

## PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at County Hall, Lewes on 16 March 2020.

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PRESENT Councillors Gerard Fox (Chair) Nigel Enever and David Tutt

ALSO PRESENT Kevin Foster, Chief Operating Officer  
Ian Gutsell, Chief Finance Officer  
Michelle King, Interim Head of Pensions  
Russell Wood, Principal Pensions Officer  
Nigel Chilcott, Audit Manager  
Danny Simpson, Principal Auditor  
Harvey Winder, Democratic Services Officer  
Paul Potter, Investment Adviser  
Richard Warden, Fund Actuary  
William Bourne, Independent Adviser

### 62 MINUTES

62.1 The minutes of the meeting held on 25 November 2019 were agreed as a correct record.

### 63 APOLOGIES FOR ABSENCE

63.1 Apologies were received from Cllrs Elford and Webb.

### 64 DISCLOSURE OF INTERESTS

64.1 Cllr Tutt declared a personal interest in relation to item 16 as the Leader of Eastbourne Borough Council, which is an employer of Wave Leisure.

### 65 URGENT ITEMS

65.1 There were no urgent items.

### 66 PENSION BOARD MINUTES

66.1 The Committee considered the draft minutes of the Pension Board meeting held on 2 March 2020.

66.2 The Committee RESOLVED to note the report.

## 67 INVESTMENT REPORT

67.1 The Committee considered a report providing an update on investment activities undertaken by the East Sussex Pension Fund (ESPF).

67.2 The Committee discussion included the following key issues:

- The stock markets were currently highly volatile and had not yet been able to quantify the economic impact of Covid-19. Considerable losses and subsequent gains had occurred over the previous week, although overall the markets were trending considerably downwards and the Fund's gains on UK and overseas equities for 2019 had been largely lost.
- The Fund's two absolute return managers – Newton and Ruffer – had been less affected than other investment managers due to their investment in assets other than equities.
- Other risky assets the Fund invests in are also likely to be affected by Covid-19, such as high yield credit and some lower grade investment-level credit, although the impact may not be known for some time. Lower long term bond yields have increased fund liabilities both in the long term and possibly short term (the discounted value of future liabilities is higher due to using a lower long term interest rate to discount). Higher bond yields would have the effect of reducing liabilities. Lower investment asset values have also undermined the funds position, while increased mortality might improve it at the margin. The Actuary suggested that the funded position may have deteriorated by 10-15% from its 108% as of the triennial valuation. The Committee felt this was still a respectable coverage.
- The Fund was well diversified, and the investment advisers and independent adviser both believed that it was not advisable to make any investment decisions until markets had settled down and the impact of expected Government intervention had become apparent.
- The immediate impact on the Fund is likely to be to its cash flow, as dividends, a considerable source of cash to the fund, may not be paid due to the fall in equities. This would be considered during any future plans to change the Fund's strategic asset allocation.
- The Committee agreed that there is a need to review the strategic asset allocation of the Fund, which is currently around 65% in growth assets, and that Members of the Committee should be involved in the process of modelling the outcomes of different asset allocations. The Committee agreed to create a working group of Cllrs Fox and Tutt, the Independent Advisor, Interim Head of Pensions, Chief Finance Officer and other relevant officers to perform this task and report back to the Committee with recommendations. The Committee also agreed the sub group should make recommendations to the Committee to address other longer running challenges to the Fund such as 3-5 year cash flow forecasting. The sub-group will also seek the advice of the Fund's investment consultants.
- The Committee agreed that, although there was currently no plan to do so, there could be a need to act urgently to change investment policy before the next meeting of the Committee. Therefore, it was appropriate to delegate matters relating to pension investment to the Chief Finance Officer in consultation with the Chair and the Fund's

investment advisers until the next meeting of the Committee. The Committee also agreed that they would need to be briefed ahead of any decision.

- The Committee would be provided with regular updates by email on the status of the Fund in the coming weeks.
- The Committee agreed that meeting the new tier 1 UK Stewardship Code standards would require significant resource that the Fund does not currently possess. It would therefore be more appropriate to encourage the ACCESS pool to sign up to the UK Stewardship Code. This would be achieved through lobbying other members of ACCESS via the ACCESS Joint Committee and Section 151 Finance Officer working group.

