

PENSION BOARD

MINUTES of a meeting of the Pension Board held via Teams and at CC2, County Hall, Lewes on 1 June 2021.

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

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

ALSO PRESENT Ian Gutsell, Chief Finance Officer
Sian Kunert, Head of Pensions
Paul Punter, Head of Pensions Administration
Russell Wood, Pensions Manager: Investment and Accounting
Michael Burton, Pensions Manager - Governance and Compliance
Tim Hillman, Pensions Manager - Employer Engagement
Dave Kellond, Compliance and Local Improvement Partner
Mariana Obetzanova, Pensions Training Coordinator
Isabel Widdowson
Nigel Chilcott, Audit Manager
Danny Simpson, Principal Auditor

Councillor Nick Bennett, Lead Member for Resources & Climate Change
Councillor Gerard Fox, Chair of the Pension Committee

1 MINUTES

1.1 The minutes of the meeting held on 15 February 2021 were agreed as a correct record.

2 APOLOGIES FOR ABSENCE

2.1 Apologies for absence were received from Councillor Chris Collier. Councillor Collier has been elected as an East Sussex County Council (ESCC) councillor and has stood down from the Pension Board.

2.2 The Chair thanked Councillor Collier on behalf of the Board for all the work he has done whilst serving on the Pension Board.

3 DISCLOSURE OF INTERESTS

3.1 There were no disclosures of interests. The Chair reminded the Board Members that they could make disclosures at any point on the agenda should the need arise.

4 URGENT ITEMS

4.1 There were none notified.

5 PENSION COMMITTEE AGENDA

5.1 The Pension Board considered a report containing the draft agenda of the Pension Committee meeting for 22 June 2021. Sian Kunert (SK), Head of Pensions, outlined that the reports on the Pension Committee agenda are the same as those being considered by the Board with the exception of the Investment report and Carbon Footprint report. The Pension Committee will also meet on 12 July 2021 and the meeting will be focussed on investment issues.

6 GOVERNANCE REPORT

6.1 SK outlined that the report covers a number of items and updates relating to the Governance of the East Sussex Pension Fund (The Fund or ESPF).

Internal Dispute Resolution Procedure (IDRP)

6.2 The report outlines a proposed change to the wording of the Internal Dispute Resolution Procedure (IDRP) to bring it in line with the wording used in the Pensions Act 1995. The Chair asked how members of the Fund access the IDRP. SK explained that the IDRP is on the website where the policy and the forms to complete can be found. A reference to the IDRP is also made in all documents and correspondence to explain how complaints can be made. The Board agreed to note the change in wording of the IDRP.

Risk Management Policy

6.3 SK outlined that this is a new policy that was developed as a consequence of the review of the risk register. The Chair noted that the new draft consolidated Code of Practice from the Pensions Regulator had followed many governance requirements of the European Union Pension directive, and will as drafted require the Fund to have a risk officer. SK responded that if this is a requirement of the Ministry of Housing, Communities and Local Government (MHCLG) statutory guidance then the Fund will act accordingly. It was clarified that the Pension Committee is the owner of the Risk Management Policy and it is on the agenda of the Pension Committee for it to approve the Policy. The Pension Board had no comments on the Risk Management Policy and agreed to note the Policy.

Regulatory Change

6.4 The Pensions Regulator (TPR) has launched a consultation on proposed changes to combine the codes of practice for private and public pension schemes into a single code. Due to the short timescales for a response the Chair has responded to the consultation on behalf of the Board. The consultation response is contained in appendix 3 of the report. It covers the introduction of new terms (such as 'Governing Body') which may be confusing, and the response recommends keeping separate codes of practice for public and private schemes.

6.5 Lynda Walker (LW) asked why the consultation was done at such speed and whether there were any significant changes. The Chair commented that TPR saw this as a consolidation of existing codes and had only held a limited consultation with the pension industry. The Chair's view is that this was a more fundamental change and hopefully TPR would reconsider. LW commented that she would bring the proposed changes to the attention of the other forums that she is involved with. The Board agreed to note the potential change in TPR expectations.

Financial Hardship Policy

6.6 At present the Fund receives requests to waive fees for financial hardship reasons in respect of requests for information the Fund does not have to provide free of charge. These mainly relate to requests for pension valuations in the case of members divorcing, and the

subsequent work involved in Pension Sharing Orders, and second in providing more than one Cash Equivalent Transfer Value for deferred members within a twelve-month period. The new policy would provide officers with a way of responding to these requests to waive fees due to financial hardship. It was clarified that the level of fees has been compared with other Local Government Pension Scheme (LGPS) pension funds.

