

Pensions Committee

Minutes of the Pensions Committee meeting held on Friday 16 September 2022 at 10.00am in County Hall, Taunton.

Committee Members Present: Cllr S Coles (Chair), Cllr J Cook-Woodman, Cllr P Seib, Mr P Butler, Ms S Williams.

Committee Members attending virtually: Ms S Payne,

Others in Attendance: Mr A Sweet, Ms C Burton, Mr A White, Rod Bryant, Cllr A Kendall, Mr S Morton (online) Ms A Hills (online), Cllr L Leyshon (online), Cllr M Dunk (online), Cllr A Sully (online), Cllr P Clayton (online), Ms R Ellins (online), Mr N Behan (online).

The meeting was delayed by 15 minutes to ensure the meeting was quorate.

All present were invited to stand to observe a minute's silence following the death of the Queen Elizabeth II.

1 Apologies for Absence

Apologies were received Cllr R Henley, Cllr Farbahi.

2 Declarations of Interest -

No new Declarations of Interest were reported.

3 Minutes of the Previous Meeting -

The Committee agreed and the Chair signed the minutes of the meeting held on 1 July 2022 as an accurate record.

4 Public Question Time

The Chair welcomed Mr Sigurd Reimers and invited him to read a statement and put questions to the Committee. The Chair then asked Mr Reimers, as a regular speaker at meetings of the Committee, whether he would welcome a meeting with Service Manager – Funds and Investments, Anton Sweet. Mr Reimers replied that this had already been offered and whilst grateful, he was interested in the view of the Committee as a whole, rather than that of a single advisor.

The Chair invited the Officer to respond. On behalf of the Committee, the Officer stated that he would, as usual, email a reply to the question posed and continued to explain that Brunel Pension Partnership and the 10 client/owner funds are closely monitored as constituent parts of the portfolios Brunel manage including performance and performance objectives, progress towards net zero and measuring the level of impact on transitioning the global economy to net zero.

Mr Reimers asked the Chair for a response to his question about the views of the Committee. The Chair replied that his view had not changed since the last meeting in that as an island nation, due regard should be given to environmental considerations and that if suitable schemes for investment exist, these should be considered as part of the overall investment strategy. Mr Reimers stated that he was gratified by that response and urged the Committee to identify with the urgency for change.

5 **Local Government Reorganisation Update**

The Funds and Investments Manager reported that there was no further update; that this item will remain as a standing item until April 2023 to allow members to ask additional questions; and that a paper will be presented to the Constitution and Governance Committee later in Autumn 2022 regarding changes to the Terms of Reference for both this Committee and the Executive Committee.

The Chair invited questions. No questions were raised, and the Committee noted the verbal update.

6 **LGPS Pooling of Investments**

The Funds and Investments Manager presented the report, noting that it is a standing item on the agenda and that in future this item will be merged into the General Investment Performance Report when the transition is complete.

The Chair invited questions. A member asked about the net cost of the transactions to move funds into a single fund and it was explained that this was outlined in the annual report and the cost of transitioning assets was £6m.

7 **Independent Investment Advisor's Report**

The Independent Investment Adviser – Caroline Burton, gave a verbal update. It was reported that Carbon intensity in the portfolio may increase in the short-term as putting in place low carbon infrastructure is often quite carbon intensive. Globally, with the exception of Japan, central banks are making monetary policies more restrictive to tackle inflation. Governments are mostly being fiscally loose, and many are talking about further loosening. Whereas such fiscal stimulus is usually inflationary, it is uncertain what the effect of these two competing elements will now be. The post-covid loss from the workforce particularly of employees in their 50s who have actively decided to stop working, is leading to workforce shortages particularly in service industries. It is uncertain if this is a temporary or more permanent change. With a falling birth rate in many countries, it is uncertain where future workforces will come from. Recent performance from portfolios has been influenced by the decision to reduce investment in the

energy sector. Moving forward, equities will need to withstand high inflation. Property investments will need to be carefully selected with city offices expected to fare well in comparison to secondary, smaller offices. Industrial property is likely to decline with an excess of warehousing space available, Amazon, for example, have indicated they have a surplus of space. There is a need for Brunel to be very selective and patient before signs of improvement.