67.3 The Committee RESOLVED to:

- 1) note the report and appendices;
- 2) approve the Pension Fund Action Log and Workplan;
- 3) invite a representative from the UN Principles of Responsible Investment (UNPRI) to present at future Committee meeting;
- 4) recommend that ACCESS signs up to the UK Stewardship Code;
- 5) Delegate to the Chief Finance Officer in consultation with the Chair and investment advisers decisions relating to management of the investment of the pension fund and any other urgent decisions until the next meeting of the Committee;
- 6) request that the Chief Finance Officer provide regular updates to the Committee on matters relating to pension investments up to the next meeting of the Committee including briefings ahead of any decisions taken by the Chief Finance Officer relating to management of the investment of the pension fund; and
- 7) agree to establish a working group to advise the Committee on future strategic asset allocation, 3-5 year cash flow forecasting, and other strategic issues, comprising Cllrs Fox and Tutt, the Independent Advisor, Interim Head of Pensions, Chief Finance Officer and other relevant officers.

## 68 TRIENNIAL VALUATION 2019, FUNDING STRATEGY STATEMENT AND INVESTMENT STRATEGY STATEMENT

68.1 The Committee considered a report seeking its approval of the Triennial Valuation 2019, Funding Strategy Statement and Investment Strategy Statement.

68.2 The Committee discussion included the following key issues:

- The Fund had been valued at 108% funded at the time of the valuation in 31 March 2019. In reaching this conclusion the Actuary had conducted modelling that took into account sustained period of economic downturn.
- The Actuary did not propose changing the reduction in employer contributions for 2020/21 of 0.5% in light of the economic downturn. Regulations give the Fund the power to review the contribution rates after a year if there were significant changes to the Fund's valuation. The Pension Scheme Advisory Board is also expected to release guidance taking into account the impact of the Covid-19 outbreak.
- The Fund is expected to communicate to employers the situation regarding the financial downturn and their contribution rates.

- A collapse in dividend payments could have a significant impact on the Fund due to the reliance of dividends as a source of cash. Consideration would need to be given as to how to make up the difference in the short term, for example, the selling of index linked gilts.
- Consideration should be given as to whether it is appropriate for the Committee to take decisions on issuing an exit credit to an employer when it is above a certain value, given the potential impact on the Fund's financial sustainability.
- More work needs to be undertaken to understand the financial position of a number of smaller employers within the Fund to determine which are in deficit and which would be entitled to an exit credit if they chose to leave the Fund.
- The Committee agreed that it was not appropriate to offer ill health insurance to some employers and not others, particularly as a full procurement exercise to appoint an insurer would be necessary.

68.3 The Committee RESOLVED to:

- 1) request a future report on the impact on the Fund of a reduction in cash flow from dividends, including what other funds may be doing to raise cash;
- 2) approve the 2019 East Sussex Pension Fund Valuation report;
- 3) approve the revised Funding Strategy Statement, subject to the removal of the following paragraph under section 3.7

*The Fund intends to offer ill health insurance to a subset of employers in the Fund. This is likely to be for smaller employers (e.g. CABs and academies) who are typically less able to cope with large and unexpected strain costs. The Fund will be contacting these employers in due course;*

- 4) approve the revised Investment Strategy Statement; and
- 5) recommend that the East Sussex Pension Fund Governance review considers whether decisions relating to the paying of exit credits to employers should be a function of the Pension Committee or delegated to officers depending on the value of the credit.

## 69 PENSION ADMINISTRATION UPDATES

69.1 The Committee considered a report providing an update to the Pension Committee on matters relating to Pensions Administration activities.

69.2 The Committee discussion included the following key issues:

- Orbis is in the process of readying the Pensions Administration Team (PAT) to be able to retain business continuity during the Covid-19 outbreak. The Council has the infrastructure in place to enable agile working for staff, but whether or not staff have this infrastructure, e.g., a laptop, depends on whether they are classified as agile or fixed desk workers. Some payroll software requires, for security reasons, that it be accessed from a fixed desk, therefore, emergency planning work with ICT is being undertaken to allow access to this software via Citrix at home – either via a Council laptop or a home device.
- The capacity of the PAT to respond to all queries in the time period set out in its Key Performance Indicators (KPIs) may be reduced during the next few months. The focus of

efforts, therefore, will be on those queries that require a more urgent response, such as death of a relative. The PAT is confident that responses to these queries can be maintained even if there is an increase in volume due to Covid-19.

