

Report to: Pension Board

Date of meeting: 6 September 2023

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:

- 1) note this report;
 - 2) nominate a member representative vice chair and an employer representative vice chair;
 - 3) agree to dissolve the Communications working group;
 - 4) consider the continuation and membership of the McCloud working group.
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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 Committee meeting

2.1 In the June 2023 Pension Board meeting, the Board asked for an update on the key investment decisions being taken by the Pension Committee so it can have greater oversight of the governance process.

2.2 Since the last meeting of the Pension Board, the Pension Committee decided to delay the implementation of new investment strategies under the previous approved Investment Strategy as a new strategy is being developed following the triennial valuation which will be considered with view to being implemented from September 2023. This decision was supported by Officers and deemed appropriate by the Committee's advisors as the economic environment was now different to when the strategy was approved and the solvency of the Fund had improved significantly.

2.3 There were no formal investment decisions made at the June meeting. In addition to the Pension Committee meeting in June the Committee members attended a workshop day in July where they discussed possible future changes regarding the Investment Strategy and Statement of Responsible Investment Principles, which covers the Fund's beliefs regarding Economic, Social and Governance issues and the actions it will take in this area of investment. Formal reports following the workshop will be taken to the Pension Committee in September with recommendations to the Investment Strategy, a revision to the Statement of Responsible Investment Principles and Investment Strategy Statement to allow the Committee the opportunity to consider the recommendations of the Fund's advisors in an appropriate manner.

3 Consultations

3.1 In April 2023 the UK Government announced an intention to abolish the Lifetime Allowance (LTA). In July 2023 the Government commenced a consultation on this topic. The consultation will be completed in October 2023. In place of LTA there will be a new maximum tax-free lump sum

amount which will match the current LTA, payments over this amount will attract a tax charge at the beneficiary's marginal rate.

3.2 In July 2023 the Department of Levelling Up, Housing and Communities issued a consultation on investment pooling. This covers the Government intention for Pension Funds to accelerate and expand the use of pooling and to transition liquid assets by 31 March 2025. The Government is seeking 5% of assets to be allocated to UK levelling up; 10% investment in high growth venture companies; the implementation of a training policy for Committee members, requirements to set objectives for Investment Consultants and a technical change to the definition of investments. In addition the consultation suggests the Government want to see a transition towards fewer pools to maximise the benefits of scale.

3.3 A response to the consultation is currently being drafted and will be taken to the Pension Committee in September to seek their views and comments on the draft response, prior to submission by 2 October 2023. The Fund will consider incorporating views from the ACCESS pool when drafting the response where relevant.

4 Pension Board membership

4.1 Since the last meeting three members were appointed to the Pension Board at the Governance Committee on 18 July 2023. Cllr Gajjar and Cllr Wilson have been appointed as employer representatives and are drawn from Brighton and Hove City Council and the Borough and District Councils respectively. Zoe O'Sullivan has been appointed as a member representative.

4.2 Lynda Walker has left her position with East Sussex County Council and will no longer continue on the Pension Board. Officers are in contact with Unison to seek nominations for a new member representative.

4.3 Under the Terms of Reference for the Pension Board there is a requirement for it to have a permanent Independent Chair together with a Vice Chair drawn from both the Employer and Member Representatives. The vice chair should then alternate at each Board meeting. Following the changes in membership, the previously appointed vice chairs have now stepped down from the Pension Board. Under the East Sussex County Council Constitution, appointments to the Pension Board, and the allocation of material roles within it, are reserved to the Governance Committee. Pension Board are asked to nominate members of the Board to fill the vacancies of member representative vice chair and employer representative vice chair for approval at Governance Committee.

4.4 The recent changes in membership of the Pension Board has led to a review being required of the various Working Groups. The McCloud Working Group's terms of reference has now expired and a number of the representatives of this group have now left the Board. Board members are asked to consider if they wish for this working group to continue and if so are asked to determine who would like to sit on this Group with a preference for coverage from both an employer and member representative. At present no employer or member representatives sit on this group.

4.5 The Administration Working Group non-officer participants are Ray Martin, Neil Simpson and, from the Committee, Councillor Fox. There is currently no employer representative on this group. The Board are asked to consider whether an employer representative would like to join this working Group.

4.6 The Communications Working Group was set up following a number of recommendations presented to the Pension Board in March 2021 from the ESCC Head of Communications on his findings from a detailed communications review. The terms of reference were approved in November 2021 with a recommendation to reassess in 2023 whether this group had completed its primary objectives or continue. There are currently no employer or employee representative on this working group following the changes in membership. The communications working group was commended by Board and Committee members in May and June 2023, for its work on improvements to the member experience with the introduction of a refreshed website, changes to forms, establishment of a programme of surveys, significant improvements in newsletters and the production of a member booklet which was issued in April / May 2022 it is recommended that this Group should now stand down with the continuation of a report to the Board quarterly on communications developments.

5 McCloud

5.1 Since the last meeting of the Pension Board, the Department for Levelling Up, Housing and Communities has issued a consultation on the proposed remedy. Officers provided a response to the Consultation, as did the Local Government Association. The LGA response can be accessed here - https://lgpslibrary.org/assets/cons/lgpsew/20230530_LR.pdf The Funds response is included as **Appendix 1**.

5.2 The application of the McCloud remedy is anticipated to commence in October 2023, in line with previous expectations. In relation to the work being done by the Fund, data was sought from Employers to allow Officers to make the necessary calculations and this was received from most employers by July 2023. A test file has been created and was due to be provided to Officers for review. One employer has provided partial data, with part time history still outstanding, and a second employer has provided some data using the American date format, in error; delaying the information being put into a usable state.

5.3 Officers have been in contact with its software provider to discuss the uploading of the data received. Discussions are taking place to ensure safe transfer of data to the provider through a secure portal. Until the upload takes place Officers will not be able to carry out testing or perform calculation.

6 ACCESS pool

6.1 The ACCESS Joint Committee are scheduled to meet on 4 September, a copy of the public agenda was not available at the time of producing this report, Board members will be able to access this when published on <https://democracy.kent.gov.uk/ieListMeetings.aspx?Committeeld=898>. The East Sussex Pension Board Observers (Neil and Ray) have been invited to attend this meeting.

6.2 The last meeting of the JC was held on 5 June 2023.

7 Conclusion

7.1 The Board is asked to note this report; nominate member and employer representative vice chairs; agree to dissolve the Communications working group; and consider the continuation and membership of the McCloud working group.

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