

PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at Council Chamber, County Hall, Lewes on 27 February 2025.

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

ALSO PRESENT

Ian Gutsell, Chief Finance Officer
Susan Greenwood, Acting Head of Pensions
George Norval, Interim Deputy Head of Pensions
Russell Wood, Pensions Manager: Investment and Accounting
Iain Campbell, Head of LGPS Investment, Hymans Robertson
William Bourne, Independent Investment Adviser
Paul Punter, Head of Pensions Administration
Paul Linfield, Pensions Communications Manager
Mya Khine, Pensions Accountant
Dave Kellond, Compliance and Local Improvement Partner
James Sweeney, Pensions Investment Officer
Bekki Freeman, Solicitor
Neil Simpson, Pension Board
Cllr Andrew Wilson, Pension Board
Trevor Redmon, Pension Board
Lynda Hughes, Pension Board

57. MINUTES OF THE MEETING OF 21 NOVEMBER 2024

57.1 The Committee RESOLVED to agree the minutes of the meeting held on 21 November 2024 as a correct record.

58. DISCLOSURE OF INTERESTS

58.1 Councillor Tutt declared his role as the Director of the Cyber Centre of Excellence in relation to item 11 of the agenda.

59. PENSION BOARD MINUTES

59.1 The Committee RESOLVED to note the minutes of the Pension Board meeting held on 13 February 2025.

60. PENSION REFORM AGENDA

60.1 The Committee considered a report on the Pension Reform Agenda introduced by Susan Greenwood (SG) who drew the Committee's attention to the following points:

- 1) Further to the announcement of a pensions' review in July 2024, the Chancellor announced in her Mansion House speech on 14 November 2024 that the government would launch a consultation to ensure that the LGPS was "Fit for the Future" with a view

to accelerating pooling of assets by March 2026 and supporting the Chancellor's aims of accelerating growth and investment in the UK.

- 2) The consultation has thirty questions and is focussed on three key areas:
 - Reforming the LGPS asset pools: with a single model, whereby LGPS Administering Authorities (AAs) will delegate investment strategy implementation to the pool; Financial Conduct Authority (FCA) registration of pools;
 - Boosting LGPS investment in their localities and regions in the UK: by having a target allocation to local investment that supports local economic priorities; working with Mayoral offices and local authorities.
 - Strengthening the governance of both AAs and LGPS pools: building on the 2021 Good Governance review.
- 3) The Fund has prepared an extensive response to this lengthy consultation as set out in Appendix 2 of the report.
- 4) Officers have undertaken extensive work on this and the report sets out the key areas of governance reform and the assessments of where the Fund currently complies.
- 5) Changes will be required to strategies and policies however the detail of this is not yet known.
- 6) Details of how the Fund will respond are set out within the exempt report at item 17 of the agenda.
- 7) A high-level Governance overview has been provided within the report, overall, the Fund is largely in line with what is expected to be required, however until the response is received the detail of further changes is not yet known.
- 8) Local investment is a key focus of the proposal and officers will need to consider how this will be incorporated but require more detail.
- 9) In response to Committee concerns regarding how decisions about local investments may conflict with their Fiduciary Duty, officers highlighted that the KC opinion published in January stated that any local investment would be considered a non-financial investment. However, this could be subject to challenge but noted that the proposals present fiduciary duty challenges for Committee members.

60.2 The Committee RESOLVED to note the report.

61. GOVERNANCE REPORT

61.1 The Committee considered a report providing an update on various governance workstreams completed and changes affecting the LGPS and the ESPF introduced by Dave Kellond (DK) and drew the Committee's attention to the following:

Legal and regulatory changes

- 1) The Education and Skills Funding Agency published a policy paper in November 2024 announcing that they will guarantee outstanding LGPS liabilities when a further education body closes, but not higher education body, in line with the existing guarantee

in place for academies. As a result, the Fund may consider whether the funding approach for the employers to whom the guarantee has now been extended should be revised.

