

PENSION BOARD

MINUTES of a meeting of the Pension Board held at County Hall, Lewes on 15 February 2021.

++Please note that Members attended the meeting remotely++

PRESENT Ray Martin (Chair), Councillor Chris Collier,
Councillor Tom Druitt, Stephen Osborn, Diana Pogson,
Niki Palermo and Lynda Walker

ALSO PRESENT Ian Gutsell, Chief Finance Officer
Sian Kunert, Head of Pensions
Russell Wood, Pensions Manager: Investment and Accounting
Paul Punter, Head of Pensions Administration
Nigel Chilcott, Audit Manager
Danny Simpson, Principal Auditor
Martin Jenks, Senior Democratic Services Adviser
Harvey Winder, Democratic Services Officer

56 MINUTES

56.1. The minutes of the previous meeting were agreed as a correct record.

57 APOLOGIES FOR ABSENCE

57.1. There were no apologies for absence.

58 DISCLOSURE OF INTERESTS

58.1. There were no disclosures of interest.

59 URGENT ITEMS

59.1. The Chair noted that the £95k cost cap on public sector bodies had been revoked prior to the March judicial reviews which impacted exit package payments (including pension strain costs) and that the Board would receive a verbal update of the outcome under the Pension Administration item.

60 PENSION COMMITTEE AGENDA

60.1. The Board considered a report containing the draft agenda of the Pension Committee meeting for 1st March 2021.

60.2. The Board RESOLVED to note the report.

61 EMPLOYER CONTRIBUTIONS REPORT

61.1. The Board considered a report providing an update on the Employer contributions due in respect of the period April to November 2020, highlighting any late payments.

61.2. The Chair observed that the pandemic had not appeared to have affected the ability of many employers to pay on time. He asked how long those who did not pay on time took to pay.

61.3. Sian Kunert (SK), Head of Pensions, said the majority of late payments were by just a few days, however, one employer was having difficulties and the Fund is investigating further.

61.4. The Board RESOLVED to:

1) note the report; and

2) request that employer contribution updates are provided at future meetings on an ongoing basis.

62 EAST SUSSEX PENSION FUND (ESPF) QUARTERLY BUDGET REPORT AND 2021/22 PENSION FUND BUSINESS PLAN AND BUDGET

62.1. The Board considered a report providing the 2020/21 Quarter 3 budget report and the business plan and budget for 2021/22.

62.2. Stephen Osborn (SO) asked for confirmation why the in-house Pension Administration Team (PAT) would cost the Fund £625k more per year in 2021/22 than the Orbis PAT cost.

62.3. SK explained that bringing the service in house would invariably cost more, as it would involve paying the Heywoods Aquila (pension administration software) license upfront and the PAT would no longer benefit from economies of scale. The advantage, however, would be that the East Sussex Pension Fund (ESPF or the Fund) would have more control over the PAT and there would be greater transparency of costs. She explained that at the moment the Orbis PAT costs are best guess, it is difficult to estimate accurately what they will charge for the 2020/21 year. This difficulty in calculating the PAT cost also meant that the outturn figure may be different to the current forecast and the difference in cost of the in-house service may therefore be less than £625k. SK said this will be confirmed at the next meeting.

62.4. SO asked whether there is any indication that fees from investment managers have decreased since the assets were moved to the ACCESS Pooled Fund.

62.5. Russell Wood (RW), Pensions Manager: Investment and Accounting, said the actual management fees for 2019/20 were about £15m and the majority were taken from source by investment managers, some of which were from the assets invested in ACCESS. Whilst the Fund's absolute return managers have transferred to ACCESS over the past year, it is difficult to make comparative value for money estimations on whether ACCESS has reduced their fees from the outturn report. This is because the asset value of the Fund increased significantly over the past year, meaning the fee taken by investment managers will have gone up too. The Fund is working on getting greater transparency around the investment fees taken within the ACCESS pool and plans to report this to the Pension Board and Committee in due course, but it is understood that pooling assets has driven down costs.

62.6. The Chair agreed it would be helpful to see a schedule of what fees are paid directly to managers and what are extracted from source.

