

Report to: Pension Committee

Date of meeting: 1 March 2021

By: Chief Finance Officer

Title: Governance and Employer Engagement Report

Purpose: To provide an update on various governance and employer engagement work completed and changes effecting the Local Government Pension Scheme (LGPS) and East Sussex Pension Fund (ESPF)

RECOMMENDATIONS

The Pension Committee is recommended to:

- 1) **Endorse the Terms of Reference for the Investment Implementation Working Group (Appendix 1);**
 - 2) **Approve the strategic objectives for Isio as Investment Consultants (Appendix 2);**
 - 3) **Note the update on the McCloud Working Group;**
 - 4) **Note the update on ill health insurance for employers; and**
 - 5) **Note the update on Employer Engagement**
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1. Background

1.1 This report is brought to the Pension Committee to provide an update on various changes within the Local Government Pension Fund (LGPS) regulatory framework, as well as any governance and employer engagement issues that directly affect the East Sussex Pension Fund (the Fund).

1.2 The report provides updates on work in progress, draft terms of reference for the Investment Implementation Working Group and draft strategic objectives for the Investment Consultants.

2. Supporting information

Investment Implementation Working Group Terms of Reference

2.1. It is common for Local Government Pension Schemes (LGPS) to establish a working group of professional advisers and pension fund officers to help the latter implement decisions made by the scheme manager, i.e., the administering authority's Pension Committee, and advise officers on pension investment matters.

2.2. The Fund has operated a working group for several years comprising investment advisers and officers to drive the investment strategy implementation and direction of travel forward making recommendations to Pensions Committee. This allows the Fund to ensure the Investment Strategy is achieving the expected returns to align with the funding strategy and ensure the portfolio is within appropriate levels of risk and diversification while being compliant with investment regulations. It is important to note that investment decisions must be taken with appropriate advice. The advisor and officer led group are able to carry out research and analysis between committee meetings to provide well documented reports and recommendations to the Pension Committee to support their decision making; this is in addition to having both the Fund investment consultants

and the Independent adviser at each meeting to support the papers and provide technical input into discussions.

2.3. During an extensive review of the governance arrangements of the Fund and reorganisation of the Pension Fund Team during 2019 and 2020, it was agreed that elected members of the Pension Committee could also sit on the working group to monitor the effectiveness of implementation of investment decisions and provide a forum to ask questions of the investment strategy or investment managers outside of the main Committee to increase confidence in the administration of the Pension Fund. An Environmental, Social and Governance (ESG) Working Group was also created at the time.

2.4. The Pension Committee agreed to merge the ESG and Investment Working Groups in September 2020 to form the Investment Implementation Working Group (IIWG) on the grounds that ESG considerations are integral to all investment decisions and should not be separate.

2.5. The purpose of the terms of reference in **Appendix 1** are to clarify the roles and responsibilities and the membership of the Investment Implementation Working Group.

Investment Consultant Strategic Objectives

2.6. The Competition and Markets Authority (CMA) investigated the investment consultancy and fiduciary management market following a referral made by the Financial Conduct Authority (FCA) in September 2017. Trustees of occupational pension schemes are among the largest institutional investors that use these services in the UK. The CMA therefore focused on trustees as customers in this market. In December 2018, the CMA published its report following this review of the investment consulting and fiduciary management markets.

2.7. On 10th June 2019 the CMA published the Investment Consultancy and Fiduciary Management Market Investigation Order 2019 ('the Order') placing new obligations on service providers and pension schemes for Fiduciary Management (FM) and Investment Consultancy (IC) Services. The Order implements the CMA's recommended remedy 1 (tendering for FM services) in Part 3 and remedy 7 (Setting objectives for IC) in Part 7. As it stands currently it is understood that LGPS funds are in scope currently for applying remedy 7 of setting objectives for Investment Consultants.

2.8. The CMA requirement stipulate that trustees must set strategic objectives for the Investment consultant by 10 December 2019. At the Pension Committee meeting on 25 November 2019, the Pension Committee approved the objectives for Hymans Robertson who were Investment Consultants at that time in advance of the 10 December deadline.

2.9. With the introduction of the new Investment Consultancy contract with ISIO, Pension Committee are asked to review and approve the strategic objectives that have been set for ISIO under their new contract as laid out in **Appendix 2**. There are no major changes proposed to the strategic objectives, as applied to Hymans Robertson.