- 2) This will strengthen the covenant in the Fund for those employers identified as being affected. The Fund will communicate with those employers and review the implications of these changes as part of the next actuarial valuation cycle.
- 3) The Scheme Advisory Board recently sought an update to Counsel's opinion on fiduciary duty, having last done so in 2014.
- 4) In January the Scheme Advisory Board published the updated opinion of Nigel Giffin KC. This is intended as a review and update of the opinion given in 2014 and it considered financial and non-financial matters.
- 5) It is the intention that from April 2027 most unused pension funds and death benefits will be included within the value of a person's estate for Inheritance Tax purposes and pension scheme administrators will become liable for reporting and paying any Inheritance Tax due on pensions to HMRC. In the context of the Local Government Pension Scheme this will mean that any death grant payable would always fall within the estate of the deceased member for inheritance tax purposes, and as a result scheme administrators will be responsible for reporting and paying any inheritance tax due.
- 6) A consultation seeking views on the processes required to implement the Inheritance Tax changes closed on 22 January 2025. The response only addressed the process for implementing the changes, and not the issue of the change itself as that was not within the focus of the consultation.
- 7) The Officers response provided to the Inheritance Tax consultation makes clear the view that accounting for and paying of inheritance tax, should be the responsibility of the personal representative (executor) and not be that of the pension scheme administrator. The response is consistent with that of the National Pension Officer Group and other LGPS funds.
- 8) In response to questions from the Committee, officers confirmed that all death grants would likely be delayed as officers would need information from the personal representative about the Estate before benefits could be settled. There was an expectation that only a very small percent of deceased members pension fund death grant benefits would be liable for any Inheritance Tax

Funding

- 9) The Fund Actuary has prepared the indicative quarterly funding update as at 31 December 2024, rolling forward assumptions from the valuation and reflecting actual experience since March 2022, included as Appendix 5. The indicative funding report shows the funding position increase from 120% in June 2024 to 122.4% in December 2024. This does, however, represent a minor decrease from the position in March 2022 of 122.8%.

61.2 The Committee RESOLVED to note the Governance report.

62. PENSIONS ADMINISTRATION REPORT

62.1 The Committee considered a report providing an update on matters relating to Pensions Administration activities and Paul Punter (PP) drew the Committee's attention to the following points:

KPIs

- 1) The volume numbers of tasks received are extraordinarily high compared to the historical position and are unsustainable. 82% for Q4, 2024 performance, so below what officers are aiming for. However, the table in Appendix 1 of the report demonstrates that performance has improved over the quarter as the workload has decreased through clearing the backlog, which is encouraging. Further, death and retirement requests were processed on time which is key.
- 2) The Admin Working Group met on 2 December 2024 and went through the October 2024 Admin Performance in detail. Full explanations were provided about the cases with the longest number of days taken and where the average number of days were high. The attendees were appropriately reassured the data was accurate and being reported correctly and most importantly that the PAT were working tirelessly and effectively to clear the backlog and improve the reported team performance. The impact of uneven spikes in post received (like following the issue of ABS) were much better understood. November and December 2024 KPIs demonstrated a significant improvement, and the Admin Working Group will look at the detail of this at their next meeting.
- 3) January 2025 saw further admin performance improvement (91%), however, poorer numbers are anticipated in February and March 2025 due to the mid-year bulk file from BHCC. The BHCC i-Connect January 2025 data file was run in early February 2025 and overall went well which is very positive and indicates that the BHCC monthly i-Connect files should be treated as BAU like other onboarded employers. Officers will not support BHCC with the February 2025 i-Connect file upload.
- 4) In response to questions from the Committee about capacity, officers confirmed that based on the January 2025 i-Connect file and through regular calls with BHCC that there is confidence that this work can be done effectively without support from the Fund's officers.

Helpdesk

- 5) The Fund aims to achieve a gold standard service provision for the Pensions Helpdesk. The team is working effectively, and members of the Helpdesk are taking on more work from the administration team and there are no concerns.

Staff

- 6) Since the last meeting there has been one resignation, and a staff member will be beginning maternity leave, so some redeployment of staff required.

Projects

- 7) Pensions Dashboard: Officers continue to focus on getting the data ready using a Heywood Altair Insights dashboard report to identify gaps. Heywood are our Integrated Service Provider, and a project plan has been created, with a two-phase approach pencilled in. Phase one was completed in January 2025. Reconciliation of data from the Altair system and Prudential is ongoing to ensure it is consistent. All schemes must onboard by 31 October 2026, but the LGPS formal staging date is 31 October 2025. It is not yet known when the pension dashboards will go live to the public.
- 8) I-Connect: Officers had targeted the last 10 employers (who had historically had data issues or been less engaging) to be onboarded by 31 March 2025. All have had their

initial meetings and discussions about our specifications and requirements, two of the employers won't progress at this point as they are changing their payroll software on 1 April 2025. University of Brighton is almost ready to be onboarded which represents good progress. The increased volume of employers now onboarded to i-Connect should reduce the number of queries when officers start the ABS work.

