

Report to: Pension Board

Date of meeting: 15 November 2022

By: Chief Finance Officer

Title: Governance Report

Purpose: To provide an update on governance workstreams and changes effecting Local Government Pension Schemes and the East Sussex Pension Fund

RECOMMENDATIONS

The Pension Board is recommended to note this report

1 Background

1.1 This report is brought to the Pension Board to provide an update on the steps being taken to adopt good practice and ensure compliance with regulatory requirements for the East Sussex Pension Fund (the Fund or ESPF).

1.2 This report outlines changes to Pension Fund policy for comment and noting.

2 Pension Board membership

2.1 In April 2023 the terms for three members of the Pension Board (Stephen Osborn, Lynda Walker and Niki Palermo) are due to come to an end and Officers will soon commence planning for the appointment process. Additionally, the Chair of the Pension Board's term also expires at the same point which will require an appointment process to be completed.

2.2 Local elections in May 2023 may further impact on Pension Board membership during the year.

2.3 All members of the Pension Board who are coming towards the end of their terms will be asked to confirm with Officers whether they wish to be considered for re-appointment. This is to help with the planning process and to allow steps to be taken to minimise the risk of vacancies arising that are not filled in time for the June 2023 meeting.

3 Ministerial changes

3.1 The Rt Hon Michael Gove MP has been appointed as Secretary of State for the Department for Levelling Up, Housing and Communities and the Rt Hon Lucy Frazer KC MP has been appointed as the Minister of State in that Department. The Scheme Advisory Board has commented that the change in ministers and a new Prime Minister may cause some delays in projects being run by the Department.

3.2 At the Department for Work and Pensions, the Rt Hon Mel Stride MP is the current Secretary of State, Mims Davies MP has been appointed as the Parliamentary Under Secretary of State for Pensions.

4 Administering Authority discretions

4.1 The Fund is required to publish an administering authority discretions policy. The last published policy is undated, leading Fund Officers to review and update this policy. The revised policy is attached as **Appendix 1** to this report.

4.2 The Administering Authority is not expected to have a written policy in place which covers all possible discretions. Where there is a requirement for a mandatory policy, this is in place. In some instances, there is a mandatory requirement for an Employer to have a written policy and for the Administering Authority to have one if the Employer ceases to exist. In these cases, the Fund is gathering discretion policies from Employers so that any necessary decision can be made on a case by case basis by reference to the Employer's original policy.

4.3 Changes to the policy from that currently in place are highlighted in yellow. Changes where just the policy has changed, is due to a gap in the previous policy document, suggesting no policy, to identify current policies in place. Where the whole row is highlighted, guidance advises the administering authority should consider whether or not we have a policy. For the items where we look at it on a case by case basis with reference to the employer policy, this is stated because we can't have "no policy" on these matters but they relate to areas where it is required that the individual employer has a policy that we would then be able to use as a matter of fairness. We would only need to use a discretion in these instances in the Employer isn't around to do so.

5 Access

5.1 There were £35.2 billion of investments pooled within ACCESS at the end of March 2022, which equated to 59% of investments pooled across the participating authorities. This includes £23.9 billion in sub-funds and £11.2 billion in Pooled Passive investments. Of this, ESPF had £2.2 billion in active and £0.3 billion invested through the pool totalling 55% of Fund assets as pooled.

5.2 Following the decision at the Joint Committee (JC) on 7 March 2022, two observers from each Local Pension Board will be invited, on a rotational basis, to attend Joint Committee meetings as observers at least once each a year. The formal implementation of this change needs to be reflected in the signed Inter Authority Agreement (IAA) of all ACCESS funds, which is expected later in the year, so in the interim this will be introduced on an informal basis. The three authorities were invited to the 12 September 2022 meeting, this meeting was cancelled and replaced with an informal joint committee briefing on 6 October where Essex, Cambridgeshire and East Sussex were invited to attend. Ray Martin and Neil Simpson have been agreed as representatives for the Fund to attend as observers.

5.3 The ACCESS JC met on 6 June 2022, the agenda for the meeting is held in **Appendix 2** to this report. The public report pack can be accessed via the Kent County Council website [Agenda for ACCESS Joint Committee on Monday, 6th June, 2022, 11.00 am](#)

5.4 At the June JC, the committee approved in principle the Responsible Investment Guidelines, these guidelines will be adopted and published following changes to the IAA.

5.5 Essex County Council Internal Audit team carried out an audit to investigate and assess whether the ACCESS Support Unit (ASU) is effectively fulfilling its responsibilities to the ACCESS pool and, by extension, give assurance that the Authority is fulfilling its responsibilities as Accountable Body for the ASU. The audit results were presented to the JC at the June meeting with an opinion of good assurance.

5.6 ACCESS have now revised the Governance manual which has been comprehensively updated and was approved by the S151 officer group. This manual is a working document and will continue to be updated.

5.7 It has been reported that Dye and Durham are in talks to purchase Link Group, who are the parent of Link Fund Solutions.

5.8 Link Fund Solutions (LFS) were connected to the operation of the Woodford Funds at the time they were suspended. The FCA has commented that it will only authorise the transaction if the companies committed to covering an eventual penalty or payment to consumers. It is currently anticipated that the FCA will levy a penalty of c.£300m against LFS. LFS are the asset pool operator for ACCESS.

6 Pension Dashboard

6.1 DWP has responded to the most recent consultation on the Pension Dashboard. It had been suggested that Pension Schemes would be given 90 days notice of when dashboards would become available for us. Following responses from stakeholders a decision has been taken to extend this timeframe to 6 months.

7 Consultation on Governance and Reporting of Climate Change risks

7.1 On 1 September the Department for Levelling Up Housing and Communities launched a consultation looking at the governance and reporting of climate change risk. The consultation was scheduled to close on 24 November 2022.

7.2 The Fund's Accounts and Investment Team has been working on the approach to be taken to this topic, this includes scenario analysis and training on the science behind climate change was commissioned earlier this year to help Officers and Pension Committee members challenge assumptions made in setting scenarios.

7.3 The consultation states that the intention is for public service schemes to have materially similar expectations as private schemes, although there will be some differences due to the structural differences between the various types of scheme.

7.4 It will be expected the climate risks form part of strategy consideration. When setting the Funding Strategy as part of the current triennial valuation the Fund Actuary took climate risk and opportunity into account, pre-empting the requirements expected to be introduced.

7.5 The Government intends to make the monitoring of climate risks an ongoing requirement. This risk is already on the risk register and available for both the Pension Board and Pension Committee to discuss at each meeting.

7.6 The consultation lays out a series of metrics that will need to be considered and reported against. These are carbon emissions, carbon footprint, data quality and Paris alignment. Officers are considering how best to meet this expectation.

8 Decision making matrix

8.1 As part of the Good Governance Project, the Scheme Advisory Board has recommended that Fund's codify existing decision-making structures. Officers have been working with a third party provider to assist with this process and to identify areas where improvements could be made to enable the Fund to operate more effectively. The Fund have now received a draft matrix and will assess the accuracy of the data with a view to reporting on this at a future meeting.

9 Prudential

9.1 On 19 October 2022 Prudential informed the Fund that it had incorrectly calculated the benefit entitlements of a number of members who had elected to invest additional voluntary contributions into its Lifestyle Options.

9.2 The Fund has not been provided with a list of the people affected but has been told controls have been put in place to prevent this reoccurring. A further update, providing details of the members impacted, is expected in mid-November 2022.

10 Conclusion

10.1 The Board is asked to note this report.

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