

Pensions Committee

27 July 2022 – At a meeting of the Pensions Committee held at 10.00 am at County Hall, Chichester, PO19 1RQ.

Present: Cllr Hunt (Chairman)

Cllr Condie, Cllr N Jupp, Cllr Turley, Cllr Urquhart, Mr Kipling, Mr Wilding and Tim Stretton

Apologies were received from Cllr J Dennis and Cllr Elkins

Part I

19. Declarations of Interests

19.1 Cllr N Jupp declared a personal interest during the Pension Fund Annual Report item as his daughter works for Blackrock.

20. Part I Minutes of the last meeting

20.1 Resolved – That the Part I minutes of the Pensions Committee held on 29 April 2022 be approved as a correct record, and that they be signed by the Chairman.

21. Pension Advisory Board Minutes - Part I

21.1 The Committee considered the Part I minutes from the meeting of the Pension Advisory Board on 11 February 2022 that were noted at the informal Pension Advisory Board on the 16 May 2022; and the agenda from the informal meeting of the Pension Advisory Board on 16 May 2022 (copies appended to the signed minutes).

21.2 Resolved – That the minutes and agenda be noted.

22. Business Plan

22.1 The Committee considered a report by the Director of Finance and Support Services (copy appended to the signed minutes).

22.2 Katharine Eberhart, Director Finance and Support Services, introduced the report and explained that preparations were being made for the actuarial valuation. The draft annual report had been written and would be considered later on the agenda. Consideration was being given to new risks including current consultations and the proposed takeover of Link.

22.3 The Committee made comments including those that follow.

- a. Sought clarity on the risk rating for academies. – Steven Law, Fund Actuary, explained that the Government's white paper looked to transfer all schools into Academy Trusts. The impact of this on the fund was an increase in administration due to outsourced payroll

- arrangements and the consideration of contracted staff such as cleaning staff which needed to be admitted to the fund.
- b. Asked if risk RT12 should be enlarged to consider the risk academisation posed to administration costs. – Rachel Wood resolved to reflect this within the risk.
 - c. Queried the arrangements for deferred members where a school had converted to an academy. – Steven Law explained that an active member would become the responsibility of the academy; whereas if a member was deferred at the time of the transfer they would remain a County Council deferred member. This only applied to non-teaching staff as teacher’s had their own pension fund.
 - d. Asked if Academies were public or private sector. – Steven Law confirmed they were public sector bodies. Higher Education Colleges were in the private sector.
 - e. Queried if the short term companies that came into the fund, as a result of an academy outsourcing, were able to cover the necessary fund costs. – Steven Law explained this was always a risk for anyone joining the fund, but gave reassurance that the liability would stay with the academy for costs. Educational bodies were guaranteed under the Department for Education, who historically have always paid out for claims in situations of deficits.
 - f. Sought clarity on the process for setting contribution rates for an employer who joined the fund between valuation cycles. – Steven Law confirmed these came to the fund actuary for consideration.
 - g. Noted the combination of RT3 and RT10 and queried if the reduced risk status was a consequence of the merge or mitigation actions. – Rachel Wood, Pension Fund Strategist, explained the reduced risk was linked to mitigation works for Responsible Investment (RI) and Environmental, Social, and Governance (ESG).
 - h. Praised the Hymans Robertson briefing paper on the Pensions and Lifetime Savings Association Cotswold conference. – Committee members requested a copy of the briefing paper so Rachel Wood resolved to circulate this.
 - i. Queried if the cybercrime risk would ever move out of red. – The Chairman confirmed that this a cross Council issue and that the risk was unlikely to come out of red due to the constant vigilance that was required in the changing digital environment. Steven Law confirmed that the Pensions Regulator would like cybercrime risk to stay in the red category.

22.4 Resolved – that the Committee notes the updates on Business Plan activities for 2022/23 and risk matrix.

23. Pension Fund Annual Report

23.1 The Committee considered a report by the Director of Finance and Support Services (copy appended to the signed minutes).

23.2 Rachel Wood introduced the report and the draft annual plan which was compliant with CIPFA guidance, and regulations. It was confirmed that the draft annual report would also go the Pension Advisory Board for review; and that the accounts would go the Regulation, Audit and Accounts Committee in September for approval.

23.3 The Chairman highlighted that this was the first time all assets had been listed in the annual report which was a good inclusion. The asset list would be updated to note investment in Baillie Giffords Global Alpha Paris Aligned fund early in the current financial year. The Chairman also confirmed that the move to the Paris fund meant that fossil fuel exposure had dropped from 0.7% to 0.4% of the total fund.

23.4 Steven Law spoke on the cashflow position of the fund and explained that contributions would be dropping after the triennial valuation and benefit payments increasing which would reduce cashflow and increase the reliance on investment income.

23.5 The Committee made comments including those that follow.

- a. Queried the cashflow forecast and asked if it was prudent to continue with the plan to reduce contributions. – Steven Law explained that the reduction of contributions was still the right approach to take, but it was important to plan accordingly.
- b. Noted the different figures for 2020/21 and 2021/22 for management expenses and asked if fees had been reduced. – Rachel Wood explained that the different figures related to how Baillie Gifford's performance fee had been budgeted for and paid out. Clarity would be added to the final version.
- c. Asked if the fees paid were in line with similar funds. – Rachel Wood resolved to investigate this.
- d. Sought clarity on the benchmark position performance for equities. – Rachel Wood explained that the focus was on the long term, and that the underweight to energy companies had led to a negative financial impact during the year. The Chairman confirmed the importance of focussing on the long-term position. Rachel Wood added that the stock selections made by fund managers needed to perform, and that commentary would be reviewed to ensure it is clear how stocks were chosen.
- e. Proposed that the annual report should reflect on the financial consequences of withdrawing from the energy sector. – The Chairman explained that moving away from fossil fuel investments had always been planned when the timing was appropriate. The withdrawal had not been a consequence of pressure groups.
- f. Questioned the wording of the engagement activity undertaken by the fund and if a balanced view was required to show successful and unsuccessful influence of company boards. – The Chairman felt the wording could be clarified to confirm this was activity done by fund managers. Fund managers had high influence on boards and had demonstrated where they had help make positive changes to companies. It was proposed that the wording could be changed from 'low-carbon' to 'supporting ESG principles'; and also include more diverse examples such as improving staff treatment. Cllr N Jupp reflected on Blackrock's voting behaviour at company board meetings.