Pension software

- 9) A paper on the Pensions Admin Software tender was presented to the Pensions Committee on 21 November 2024 advising Officers had evaluated the LGPS Framework bid and were happy with the quality of the submission. Officers recommended that Heywood Limited would continue to provide a robust and comprehensive service to the Fund and further system enhancements should be taken on as part of a new contract. The Pensions Committee authorized the Chief Finance Officer to complete the appropriate due diligence to award the contract. The award was made on 23 January 2025. The contract will commence on 28 April 2026 for a five-year term, with an option to extend up to 26 April 2034.

62.2 The Committee welcomed the detailed information and thanked the officers for their continued hard work and transparent reporting.

62.3 The Committee RESOLVED to note the report.

63. QUARTERLY BUDGET MONITORING REPORT AND 2025/26 BUSINESS PLAN AND BUDGET

63.1 The Committee considered the Quarterly Budget report presented by Russell Wood and noted the following points:

2024/25 Q3 Forecast Outturn as at 31 December 2024

- 1) The budget requirements for 2024/25 were set at £4.561m (£4.463m 2023/24 excluding investment manager fees) to support the Business Plan activities and administration of the Fund. The forecast outturn at the third quarter of 2024/25 is £4.314m (£4.400m last quarter), this is a slight decrease from the last projected position of £85k and reflects an underspend to the approved budget of £247k.

The Business Plan and Budget

- 2) Total 2025/26 budget proposed is £4.645m (£4.561m 2024/25) to support the Business Plan activities and administration of the Fund. This represents an increase of £84k on the 2024/25 budget. There has been a full review of the costs for 2025/26 and the budget for individual lines have changed. The overall result was a budget which was slightly above the previous years. This did not include a budget for any additional expenditure which relates to activity undertaken by ACCESS in response to the Governments fit for the future consultation this will be provided at the next meeting when the direction of travel is clearer.

63.2 The Committee RESOLVED to note:

- 1) the 2024/25 Q3 forecast financial outturn position; and
- 2) approve the Business Plan and Budget for 2025/26 in Appendix 1 of the report.

64. INTERNAL AUDIT REPORT

64.1 The Committee considered the internal audit report presented by Danny Simpson (DS) and noted the following points:

- 1) The review of the Fund's Financial Controls was completed as part of the Internal Audit Strategy and Plan for Pensions 2024/25 and provides assurance on the overall effectiveness of controls.
- 2) An opinion of Substantial Assurance over the controls in place was provided.

Annual strategy plan

- 3) Officers will be reviewing the preparedness for the pooling reforms and ensuring that the required pace can be achieved. It was agreed that these pieces of work could be done in parallel towards the end of Q1, 2026 and into Q2, 2026 whilst noting that the full scope of what is required may not be fully known at Q1, 2026.
- 4) The administration of pension benefits will be audited every year as the volume of transactional work is so significant.
- 5) The KPIs are looked at as part of the pension admin audit which is a long-established standard practice. A future training session on the Pensions Dashboards is planned for the Committee in September 2025.

64.2 The Pension Committee RESOLVED to:

- 1) note the Pension Fund – Financial Controls Audit Report (Appendix 1 of the report); and
- 2) approve the Internal Audit Strategy for Pensions and Annual Plan 2025/26 (Appendix 2 of the report).

65. RISK REGISTER

65.1 The Committee considered the risk register presented by George Norval (GN).

65.2 The Committee considered the following risks:

- 1) Risk I5 - which focuses on the changes that will be required to Investment Pooling in relation to the "Fit for the Future" government consultation proposals. The risk here is around the government's proposals and/or the arrangements of ACCESS being insufficient for the needs of ESPF, which could cause a reduction in funding level among other negative impacts. Until the proposals are finalised, the risk score is high, although it is mitigated slightly to a moderate risk by ESPF continuing to engage with and shape the proposals.
- 2) Risk G1, key person risk, has also been reduced. The Fund now has in place an Acting Head of Pensions and has extended the contract of the Interim Deputy Head of Pensions, ensuring the continuation of service.
- 3) Risk G3, there is still one outstanding question from the Pension Committee meeting on 25 September 2024 regarding whether system back-ups were immutable and assessment of third-party provider backs up. The Fund are in liaison with Information Security team on the query about back-ups and will continue to assess the risk around Cyber Security. Officers acknowledged that the Committee are very keen to know the

outcome of a review of the system back-ups. It is anticipated that the Information Security team will provide an update ahead of the next meeting.