6.7 Diana Pogson (DP) commented that there was no reference to the charges on the website or the schedule of fees charged. SK responded that the pricing schedule is provided at the point the request is made, but details can be published on the website. DP added that the requirement for 6 months bank statements is quite onerous and perhaps the policy should be amended to say up to 6 months banks statements may be required. SK responded that this could be looked at but is based on similar requirements that the Benefits Team uses when considering financial hardship. LW commented that it was good to have a Hardship Policy and supported the introduction of one. The unions also provide hardship support, and it may be helpful to signpost this service to members and their families who may be experiencing financial difficulties. The Board had no further comments and agreed to note the new approach to requests to waive fees in the case of financial hardship.

Governance and Compliance Statement.

6.8 SK outlined that the Governance and Compliance Statement has been updated and refreshed to reflect the work undertaken on governance over the last 18 months. This also links to the requirement for the Pension Board to produce an annual report which is outline elsewhere in the report. The Statement will be reviewed annually and will be updated in line with any changes recommended by the Scheme Advisory Board (SAB). It was clarified that the Governance and Compliance Statement is a public document and will be part of the of accounts and published on the web site. The Chair commented that the chart on the ACCESS pool governance arrangements needs to be revised and simplified. SK agreed to revise the chart when the statement is next reviewed. The Board agreed to note the revised Governance and Compliance Statement.

Annual Report of the Pension Board

6.9 The Board noted the need to produce an annual report and agreed that the Chair will work with officers to draft a report for agreement by the Board at the September Pension Board meeting.

McCloud Working Group

6.10 The Board discussed the McCloud Working Group update. The Working Group has met and the templates requesting data from employers are ready to be sent out. A reference to the McCloud judgement will be included in the Annual Benefits Statement (ABS). The Chair asked if there were likely to be any negative impacts on members of the Fund. SK commented that the team is not aware of any negative impacts on members. Members will be given the greater of the Final Salary or CARE benefits at retirement where this is applicable. The Pension Board noted the update.

Good Governance Project Update

6.11 The Board noted the update on the Scheme Advisory Board (SAB) Good Governance Project. The SAB published its phase 3 report in February and is now liaising with MHCLG to incorporate the changes into the statutory guidance. The Fund will review these changes once they are made to ensure that they are consistent with the governance arrangements the Fund has implemented.

Additional Voluntary Contributions (AVCs)

6.12 SK reported that there have been a number of administrative issues with the performance of the current AVC provider, Prudential, which the Fund has been addressing. The main complaints have been about poor service including long response times for telephone and other enquiries. This has been due to a change in service provider by Prudential who have assured the Pensions Team that this is being addressed. This will be raised with the Pension Committee. The Committee will also be asked to agree that officers carry out a review of the AVC scheme provider once Prudential have had time to address the current service issues. The Chair asked if the Fund has to choose from a shortlist of providers. SK responded that although there are currently three main LGPS AVC providers in the market, the market is changing, and the Fund is not constrained by the SAB in which providers it can include in any tender exercise.

The Board RESOLVED to:

- 1) Note a change in the wording of the Internal Dispute Resolution Policy
- 2) Note the new Risk Management policy
- 3) Note the potential change in The Pension Regulator (TPR) expectations
- 4) Note new approach to requests for fees to be waived due to financial hardship
- 5) Note the revised Governance and Compliance Statement
- 6) Approve the drafting of an annual report of the Pension Board to be considered at the next Pension Board meeting.
- 7) Note the update on the McCloud Working Group
- 8) Note developments on the SAB Good Governance project
- 9) Note the update on AVC's

7 ABATEMENT POLICY REPORT

7.1 SK introduced the report and outlined the background to the Abatement Policy. Such a policy can make it difficult to re-recruit previous employees. The recommendation of the report is to remove the Abatement Policy so that it no longer applies from April 2021.

7.2 The Chair commented that he agreed with the removal of this policy and asked what approach will be taken to compensate or re-imburse those who have previously had their pension abated. SK responded that pension will be corrected from April 2021 onwards, but it is very difficult to identify how many members have been affected by this policy. If there is a recommendation from the Pension Board which is agreed by the Pension Committee, the Fund can consider backdating the cessation of the policy which would then require re-imburements or adjustments.

