allocating managers, ACCESS are not in a position to do this at this stage, ISIO will bring the proposal back to a future meeting and the possible managers to consider.
- 66.2 The Committee REVOLVED to note the investment report.

67. WORK PROGRAMME

67.1 The Committee considered its work programme, introduced by Sian Kunnert, and noted that a number of policies will be reviewed in June along with the report of the Pension Board and the June papers will reflect the training undertaken by the Committee in January.

67.2 The Committee RESOLVED to agree the work programme.

68. EXCLUSION OF THE PUBLIC AND PRESS

The Committee 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).

69. INVESTMENT REPORT - EXEMPT INFORMATION

69.1 The Committee considered the exempt Investment report.

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

69.3 The Committee RESOLVED to note the report.

70. GOVERNANCE REPORT - EXEMPT INFORMATION

70.1 The Committee considered the exempt risk register.

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

70.3 The Committee REOLVED to:

- 1) Note the report; and
- 2) Approve the revised Death Grant Policy.

71. EAST SUSSEX PENSION FUND (ESPF) BREACHES LOG

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

71.2 A Summary of the discussion is set out in the exempt minute.

71.3 The Committee RESOLVED to:

- 1) Note the breaches of law and steps being taken; and
- 2) Note that no new IDRP complaints have been raised in the relevant period.

72. EMPLOYER ADMISSIONS AND CESSATIONS

72.1 The Committee considered a report providing an update on the latest admissions and cessations of employers within the Fund.

72.2 The Committee RESOLVED to:

- 1) Note the ongoing proceedings for the admission of admitted bodies to the Fund;
and
- 2) Note the ongoing proceedings for the cessation of employers from the Fund