Risk Register Workshop

- 4) Officers will be holding a Risk Register workshop towards the end of March 25 via Teams. This will focus on reviewing the Risk Register and its mitigating actions and adding, removing or amending risks as is deemed necessary. Committee members are encouraged to attend.

65.3 The Committee RESOLVED to note the report.

66. INVESTMENT REPORT

66.1 The Committee considered a report introduced by Russell Wood drew the Committees attention to the following points:

PRI

- 1) The Summary Scorecard gives an overview of the Fund's scores against the PRI median score. The Scorecard is shown below and indicates that there are still areas where the Fund can improve but that it is currently performing above the median PRI score on all areas. One item which couldn't be completed but this will be resolved for next year's submission.

Stewardship Report

- 2) The Fund is pleased to confirm that it has maintained its status as a UK stewardship code signatory. The Stewardship report is now on our website along with notification that the Fund are still signatories.

CMA

- 3) With the introduction of the new Investment Consultancy contract with Hymans Robertson, the Pension Committee are asked to review and approve the strategic objectives that have been set for Hymans Robertson under their new contract which are set out at Appendix 4 of the report.

Scheme Advisory Board

- 4) Counsel Opinion was sought in on the implications of the current events in Gaza on LGPS, the opinion sets out that there is no potential prosecution that can be made with regard to the Fund's investments.
- 5) The SAB has now received Nigel Griffin KC's updated opinion on the fiduciary duty in the context of the LGPS, there have not been any changes in respect of what has been published so far in respect of the reforms.

66.2 Iain Campbell (IC) drew the Committees attention to the following points:

- 1) The Committee welcomed the new format and noted that Hymans are happy to tailor the report as required.
- 2) Since the last reported position, the valuation of the Fund has increased from £4.917bn as at 30 September 2024 to £5.070bn as at 31 December 2024 (an increase of £95m). This performance reflects a positive absolute return of 2.0% in the quarter to December 2024. The Fund, however, underperformed the benchmark in the period by 1.6%.
- 3) Performance of Fund assets is similarly behind benchmark over longer time periods. Over the past 12 months and 3 years the Fund has relative returns of - 4.3% and - 3.1%

p.a. respectively.

- 4) Year-on-year headline CPI inflation rose in Q4,2024 to 2.9%, 2.5% and 2.4%, in the US, UK and eurozone, respectively, largely due to a smaller negative impact from energy prices relative to last year's sharp declines. Core inflation, which excludes volatile energy and food prices, was little changed, but remains above headline measures, at 3.2% in the US and UK, and 2.7% in the eurozone.
- 5) US 10-year yields rose 0.8% pa to 4.5% pa, driven by strong growth, expectations of a more inflationary policy mix under Trump, and anticipated higher bond issuance to fund tax cuts. UK 10-year gilt yields rose 0.6% pa to 4.6% pa, spiking after the Autumn 24 Budget, as investors digested a likely slower pace of rate cuts and higher gilt issuance. French 10-year yields rose 0.3% pa to 3.2% pa as political ructions led Moody's to downgrade the country's debt. Equivalent German and Japanese yields rose 0.2% pa to 2.4% pa and 1.1% pa, respectively.
- 6) Credits spreads fell further in Q4,2024 leaving both investment and speculative grade spreads near historic lows. Global investment grade credit spreads remained at 0.9% pa while speculative grade credit spreads fell 0.2% pa to 3.1% pa.
- 7) The results of the quarter mask a lot of volatility, stocks like the magnificent seven continued to outperform and commercial property is recovering with a return to normal conditions.
- 8) The Committee noted that the global equity market index is mainly US based and magnificent seven stocks with high valuations placed on some markets and therefore they could be vulnerable to big drops in the market if expectations are not met.
- 9) The independent advisor advised of three potential challenges; that tariffs will not be positive for growth and returns, if the magnificent seven stocks are broken up this could cause challenges to valuations, also valuations are much higher in US, and if they were brought down this would have an effect on markets.
- 10) The Fund is a longer-term investor with a diversified portfolio which provides protection if there is a crash in the market and managers have convictions which they adhere to but there will be careful consideration of these matters as part of the strategy planning for next year.
- 11) Benchmarks are set to give an indication of relative performance of the investment managers against the broad equity market and there are some outliers who are currently struggling which is bringing down the overall relative figures.
- 12) In response to questions about underperforming funds, IC confirmed that he meet with WHEB Active Impact Equity which underperformed the MSCI World benchmark by 7.8% over the quarter. Active sustainable equity funds want to invest in companies who transition to a more sustainable position, they have a small sub-set of companies who meet their criteria and are therefore all invested in a small concentration which results in volatility from the benchmark in the short term. Additionally, these stocks screen out the magnificent seven which has led to underperformance across these funds.
- 13) IC noted that there have been some unsuccessful stock picks as small growth style companies tend to be selected but there are risks of overpaying. An example is Hello Fresh which did well during the pandemic but struggled afterwards which is a good example of an error in judgement.