69.3 The Committee RESOLVED to note the report.

## 70 2020/21 PENSION FUND BUSINESS PLAN AND BUDGET

70.1 The Committee considered a report seeking approval of the 2020/21 business plan and budget for the East Sussex Pension Fund.

70.2 The Committee discussion included the following key issues:

- The cost of the East Sussex Pension Fund Governance review is being negotiated with Aon
- The cost of the McCloud judgement has not yet been worked out but will likely have a considerable impact.
- The Fund is providing the PAT with 4 Full Time Equivalent (FTE) employees to help deliver the Data Improvement Programme.
- The PAT is looking to reduce the cost per customer by providing the same service and Key Performance Indicators (KPIs) across all six Local Government Pension Scheme (LGPS) it provides pension administration for.

70.3 The Committee RESOLVED to:

- 1) approve the business plan and budget for 2020/21; and
- 2) note that the budget may be subject to change in light of the impact of Covid-19, the McCloud Judgement, and the cost of commissioning and then implementing the recommendations of the East Sussex Pension Fund Governance review .

## 71 PENSION FUND RISK REGISTER

71.1 The Committee considered a report on the ESPF Risk Register.

71.2 The Committee discussion included the following key issues:

- Based on earlier discussions around the impact of Covid-19, the Committee recommended that it be added as a risk on the risk register.
- There are regular meetings of the Data Improvement Programme and it is recognised that there are a number of key milestones in March that are likely to determine the success of the programme.
- Following the failure of the Ruffer transition to a sub fund, ACCESS is project managing Link.
- The employers that have the highest rate of non-returns of the data needed to produce the Annual Benefit Statement (ABS) are the largest employers in the Fund, including Wealden District Council, Brighton & Hove City Council and East Sussex County Council.
- It would be more effective if the Fund internally manages employers who fail to comply with the data requirements, rather than report them to the Pensions Regulator. The

Pensions Regulator has already seen that the Fund has a plan to resolve the ABS breach and is unlikely to act on individual referrals of employers by the Fund. The Committee offered to assist in ensuring the compliance of employers.

71.3 The Committee RESOLVED to:

- 1) note the report;
- 2) request that a letter is sent on behalf of the Committee to the Chief Executives of the 10 employers of the East Sussex Pension Fund with the poorest pension data compliance records outlining their responsibilities and the potential measures that could be taken against them for continued non-compliance;
- 3) recommend that the risk of Covid-19 to the East Sussex Pension Fund, including the impact on cash flow and long term bond yields, is added to the Fund's risk register; and
- 4) recommend that the likelihood of Risk 17 – *ACCESS Pool Governance – Resourcing* be increased from 2 to 3.

## 72 EXTERNAL AUDIT PLAN FOR THE EAST SUSSEX PENSION FUND 2019/20

72.1 The Committee considered a report seeking approval of the draft Pension Fund External Audit Plan for 2019/20.

72.2 The Committee RESOLVED to approve the draft External Audit Plan for the East Sussex Pension Fund for 2019/20.

## 73 EXCLUSION OF THE PUBLIC AND PRESS

73.1 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 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).

## 74 INTERNAL AUDIT REPORTS

74.1 The Committee considered a report containing two Internal Audit reports of the ESPF.

74.2 The Committee RESOLVED to note the report.

## 75 PENSION FUND BREACHES LOG

75.1 The Committee considered an update on the Fund's Breaches Log.

75.2 The committee RESOLVED to agree actions which are set out in an exempt minute.

## 76 EMPLOYER ADMISSIONS AND CESSATIONS REPORT

76.1 The Committee considered a report on the admissions and cessation of employers to the ESPF

76.2 The Committee RESOLVED to agree the recommendations as set out in the report.

77 EMPLOYER CESSATION REPORT

77.1 The Committee considered a report seeking approval for the Post Cessation Funding Agreement of an ESPF employer.

77.2 The Committee RESOLVED to agree the recommendations as set out in the report.

78 GOOD GOVERNANCE REVIEW

The Committee considered an update on the East Sussex Pension Fund Governance review.

The Committee RESOLVED to note the report

The meeting ended at 1.30 pm.

Councillor Gerard Fox (Chair)