62.7. Councillor Tom Druitt (TD) asked whether the variance between the forecast and outturn investment management fee for 2020/21 was an issue and asked whether the higher than expected costs would be incorporated into the forecast budget for 2021/22.

62.8. SK explained that the outturn was higher than the forecast investment manager fee during 2020/21 because of the change in the investment strategy made in June 2020, which involved the disinvestment from UBS passive equity fund into the four new impact investment and smart BETA funds. These new fund managers are paid direct whereas UBS was taking its

fee from the funds. This decision was made during the year, which is why the outturn is higher than forecast costs. The 2021/22 budget takes account of the increase in direct management fees and is expected to be a more accurate reflection. The Chair added that it is difficult to know the most efficient charging structure until a fund manager is appointed.

62.9. The Chair asked who the Fund's custodian is and what the length of contract with them was, as holding assets via a pooled structure might not be as complex as holding them directly. This could mean there may be value in reviewing the custodian arrangements.

62.10. SK confirmed that it was Northern Trust and that it was a standard not a fixed term contract. Cllr Gerard Fox (GF), the Chair of the Pension Committee, said he understood the Pensions Team now has the capacity to undertake a piece of work to look at whether the Fund is receiving best value from its custodian.

62.11. The Chair asked how the Pensions Team recruitment was progressing.

62.12. SK said it was progressing well and a new Compliance and Governance Manager had joined that day, with a training officer due to be appointed within their team. RW is also interviewing for an investment analyst and an accountant.

62.13. The Chair asked whether the 2021/22 budget of £7.025m was likely to be the regular budget amount or whether it would increase more.

62.14. SK said it was a realistic base but there may be a few additional costs, for example, further resources required to implement the recommendations of the Communications Review and consultancy work resulting from the McCloud Judgement.

62.15. The Board RESOLVED to note the report.

63 COMMUNICATIONS REVIEW REPORT

63.1. The Board considered a report on the outcomes of the Communications review completed by the Head of Communications and Marketing.

63.2. TD welcomed the Communications Review but asked for reassurance that in future people who submit questions will be given sufficient answers to them and not just pointed to the website for answers.

63.3. SK said that a correspondence policy would be an important step in setting out what people who contact the Fund can expect in the form of a response. Any responses beyond referral to any online resource would need to be proportionate and manageable within the resources of the Fund, for example, people may receive a response to a question but not necessarily be given the opportunity to engage in a long conversation with officers where there is a disagreement over a position on pension investment. Any correspondence policy would also need to define whether members of the Fund can expect a different response to members of the public or journalists.

63.4. TD asked what the evidence was for the comment in the Communication Review *"there's no evidence that most ESPF members or other stakeholders consider divestment from fossil fuel companies a pressing issue"*.

63.5. SK said that she would clarify how the Head of Communications reached that conclusion. SK argued that the Fund does not receive many questions from its members relating to issues such as divestment, despite the size of the Fund, and that most questions appear to be from local residents, although there is an overlap between the two groups. SK said the Fund has not sought to ask its members for its views on subjects such as this, which it could potentially do. It would be, however, extremely difficult for the Fund to act on the views of its membership where it could have a negative financial impact on the Fund. This is because it is a defined benefit scheme with fiduciaries (the Pension Committee) who have a legal duty to act in the best interests of the members (not in their own interest or of others) and should aim to

receive a return on investment that can provide the benefits for its members. A defined contribution scheme, such as a private pension, may have greater scope as members can have a choice over where their contributions are invested and the financial return they receive is based on their selected investment strategy.

63.6. TD felt that any correspondence policy should take into account that local residents are council tax payers and therefore have a right to comment on how the Fund's assets are invested and that the Fund should consider their views and respond to them when appropriate to do so. He also asked whether there is an annual survey to members asking their views of the Fund.

63.7. SK explained that the Fund does conduct an annual questionnaire, but it has until now been reliant on Orbis PAT setting the questions. The results were received last week and are currently being analysed. Now that the PAT will be coming in-house, there is no reason why the questions could not be amended and cover different topics. She added that many private pensions provide annual updates to Members on key information – including investments, administration updates, and regulation changes – and this could also be considered in future for ESPF members.