McCloud Working Group

2.10. An initial meeting of the McCloud Working Group took place on 8 December 2020. Attended by:

- Councillor Fox (Pensions Committee Chair)
- Lynda Walker (Local Pension Board)
- Stephen Osborn (Local Pension Board)
- Sian Kunert (Head of Pensions)
- Paul Punter (Head of Pensions Administration)
- Dave Kellond (Compliance & Local Improvement Partner)
- Ian Colvin (Head of LGPS Consultancy, Hymans Robertson)
- Peter Riedel (Senior Benefits & Governance Consultant, Hymans Robertson)

- Susan McKenzie (Project Manager, Hymans Robertson)

2.11. The McCloud Working Group is responsible for overseeing the implementation of the McCloud ruling in the Fund within a prescribed timeframe and addressing any gaps and barriers preventing progress and ultimately delivery of the project. The Working Group will:

- oversee the McCloud project, drive delivery, and receive project updates;
- tackle employer related issues that become or continue to be a barrier to the effective collection and use of data; and
- be aware of and manage dependencies across third parties.

2.12. The Group discussed the data gathering processes required for implementation of the possible scheme remedies required to the statutory underpin in response to the McCloud judgement. The collective view of the group that this process will need to be carefully managed, in tandem with several other interlinked workstreams such as the data improvement project, Guaranteed Minimum Pension (GMP) Reconciliation/Rectification and Annual Allowance. All of which to varying extents will impact on member benefit entitlements.

2.13. The Group determined it should delay any decisions on how/when to request data from scheme employers until after the Pensions Manager for Employer Engagement was in post. It was felt vitally important that we adopt a co-ordinated data gathering process from employers, incorporating where possible all data required for the various projects, and not to be repeatedly asking for several differing data sets.

2.14. A further meeting of the working group will take place in February 2021.

Ill Health Insurance

2.15. The ill health risk management workstream was added to the Fund's 2020/21 Business Plan as part of the June Pension Board and Pension Committee meetings. This has since been progressed by officers working alongside the Fund Actuary to investigate the potential risk management options (including obtaining a range of indicative insurance quotes from Legal & General) and a proposed categorisation of scheme employers.

2.16. At the September and November Pension Board and Committee meetings, papers were received and discussed in detail. This resulted in the Pensions Committee on 30 November approving an approach to roll out ill health insurance in line with recommendations of Pensions Board.

2.17. The roll out of ill health insurance has been agreed with employer's allocation to one of three categories where they are included, they can opt out or they can opt into the insurance cover. There is no new cost to the employer of the insurance, the insurance is funded through existing contribution rates and provides security to smaller employers against the risk of high ill health strain costs.

2.18. The project has now started to be rolled out. Employers have been sent letters explaining the insurance and what is required of them to opt in or out if relevant. Any opt in or opt out decisions are due by the 1 March 2021. Hymans Robertson, as part of the roll out project, are coordinating responses and are available to all employers if they have any questions or concerns. Fund officers will also be advised of any questions or apparent training requirements arising from the roll out to help support employers and improve the service we provide to them.

Employer Engagement

2.19. The new Employer Engagement Team within the new fund structure is starting to have a presence with the introduction of the new Pensions Manager for Employer Engagement, Tim Hillman, who started in early January 2021. The new Team has been focusing on establishing a complete list of employer contacts for all employers within the Fund, using both previous internal

contact information as well as the active Orbis administration team list of active contacts. This list will then be used going forward and updated when employers join or leave or any changes in staff within the individual employers.

2.20. The Employer Engagement Team has already started to reach out to employers with an initial introductory communication. The aim is to help build engagement with all employers across the Fund and provide a first point of contact if they require any support or assistance. This initial communication contained a link to the LGPS payroll guide which gives a comprehensive breakdown of what is expected of employers in the Fund.

2.21. The i-Connect project was also referenced in the introductory email to employers and one of the main focuses for the Employer Engagement Team in the next quarter is to roll out the i-Connect system to some of the larger employers in the Fund alongside the Pensions Administration team. The Fund will be communicating with all employers on this very shortly to provide background and estimated staging dates for when they can expect the Team to facilitate their joining of the i-Connect system.

2.22. The Team will also focus on building a project plan to establish what the priorities are for the next 6 months and for the rest of the year. Within the next quarter we will establish good governance on two pressing priorities of admissions and cessations along with a more robust contribution reconciliation process.

2.23. Alongside the communication review, the Fund will assess the current Employer communications held on the Fund website and implement any changes that it is felt may be required. The Fund will continue to monitor the documentation and information held on the website and add any resources or communications which will help the employers to engage with the Fund.

2.24. There is still a vacancy in the Employer Engagement Team for a Pensions Employer Engagement officer which will be advertised shortly.

2.25. Other vacancies across the Fund are in varying degrees of progress, with some advertised and others due to begin shortly. The new Pensions Manager for Governance and Compliance is due to begin with the fund on 15 February.

3. Conclusion and reasons for recommendations

3.1. The Pension Committee is recommended to endorse the terms of reference for the Investment Implementation Working Group, approve the strategic objectives set for ISIO as investment consultants for the Fund and note the updates provided in the report.

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