

SOMERSET PENSIONS ADVISORY BOARD

Minutes of a Meeting of the Somerset Pensions Advisory Board held in the Virtual meeting via Microsoft Teams, on Friday 8 April 2022 at 10.00 am

Present: Cllr Anne Hills (Chair), Mr N Behan, Mr R Bryant and Mr A White

Other Members present:

108 **Apologies for Absence** - Agenda Item

Cllr M Healey and Mrs R Ellins were not present.

109 **Declarations of Interest** - Agenda Item 2

The Chair noted that there is a standing declaration of interest for all Board members, and there were no new declarations.

110 **Minutes from the previous meeting held on 18th February 2022** - Agenda Item 3

The minutes of the meeting held on 18 February 2022 were accepted as being accurate and will be signed by the Chair of the Board.

111 **Public Question Time** - Agenda Item 4

Mr Sigurd Reimers was in attendance but did not pose any questions or make any statements.

112 **Review of Pensions Committee Papers** - Agenda Item 5

The Chair enquired if there would be reorganisation after the LGR; Mr Sweet responded that the only significant change would be amalgamation of the District Councils' representatives with the County Council's, but there would be no change to the pension fund. The name change to Somerset Council Pension Fund should not cause any issues, as all contracts will novate. What will require engagement is the process to replace SAP as the financial system with MS Dynamics; Claire Druce will be leading on that, and it should be relatively easy as the fund only has approximately 80 revenue codes and 30 balance sheet codes amongst the thousands in the Council overall. Mr Harris observed that Devon Council was going through a similar process, and he has a plan for it; he and Mr Sweet will meet to discuss this. This will remain as a standing item on the Pensions Committee agenda.

With respect to the Brunel budget, the report was signed off at their AGM and all resolutions were passed. They will have a strategic review this year to plan for the next 3-5 years. The investment strategy statement has been signed off but may need further approval; Mr Sweet will ask that all of the Fund's policies be re-approved at the next meeting of the Pensions Committee on 10 June, as it is the first meeting after the elections, and it is anticipated that we will have a number of new members on the Pensions Committee.

The Chair enquired when the shift of 25-30% to non-carbon funds will take place; Mr Sweet replied that he has it on his desk but it is not a priority as performance is unlikely to be impacted, given that oil companies are currently doing well. It will probably take place in the first quarter, but he needs to discuss it with Brunel as regards doing all of the moves required by the change in strategy at one time or separately. With respect to the costs of moving to another fund, these should be limited for the move from standard benchmark to the Climate Transition Benchmark (CTB) for the passive funds, for example; typically there will be trading costs, but not in significant amounts. He noted that movements to other funds don't happen quarterly; the whole point of the strategy statement is for investment funds to sit for 3-5 years without change, with officers choosing when and if to rebalance as necessary. Typically, only 2-3 changes are made per year, and usually for no more than tens of millions. In responding to a question regarding the relative advantages of passive and active investment, he observed that when looking at the performance of any fund, it is necessary to look at long-term figures and not just the current quarter. In responding to questions around the sustainable equity portfolio, he pointed out that this isn't actually currently the lowest carbon portfolio, which is the Global High Alpha portfolio that we are invested in. The difference is that the sustainable equity portfolio will have a lower exposure to businesses that don't specifically contribute to moving to a low-carbon economy but that don't have high-carbon impact themselves. This would reduce our opportunity set without lowering our carbon exposure.

Mr Sweet gave an update on the situation in Ukraine, stating that after the initial invasion he discussed it with Brunel, who attempted to remove Russian and Russian-owned companies from the portfolio as an investment decision under their delegated authority; our exposure was limited to about 3% of the Emerging Market equity fund. Most were sold, but a small number are listed on the Moscow stock exchange, meaning they cannot be sold because of restrictions on Russia. These are now valued at zero in the fund. As Russia is being removed from the Emerging Market fund index, there shouldn't be any impact on relative performance. Brunel underperformed in January-February but did better in March; however, the report on March is not yet available and will probably arrive around 21st April. He will send out an email to all Board and Committee members if there are items of interest, as he always does.

Regarding the review of administrative performance, the Chair noted that she, Mrs Ellins, and Mr Harris had held a meeting; Mr Harris stated that there is complete transparency regarding complaints in the performance report but they have not historically included compliments (nor legally been required to do so), but over the last few years staff have been asked to make a record of compliments and log them. There were 81 compliments and 40 complaints through the end of December, with even unsubstantiated complaints included, along with the action taken, and formal appeals are reported on an annual basis. He observed that one big issue from a national perspective is that Prudential's administrative performance has been quite poor, and it is difficult to get information from them, so there have been many complaints, with them having to make a number of compensation payments. He also mentioned that the way of dealing with complaints has been changed to a more people-based approach, i.e., it is more effective to speak with people rather than just send an email. Other matters noted were new regulations on the transfer-out process and on providing awareness of risks for users; we have pledged to do everything possible to prevent pension fraud in a joined-up approach with other pension funds. He added that he has produced a glossary for the Pensions Board and can circulate it.