Diana Pogson (DP) commented that the Communications Review was timely and welcomed the correspondence policy as a very good idea that the Fund should develop. She said that it was important the website is clear but cautioned against spending much effort branding the Fund, as people are more concerned about finding information they need rather than seeing a new logo.

63.8. SK agreed and said the existing logo is good, albeit it may need a colour change. She said it was more important that there is consistent branding, for example, re-branding administrative services as they move out of Orbis and back in-house. SK said there is a need for a website with sections for both members and employers and that people who contact the Fund receive a timely response that is clear and consistent.

63.9. Lynda Walker (LW) said the Fund was right to prioritise issues such as resourcing and governance, but she was glad to see it now turns its attention to communications, which have been inadequate for some time. She reiterated DP's view that any rebranding need not be too glossy but should meet the needs of people seeking information on their pensions and must be in plain English, given the complexity of the pension arrangements. She advised that online access is a major problem for people with visual impairments and other disabilities and that too much information can make it difficult for people to access. The Board members could help advise officers whether draft documents produced in response to the Communications Review met the needs of users. LW observed that it is often difficult for the Pensions team to separate out whether people contacting the Fund are local residents or members, so it may not be worthwhile giving them separate communication channels so that questions are responded to appropriately, particularly those relating to investment.

63.10. The Board RESOLVED to:

1) note the report;

2) make the following comments to the Committee on the Communications Review:

- The Board is very supportive of the review and its recommendations, including the proposal for a correspondence policy and the proposal to recruit a communications manager for the Pensions Team; and
- The Board observes that there appears to be two different audiences who need to be communicated with – the Fund members and the wider population, including the press – and it should be decided whether any new communications officer will focus on just members, with the Press Office retaining responsibility for wider communications or whether the new person is responsible for effective communications to both audiences.

3) agree to establish a working group, comprising all Members of the Board, to comment on draft webpages, branding, and other documents arising from the Communications Review; and

4) request a future report containing the draft terms of reference of the working group.

64 GOVERNANCE AND EMPLOYER ENGAGEMENT REPORT

64.1. The Board considered a report providing an update on various governance and employer engagement work completed and changes effecting the Local Government Pension Scheme (LGPS) and the Fund.

64.2. The Chair asked what impact the Government's recent response to the McCloud judgement would mean for the Fund.

64.3. SK said the McCloud Working Group will meet in February to discuss how it will affect LGPS, however, the initial understanding is that it will mainly affect public sector unfunded pension arrangements.

64.4. SO asked whether letters to employers about ill health retirement had also been emailed, as it was unlikely many people are in office to pick up physical letters.

64.5. SK confirmed that they had been emailed.

64.6. The Board RESOLVED to note the report.

65 PENSIONS ADMINISTRATION REPORT

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

£95k Exit Cap

65.2. The Chair asked what effect the revoking by the Government of the £95k exit cap would have on Key Performance Indicators (KPIs) given the potential issues it was causing to calculating pension benefits and strain costs.

65.3. Paul Punter (PP), Head of Pensions Admin, said the removal of these regulations would make it easier to carry out pension benefits and strain costs, as the system is already designed to do them under the old regulations. The PAT will, however, retain Barnett Waddingham's pension strain cost calculator and continue using Government Actuaries Department (GAD) unisex strain factors, rather than create a new set of Fund specific unisex factors, as both are seen as best practice. The only concern is that a lot of employers may now begin redundancies who had previously been holding off until the judicial review had been completed, although it is hoped that the additional work will not effect KPIs significantly.

PAT Transfer

65.4. The Chair asked whether the Orbis Helpdesk will answer ESPF calls as if the person is contacting the ESPF directly.

65.5. PP explained that the helpdesk would not transfer in-house and ESPF calls would continue to be answered by the Orbis Helpdesk. He confirmed that, in keeping with the Communications Review, there would be a dedicated helpline within the Orbis Helpdesk that the helpdesk employees will answer as if it is an East Sussex phone line.

65.6. LW asked how the helpdesk will achieve its objectives, for example, whether there would need to be an increased workload for staff.