23.6 Resolved – that the Committee approves the draft annual report subject to the comments made, and the figures being subject to audit and consideration by the Regulation, Audit and Accounts Committee on 22 September 2022).

24. Pension Administration

24.1 The Committee considered a report by the Director of Finance and Support Services (copy appended to the signed minutes).

24.2 Rachel Wood introduced the report and confirmed that work was being done on the Annual Benefit Statements to ensure they were ready for the August deadline, as close to 100% completion as was possible.

24.3 Andrew Lowe, Head of Pensions, Investments and Borrowing, reported that engagement work was being undertaken on the Pensions Dashboard and an update would be provided at the November Committee meeting. The LGPS staging date for the dashboard is September 2024.

24.4 The Committee made comments including those that follow.

- a. Noted the work on portal promotion and the number of opt outs. It was proposed that commentary should be added to confirm that those opting out still received information via hard copies. – Andrew Lowe explained that the table aimed to show engagement figures, and that a further communication exercise was planned to increase portal take up.
- b. Noted the employer sign up figures for the portal, and felt it was important to reflect the portion of employees this covered as it was likely to be many small employers that had not signed up.
- c. Queried how West Sussex portal usage compared to other funds. – Andrew Lowe explained the usage was good, but the problem was how to engage with deferred members. It was confirmed that all new starters were engaged with to sign up to the portal.
- d. Sought clarity on the progress with McCloud. – Rachel Wood confirmed that an extension on this had been granted to West Sussex County Council and that the work was progressing on track with agreed timetables.
- e. Praised the 100% compliance with key performance indicators.

24.5 Resolved – that the report be noted.

25. Funding Strategy Statement

25.1 The Committee considered a report by the Director of Finance and Support Services (copy appended to the signed minutes).

25.2 Rachel Wood introduced the report and explained that the Statement would be shared with employers after the meeting to explain the plan for contribution rates. The final version was then expected to be ready for the January Committee meeting.

25.3 Steven Law and Paula Picken, fund actuary, gave a presentation to the Committee outlining Hymans Robertson's approach and considerations for the triennial valuation (copy appended to the signed minutes).

25.4 Paula Picken explained there was currently no updated Funding Strategy Statement guidance from CIPFA for the 2022 valuation, and that there was also no guidance from the Scheme Advisory Board on how Climate Change should be reflected.

25.5 Steven Law praised the formatting change in the Funding Strategy Statement undertaken by Rachel Wood which had consolidated the required information well.

25.6 Steven Law explained the change in approach taken for admitted bodies and predicted increase in benefits due to the increase in the Consumer Price Index (CPI).

25.7 Steven Law concluded by giving reassurance that the Committee had worked hard for many years to install tools and buffers to the fund that could be utilised to manage the risks.

25.8 The Committee made comments including those that follow.

- a. Queried the new approach for admitted bodies with no guarantor and what would happen if they were in deficit. – Steven Law explained that the body would be asked for the money and that most were government backed. Whilst the new approach to minimum likelihood held a larger risk of deficit, the risk was well managed; particularly as the fund had a healthy funding level.
- b. Sought clarity on the impact of COVID-19 to the valuation. – Steven Law explained that the data had only just been received, but a high impact was not anticipated. Consideration would be given to the impact of life expectancy and if this had increased or reduced post pandemic. The main impact to the fund would be the impact of increased CPI.

25.9 Resolved – that the report and presentation be noted.

26. Date of the next meeting

26.1 The Committee noted that its next scheduled meeting would take place on 2 November 2022 at County Hall, Chichester.

27. Exclusion of Press and Public

Resolved - That under Section 100(4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part I, of Schedule 12A, of the Act by virtue of the paragraph specified under the item and that, in all the circumstances of the case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.

28. Part II Minutes of the last meeting

The Committee agreed the Part II minutes of the Pensions Committee held on 29 April 2022.

29. Pension Advisory Board Minutes - Part II

The Committee noted the contents of the Part II minutes from the 11 February Pension Advisory Board meeting.

30. Update from ACCESS Joint Committee activity (6 June 2022)

The Committee considered a report by the Director of Finance and Support Services.

The Committee considered the report and noted the update on the ACCESS Joint Committee.

31. Investment Strategy Implementation

The Committee considered a report by the Director of Finance and Support Services.

The Committee considered the report and noted its contents.

32. Review of Pension Investment Performance

The Committee considered a paper by the Director of Finance and Support Services and the Independent Adviser relating to the quarterly performance reports from the fund managers.

The Committee welcomed the advice.

33. Presentation by Partners Group

The Committee received an update from Joanna Asfour, Ross Hamilton and Christoph Baumann from Partners Group on the portfolio performance for the quarter.

34. Presentation by Macquarie Asset Management

The Committee received an update from Gillian Evans, Allan Jenson and Jacob Vendelbo from Macquarie Asset Management on the portfolio performance for the quarter.

The meeting ended at 3.00 pm

Chairman