7.3 LW asked how many members are affected and what the rationale was behind the original policy. SK said it was difficult to establish the number of previously affected members as the administration system does not hold details and any abatements were made manually. The Chair commented that the original rationale was driven by tax legislation as it was seen to be tax beneficial if people could retire early and get a tax free lump sum and receive pension benefits and then return to work in a similar job. Most private pension schemes removed abatement in the 1980's and in the public sector from 1998.

7.4 Cllr Tom Druitt (TD) suggested implementing the change over time to deal with the back-dating issue.

7.5 Stephen Osborn (SO) commented that the number of members affected is likely to be small compared with the workload impact that backdating would entail. Therefore, he is in favour of not making the change retrospective.

7.6 SK responded that the numbers affected is likely to be relatively small and they will be difficult to identify. Taking a phased approach would allow the Team to report back on the numbers affected and the likely impact of making the change retrospective. Paul Punter (PP), Head of Pensions Administration, added that the way abatement is applied does not generally affect people coming back into employment on a lower salary (which is the majority), but only really affects those on a higher salary. Abatement, where it has been applied, is in place until the member stops working and then the onus is on affected member to notify the Fund once their employment ceases.

7.7 The Chair summarised the Board's view which is to support stopping abatement from April 2021 onwards and ask officers to report back to the Pension Board and Committee once the number of members affected is known and what the likely impact of back-dating will be.

7.8 The Board RESOLVED to:

- 1) Note the proposed amendments to the Abatement Policy; and
- 2) Request officers report back to the Pension Board and Committee once the number of affected members is known and what the impact of backdating the change in policy will mean for the Fund and its administration.

8 PENSIONS ADMINISTRATION REPORT

8.1 Paul Punter (PP), Head of Pensions Administration, introduced the report. He highlighted that the trends in performance were in line with expectations due to the implementation of the new pensions administration system (Altair). Performance against the various performance indicators in quarter 1 of the year was 92% compared with 98% in quarter 4 of last year. April's performance is expected to be around 94.5% and May's performance is expected to be closer to normal as the new system beds in. These figures are based on the old Orbis service level agreement (SLA). The new SLA and related performance indicators will be implemented in June/July which may show performance at slightly lower levels as the new performance measures will be tougher to meet.

8.2 The helpdesk now has a new SLA and activity during February and March has included training the new team and clearing backlogs. The transition to the new service has been delayed due to some technology issues regarding access to emails and the implementation of the self-service system. The three-month transition period is due to finish at the end of June. There are now more staff working on the helpdesk for the ESPF and there are rising performance targets for the helpdesk.

8.3 TD suggested that if the response time for emails was shortened it may reduce the number of telephone calls. PP acknowledged that quicker email responses would reduce chasing phone calls, as many people expect an almost immediate response. The long-term strategy is to try and deal with the most frequent member enquiries via the self-service facility. Emails are automatically acknowledged and the 'first sight' of email enquiries has been moved to the helpdesk, which it is hoped will speed up response times. It is hoped that once the system is operating as the Team would like, the number of chasing phone calls will reduce.

8.4 PP gave an update on staffing. Progress is being made and 17 staff have been transferred to the ESCC Pensions Administration Team. Three additional staff have been recruited but the Service has struggled with recruitment, which is a top priority. LW requested that PP keep her updated on the recruitment situation.

8.5 The ESPF transition to the new pensions administration system (Altair) is complete and the new system is live, as well as the self-service facility. The project will be closed at the end of June once all the system documentation regarding ongoing information technology (IT) systems support is in place.

8.6 The Guaranteed Minimum Pension (GMP) equalisation project work is coming to a conclusion, and it will soon be possible to share the outcome of the modelling work to calculate the under and over payments. This will be shared with the Working Group and the Pension Board and Committee as soon as it is available.

8.7 The Board RESOLVED to note the Pensions Administration update and thanked the Team for all their hard work.

9 INTERNAL AUDIT REPORTS AND INTERNAL AUDIT STRATEGY FOR THE PENSION FUND (ESPF)

9.1 Nigel Chilcott (NC), Audit Manager, introduced the report which provides an update on the three audits completed in the last quarter and outlines the Internal Audit Strategy and Plan for 2021/22. It was clarified that the Internal Audit and Counter Fraud Team will remain part of Orbis.