65.7. PP said that there are some reservations about achieving the objectives of the Helpdesk but Orbis would be supported to do so through recruitment of additional staff, the availability of "bank reserve staff", the availability of overtime, support from other helpdesks and as a last resort, the ability of the PAT to pick up calls on their laptops to act as an overflow. PP said

there is a quarterly meeting with Orbis to discuss the transition to the new structure to proactively ensure that all parts are in place.

65.8. LW asked how long the contract with Orbis helpdesk is for.

65.9. PP said it is for three years with a six-month notice period for both sides.

65.10. The Chair asked whether there are any concerns about the 1 April deadline for the transition of the PAT from Orbis back in-house.

65.11. PP said the 1 April has always been an ambitious target date but is achievable. PAT is working closely and collaboratively with Orbis and Aquila Heywood to deliver on time. Some less critical aspects of the transition will be undertaken post go live, such as a review of processes and procedures, to help minimise the risk of missing the target date. The project has a strong governance and reporting structure in place to identify any issues early.

65.12. The Chair asked how the work will be divided between the two pensions admin sub-teams within the structure chart.

65.13. PP said that it would have been too large a team to have managed by a single manager so needed to be divided. There will be no specialisation between the two teams and the administrators on both will be trained to do all necessary tasks, although work will be assigned based on the skill and experience of individuals within the teams. Both team managers have good overall pensions knowledge and experience, working with the Fund for many years.

Employer Year End Returns

65.14. The Chair advised the Board that the Pension Regulator had been in contact the Fund in relation to the two employers reported for failure to provide full year end returns. One has since provided the outstanding data but the other was still having issues. The Pensions Regulator has indicated it is still interested in the issue being resolved and asked for further details on this and a separate breach which had been reported by SK.

65.15. The Board RESOLVED to:

- 1) note the report;
- 2) express its support for the moving of the Pensions Administration Team in-house.

66 INTERNAL AUDIT REPORT: PENSION FUND: COMPLIANCE WITH REGULATORY REQUIREMENTS 2020/21

66.1. The Board considered a report providing an outcome on the Internal Audit's report: Pension Fund: Compliance with Regulatory Requirements 2020/21.

66.2. The Chair welcomed the 'substantial assurance' over the controls in place.

66.3. Nigel Chilcott, Audit Manager, advised the Board that despite COVID-19 the Internal Audit team was on course to deliver all work in its pension fund strategy by the end of the financial year. He advised that an updated pension fund strategy will be presented to the Board, along with four additional audit reports, at the next meeting in June.

66.4. The Board RESOLVED to note the report.

67 PENSION FUND RISK REGISTER

67.1. The Board considered the Fund's Risk Register.

67.2. The Chair welcomed the new format for the Risk Register. DP also expressed thanks for the new format and welcomed the fact it showed how mitigation reduces risk.

67.3. The Chair queried whether it is owned by officers or the Pension Committee.

67.4. SK said it was owned by the Committee according to the East Sussex County Council's Constitution. This means it is for the Committee to determine whether further action is needed against any of the risks. However, there is no standalone risk management policy, which makes it difficult to determine what actions should be taken in relation to risks. This policy will be produced in due course. RW clarified that the current policy towards risk management is only found in part in the annual report and in the Investment Strategy Statement, in relation to investment.

67.5. The Board RESOLVED to note the report.

68 WORK PROGRAMME

68.1. The Board considered its work programme.

68.2. DP informed the Board she had attended an LGPS course on cyber security by AON and found it interesting.

68.3. The Board RESOLVED to agree the work programme subject to the addition of the following reports:

1) the External Audit Plan to the June meeting; and

2) a report at a future meeting on the Communications Strategy, including feedback from the Communications Working Group.

69 EXCLUSION OF THE PUBLIC AND PRESS

69.1 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).

70 PENSION FUND BREACHES LOG

70.1 The Board considered the Funds Breaches Log.

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

70.3 The Committee RESOLVED to agree actions which are set out in an exempt minute.

71 EMPLOYER ADMISSIONS AND CESSATIONS REPORT

71.1. The Board considered a report providing an update on the latest admissions and cessations of employers.

71.2. The Board RESOLVED to note the report.

The meeting ended at 12.30 pm.

Ray Martin (Chair)