It was asked how long the period of downturn would last and in response Members heard it remained unclear but it was stressed that investment decisions should be made with a longer term view. There were no further questions.

The Chair summarized that the situation remained very fluid and uncertain, and that poor results in October were likely. The Chair thanked the Advisor and her colleagues. The Committee accepted the verbal update.

8 **Review of Investment Performance**

The Funds and Investments Manager presented the report and highlighted the following:

- Whole fund return for quarter to June was -6.8%, a significant reduction which included the period where markets were adjusting to impacts of the Russian invasion of Ukraine.
- The return matched benchmarking, which was also the quarter when changes, agreed by this Committee, were made to the investment strategy which have broadly had no noticeable effect on performance.
- First half of calendar year 2022 were negative as are one year returns. Longer term returns are reasonable and positive.

A Member asked if there was a known underlying reason for the negative returns and it was explained that there were always a number of factors affecting performance against benchmark such as where asset allocation between the various asset classes differs for the benchmark weight and the performance of fund managers. During the six months in question, most of the underperformance does relate to being underweight energy companies.

The Chair summarized the discussion:

- the need for a long-term strategy and communication with fund managers.
- the current unique global situation and the impact of this on market; and
- inclusion of 10- and 20-year figures.

The Committee accepted the report.

9 **Review of Administration Performance-**

The Head of Peninsula Pensions - Rachel Lamb was invited to introduce her report and she noted that suggestions from Members on the reporting format would be welcomed.

The following points were highlighted from the Review of Administration Performance:

- Performance is measured in two ways, firstly by internal targets with the aim to complete 90% of work in 10 working days, and secondly against statutory targets for occupational and personal pensions.
- Summary of quarterly statistics from April to June 2022 shows 87% achieved on target and 96% in high priority areas which include survivors' pensions following a death and payout on retirement.
- Between January 2020 and the end of June 2022, there was a peak in contacts in March 2022 due to a push for access via online self-service.
- No new admitted bodies and no new academies.

A Member asked about the dip in performance shown around medium priority procedures and around the deferred benefit calculations in particular, with regard to employees considering options in relation to LGR. The Officer replied that amalgamation of records, deferred benefit calculations and employer queries were all affected, and plans are in place to address these. Employer queries impact on performance when correct information is not received promptly so employers are informed of the impact this has on members. A project team work specifically on deferred benefit calculations and amalgamations to ensure members receive information within the required time limits ahead of the pension dashboard launch in October.

A Member asked if a surge of enquiries is expected leading into LGR and if any provision is being made for that and it was noted that the Project and Support Team would assist in peak times as well as additional resourcing that will be considered as necessary. It was asked if trend data on performance for high and medium priority cases could be included and it was agreed to bring this to the next meeting. It was asked about capacity of the team to meet workload and whether this could be tracked. The Officer agreed to include this in future to show improvement or otherwise.

More information was requested regarding communication with scheme members and it was stated that there were different timescales for different

requests, some due to complexity for example. A link would be circulated to show this information.

The Chair summarized the discussion:

- the need for a long-term strategy and communication with fund managers.
- the current unique global situation and the impact of this on market; and
- inclusion of 10- and 20-year figures.

The Committee accepted the report.

10 **Business Plan Update**

The Fund and Investment Manager was invited to present the report.

The following points were highlighted from the Business Plan Update report outlining the business that will be considered over the next 12 months.