9.2 The audits completed in the last three months have all received an opinion of substantial or reasonable assurance. The report on Pension Fund Administration People, Processes and Systems audit is being finalised and is likely to receive an opinion of reasonable assurance, which is a significant improvement on the previous minimal assurance opinion a year ago.

9.3 DP commented that there appeared to be an inconsistency in the audit outcome of the Pension Fund Governance audit in comparison with the other audit which received reasonable assurance. SK explained that although there were not many findings in the audit, the main issue was with the governance manual for the ACCESS Pool. Danny Simpson (DS), Principal Auditor, added that whilst this is largely outside the Fund's control it was identified as a fundamental issue and a medium risk. Therefore, the outcome of the audit was reasonable assurance. The ACCESS Pool governance arrangements will be reviewed as part of this year's audit plan.

9.4 TD asked if the target date of 30 October 2021 (Ref 1, page 114 of the report) is realistic in resolving this issue. SK outlined that there is a project taking place, led by West Sussex County Council with the ten other Funds to address the governance manual for the ACCESS Pool. The findings of this project will be presented to the next Joint Committee meeting in July. It is hoped that on this basis October is a realistic target to resolve this issue.

9.5 DS outlined the contents of the Internal Audit Strategy and Plan for 2021/22. This was written following consultation with the Pension Board and the Pension Committee as well as key officers. There is no significant change in the approach to audits and the plan has 100 audit days allocated to it. The previous work on information governance in the plan will be replaced by audit work on application controls for the new Altair system.

9.6 The Pension Board discussed whether 100 audit days were still needed following the significant improvement in audit outcomes. DS commented that there is sufficient time allocated to carry out all the audit work and to see that the progress made is being sustained. NC added that the increase in audit days was previously agreed with the Chair of the Pension Committee in response to lower audit opinions last year, but is happy to review the amount of days in consultation with the Board and Committee.

9.7 Councillor Gerrard Fox (GF), Chair of the Pension Committee, thanked officers for all their hard work and the improvements that had been made. He would be happy to discuss the amount of audit time with the Pension Committee, but due to the amount of change and the legacy issues that have been dealt with, he would prefer to keep the amount of audit time elevated and take a cautious approach. The Chair of the Pension Board agreed that it is better to have the number of audit days in the plan and then review once the Pension Administration Team is fully resourced.

9.8 The Board RESOLVED to:

- 1) Note the outcome of the audits and the updates; and
- 2) Recommend the Pension Committee approve the Internal Audit Strategy and Plan for 2021/22.

10 EXTERNAL AUDIT PLAN FOR EAST SUSSEX PENSION FUND 2020/21

10.1 SK introduced the report which is the external audit plan submitted in March by Grant Thornton, the external auditors, which outlines the work they plan to undertake as part of the audit for 2020/21. The risks are the same as previous years and the level of materiality has dropped slightly to £34.7 million due to the lower valuation of the Fund. The report is for information and noting.

10.2 The Board noted that it was disappointing not to have details of the audit fee and the fees for 2019/20 were significantly higher than previous years. Ian Gutsell (IG), Chief Finance Officer, responded that the fees are set by Public Sector Audit Appointments (PSAA) Ltd. The external audit sector is pressured to deliver to heightened levels of assurance and scrutiny, during the pandemic and in response to a number of high-profile local authority audits which have identified key financial difficulties. Fees variations are increasing and setting new fee levels is at present proving challenging. The Government has announced a £15 million grant to help local authorities cover the cost of increased audit fees.

10.3 The Board RESOLVED to note the external audit plan for the East Sussex Pension Fund for 2020/21.

11 EMPLOYER ENGAGEMENT AND CONTRIBUTIONS REPORT

11.1 SK introduced the report which gives an update on the Engagement Team's activities and the work on employer contributions. The Team has been working with the Pensions Administration Team on the Annual Benefits Statements and i-Connect projects, as well as communications. The report also contains information on the employer contributions monitoring work that has been undertaken, which has flagged up any persistent late payments. Many of the late payments are from small employers who pay by cheque.

11.2 TD asked if it was possible to encourage employers who pay by cheque to use the Bankers' Automated Clearing System (BACS) for electronic fund transfers. Tim Hillman (TH), Pensions Manager - Employer Engagement, explained that many of the smaller employers were Parish Councils who do not have the technology to be able to pay by BACS and have multiple signatories on their cheques.