- 14) Hymans will provide the necessary constructive challenge to the managers and there are no actions proposed at this point particularly with the uncertainty around pooling and the Committee noted that the fund will be kept under close review.
- 15) Further to this WHEB announced last month that they are being acquired by another impact focused manager, Foresight group, WHEB will retain the brand and the team and this is considered to be a good match and there are no concerns at this point.
- 16) IFM have informed the Fund that IFM Investors, and the UK's largest profit-to-member pension provider, Nest, have entered a binding agreement that will see Nest take a 10% ultimate ownership stake in IFM and provide foundation investments to help launch three new IFM products over the next 12-18 months, with presumptive support for new products into the future.
- 17) In response to a question about how Hymans can influence the stewardship function of the different managers, IC confirmed that the Responsible Investment team research the fund management teams so that there can be regular review and challenge, this is something that is taken seriously and more information can be provided on this to the Committee in future.
- 18) IC agreed to provide further information about the red rating for Baillie Gifford on a follow up e-mail.

66.3 The Committee RESOLVED to note the investment report.

67. WORK PROGRAMME

67.1 The Committee considered its work programme, introduced by SG, and noted the following points:

- 1) This is a valuation year, and this is reflected in the work programme;
- 2) The June 2025 training will now focus on valuation training rather than member induction following the announcement of the postponement of the elections in May 2025;
- 3) In June there will be income generation training and understanding the position of the Fund and managing cashflow;
- 4) It was agreed that Business continuity will be reviewed and then either addressed in the workplan or within the risk register.

67.2 The Committee RESOLVED to agree the work programme.

68. EXCLUSION OF THE PUBLIC AND PRESS

68.1 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 Schedule 12A 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. AVC REPORT - EXEMPT INFORMATION

69.1 The Committee considered the Exempt Additional Voluntary Contributions (AVC) report.

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

69.3 The Board RESOLVED to note the report.

70. PENSION REFORM AGENDA (EXEMPT ITEMS)

70.1 The Committee considered the exempt Pension Reform Agenda report.

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

70.3 The Committee RESOLVED to agree the recommendations set out in the exempt report.

71. INVESTMENT REPORT - EXEMPT INFORMATION

71.1 The Committee considered the exempt Investment report.

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

71.3 The Committee REOLVED to agree the recommendation set out in the exempt report.

72. GOVERNANCE REPORT - EXEMPT INFORMATION

72.1 Committee considered the exempt risk register.

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

72.3 The Committee RESOLVED to agree the recommendations within the exempt report.

73. EAST SUSSEX PENSION FUND (ESPF) BREACHES LOG - EXEMPT INFORMATION

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

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

73.3 The Committee RESOLVED to:

- 1) Note the breaches of law and steps being taken;
- 2) Note the new IDRP complaint raised in the relevant period; and
- 3) Note the update on cases being considered by The Pensions Ombudsman.

74. EMPLOYER ADMISSIONS AND CESSATIONS - EXEMPT INFORMATION

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

74.2 The Committee RESOLVED to:

- 1) Note the ongoing proceedings for the admission of admitted bodies to the Fund;
- 2) Note the ongoing proceedings for the cessation of employers from the Fund; and
- 3) Agree the recommendations within the exempt report.

The meeting ended at 13.14

Councillor Gerard Fox (Chair)