- A considerable number of central government consultations were expected. The new Secretary of State and the new Minister for Local Government appointed by Liz Truss do have prior experience of the LGPS and this should help things not get delayed.
- Consultation on climate disclosures for LGPS was launched on 1 September which match the recommendations of the Task Force for Climate-related Financial Disclosure (TCFD). It is proposed that from 2023-24, an annual climate report for LGPS pension funds is produced, which Brunel are already producing the majority of the necessary data. It is proposed that there is also a requirement to state the degrees of warming that current investments are consistent with. Discussions with Brunel indicate this will not be 1.5%.
- Carbon Metrics report will follow from Brunel.
- A Member asked if the report includes carbon offset. The Officer was not clear but thought this would not be included but carbon production would be included.
- The Officer explained that sanctions associated with carbon intensity were likely to be implemented in the mid-term as directed by central government. The internal target of net zero by 2040 remains and is thought to be achievable and realistic. It was noted that this authority is committed to the ecological crisis regardless of government direction.
- Valuation work has continued, and fund results are expected in early October. The actuary will attend the December meeting.
- External audit work is largely complete with findings reported to the Audit Committee next week.
- A request has been received by the Pensions Board to review the Funds Communication Policy Statement. This was welcomed by the Chair,

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The Committee noted the report. The Officer was thanked

11 **Finance and Membership Statistics Update**

The Fund and Investment Manager presented the report on the position of the Pension Fund's provisional end of quarter 1 financial position at 30 June 2022.

The following points were highlighted:

- It was better to reflect on long-term trends rather than quarterly changes.
- Number of pensioners gradually increasing the number of deferred and active members is broadly static.
- Month 3 not expected to vary from expected.
- Contributions is the main variance. It is expected this will rise subject to the pay award.
- September inflation figure of 9-10% will affect pension contributions from April 2023.
- A committee member asked if pension payments would rise by the same rate of inflation as the pension contributions. It was confirmed that this would be the case. State pensions may not receive the inflationary rise in the same way as the LGPS and other private pensions.
- A committee member raised concerns about the quarterly budget figure for management expenses and a high variance. The Officer explained that Devon CC invoice Somerset CC in arrears after the quarter end which accounts for this apparent overspend.
- There were no further questions.

The Committee accepted the report.

12 **Review of Pensions Fund Risk Register**

The Fund and Investment Manager presented the report to monitor risks contained on the risk register and approve any amendments.

The following points were highlighted:

- No major changes to the Risk Register.
- Register to be reviewed in early 2023 as two years since the last significant review in January 2021.

A committee member asked that if the council were to be subject to any energy restrictions such as rolling blackouts, what would the impact for business continuity be. It was stated that blackouts would likely be short and not impact our ability to meet our regulatory requirements. Employee output would be affected with power outage affecting Wi-Fi. It was

questioned whether the Business Continuity Plan could meet this need and if contingency plans are robust. It was suggested the committee seek assurances from directors that the pension system could survive power outages and the use of emergency generators at key sites like County Hall.

The Committee accepted the report.

13 **Pension Fund Annual Report 2021-22**

The Fund and Investment Manager presented the report to monitor risks contained on the risk register and approve any amendments.

The following points were highlighted:

- An annual report is a requirement of the LGPS regulations required by 1 December each year.
- Report contains policies and statements previously agreed by this committee.
- A committee member acknowledged a very comprehensive report with readily accessible information and queried the national and international listings and the difference in exposure to market factors. The Officer highlighted the broad nature of the fund which takes a holistic view of the world economy. Therefore, fluctuations in the domestic economy are diluted by international markets. There is a general acceptance of spreading risk.

The Committee voted to approve the Fund's Annual Report subject to the addition of the external Auditor's opinions. In the event of the external Auditor requiring changes to the accounts prior to their final opinion, it was further agreed that the Chair be given the ability to approve those amendments on behalf of the Committee.

14 **Knowledge and Skills**

The Fund and Investment Manager gave a verbal update on plans for undertaking an assessment of the Committee and Board's knowledge and skills.

- A skills assessment has been produced by an external consultant, Barnett Waddingham.
- Training will be targeted on any identified elements for Committee and Board Members.
- The assessment will be emailed to members ahead of the next Committee meeting and should take approx. 20-30 minutes to complete.
- Those results would then be considered collectively.

- All Members agreed to undertake the assessment

15 **Any Other Business of Urgency**

After ascertaining there were no other items of business, the Chair thanked all Officers for attending and presenting their reports and Committee Members for attending and asking questions and closed the meeting.

The meeting ended at 11.48am

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