11.3 It was reported that East Sussex College Group have been working extensively with the Engagement Team and are keen to start using the i-Connect system. One of the main issues has been the format of payroll references used to identify employees, who may have multiple concurrent employments. It is hoped to have the new system working for this employer shortly.

11.4 Examples of newsletters for employers, members and pensioners are included in the report, which are being reviewed by the Communications Working Group. It was clarified that at present the employer newsletter is sent out quarterly and the pensioners and active members newsletter once a year. These are the formats previously used by Orbis and will be reviewed by the Working Group along with the frequency they are issued.

11.5 The Chair invited the new members of Pension Fund staff who were present at the meeting to introduce themselves. Tim Hillman, Pensions Manager - Employer Engagement; Michael Burton, Pensions Manager - Governance and Compliance; and Mariana Obetzanova, Pensions Training Coordinator introduced themselves to the Board.

11.6 The Board RESOLVED to note the report.

12 EAST SUSSEX PENSION FUND 2020/21 BUDGET QUARTERLY REPORT

12.1 SK introduced the report. The report provides an outturn figure for the ESPF budget for 2020/21. The main changes are that the expenditure figures are slightly lower than last reported at around £6 million total costs. This is due to a slight over estimation of the Pension Administration costs. It should also be noted that investment management fees have increased, which is related to new asset managers not deducting their fees directly from returns. The report now provides a higher level of detail on costs.

12.2 The Board welcomed the report and commented that it was good to see a greater level of transparency and detail in the costs of the Fund.

12.3 The Board RESOLVED to note the 2020/21 financial outturn position for the East Sussex Pension Fund.

13 PENSION FUND RISK REGISTER

13.1 SK outlined that following the overhaul of the risk register, the Pensions Manager - Governance and Compliance has carried out a review of all the risks and has added some new risks to the register. The new risks mainly relate to the risk from scams and fraud and are shown in green on the risk register. The risk register will be updated and reviewed quarterly when it is reported to the Pension Board and Committee. It will also have a major review annually, which again will be reported to Board and Committee.

13.2 The Chair asked about the workload impact of the extra checks on pension transfers required by the Regulator (risk A5). PP responded that most of the work is already in hand and everyone in the Pensions Administration Team has done or is doing the online training, consequently the impact will be minimal.

13.3 The Board RESOLVED to note the Pension Fund Risk Register.

14 WORK PROGRAMME

14.1 SK introduced the report. The work programme includes the normal standing items and there will be reports at the September meeting on the Covenant Review; Annual Pension Board report; Communications Policy and the General Data Protection Regulation (GDPR) review. The Chair reported that he has received a request from Cllr Druitt to have a report on the representation of councils other than ESCC on the Pension Committee at the September meeting and this will be added to the work programme.

14.2 SK invited members of the Pension Board to report back on any training they had attended since the last meeting. The Chair outlined that he had attended the Pensions and Lifetime Savings Association (PLSA) training where there had been a presentation from Storebrand and Cllr Fox.

14.3 As the Covid restrictions are due to be lifted on 21 June 2021, the Board discussed the format of the future Pension Board meetings and whether to hold them in person or continue to hold them virtually via Teams. DP commented she would like to meet in person, provided there is no requirement to wear masks. TD said he would also like to meet in person, but this would depend on what restrictions are in place in September. LW agreed that it would be good to meet in person again, but some people may be anxious, and the wearing of masks is a barrier to keeping the meeting accessible to all. The Board agreed that, if allowed, it would like to hold the meeting in September in person but would keep the situation under review.

14.4 The Board RESOLVED to agree the work programme.

15 ANY OTHER NON-EXEMPT ITEMS PREVIOUSLY NOTIFIED UNDER AGENDA ITEM 4

15.1 There were none.

16 EXCLUSION OF THE PUBLIC AND PRESS

16.1 The Board REOLVED to exclude the press and public from the meeting.

17 PENSION FUND BREACHES LOG

17.1 The Board considered the Pension Fund Breaches log report.

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

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

18 EMPLOYER ADMISSIONS AND CESSATIONS REPORT

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

18.2 The Board RESOLVED to note the report.

19 ANY OTHER EXEMPT ITEMS PREVIOUSLY NOTIFIED UNDER AGENDA ITEM 4

19.1 There were none.

The meeting ended at 12.48 pm.

Councillor Ray Martin (Chair)