The Chair asked to know how much time is required to complete each action in the process; Mr Harris responded that it varies, and that although there are time estimates in the training notes, that refers to the total time encompassed by the many different teams who are involved. Mr White enquired who sets the targets, as the time needed could seriously impact someone retiring who has no savings; Mr Harris replied that this is set forth in the "Disclosure of Information and Regulations 2013" which appears in summarised fashion on the website. Timelines depend on the time spent waiting for information from various places like Prudential, and we are not always notified about leavers until shortly before the date and therefore can't prepare in advance due to changes which may possibly occur, such as pay increases. Although there may be delays in receiving the first pension payment because of needing to wait for the next pay period, the lump sum is received very quickly after the forms are completed, usually within 3-5 working days. It is being studied whether the first pension payment could be paid immediately on any date of the month.

With respect to staff leaving and how many are, Mr Harris advised that there is not much turnover but there are difficulties in recruiting; it was noted that although public sector salaries are lower than in the private sector, during the pandemic public sector workers continued to be paid, had the possibility of working from home, had a better work-life balance and a higher allocation of holidays, and the great value of a defined-benefit pension scheme.

The Chair enquired if an employers' meeting is scheduled for once a year in the business plan; Mr Sweet replied that Peninsula has more frequent meetings,

with any meeting being about actuarial work. He said there will be one later this year around Christmas, when the necessary numbers will be available, after a two-year hiatus due to the pandemic.

The Chair suggested that employers should be advised to let Mr Harris know as soon as possible when an employee plans to retire; he replied that there is a monthly newsletter and other meetings where this issue is emphasised. Employers have been canvassed and most desire remote meetings; small, focused workshops will also be held on specific topics such as the appeals process. The Employer Communications team also works with employer to get out information.

The Board reviewed and discussed the Committee papers.

113 **Review of Pension Fund Risk Register** - Agenda Item 6

Mr Sweet observed that this has not changed since the last meeting of the Board. The Board suggested the following risks: training needs, administrative needs, failing to pay in a prompt manner, and cost of living issues. Mr Sweet said that most of these issues are already covered in the risk register, so there is no need to adjust the document. With respect to the cost of living, a 1.7% pay rise has just been received which was effective 1st April 2021; it is unknown when the 2022 pay rise will be received or even negotiated. There is ongoing tension with the tight labour market, and the public sector struggles to recruit generally; therefore, it is possible that a more relaxed (favourable) view toward pay increases may be taken in order to ensure staffing. Mr Behan stated that the unitary council will probably lead to many complex exceptions in hiring and retention allowances, while Mr Sweet said there may be a Council-wide re-grade and harmonisation of terms and conditions. Mr Harris observed that risks have been reduced from 30 years ago, and they are trying to condense the register and work on mitigating controls. The Chair asked that the register be shared with Mrs Ellins and Mr White.

The Board accepted and noted the report.

114 **Business Plan Update** - Agenda Item 7

Mr Sweet stated that the Pensions Committee business plan is rather empty at the moment due to uncertainty over Councillor members being re-elected and/or re-appointed to the Pensions Committee. He said there will be a skills gap audit and training towards the end of the year, and someone external may come in to do it; under the regulations, there are specific knowledge and skills requirements for the Board but not for the Committee. The scheme advisory board's good governance review has been done, but they are awaiting the white paper from the Department for Levelling Up Housing and Communities

(DLUHC); this is supposed to arrive in summer, but it may be September. It is expected that the paper will wrap up the review and state what may be put into guidance regarding the Task Force on Climate-Related Financial Disclosures (TCFD), carbon disclosures, and local investment; it will be a somewhat unfocused white paper that covers quite a lot.

The Chair asked if RESD is still needed in June; Mr Sweet responded that it is, in order to discuss what is now in place; pending receipt of the white paper, Brunel may simply use best practice. An audit will be carried out, and the training will be based on that. Historically, take-up has been muted, so attendance will not be rationed; he is happy to book the Chair and Mr Bryant on the conference, as the cost will not be excessive.

ESG is in the business plan for summer, with the annual report due in October. The Chair noted with respect to ESG that she works with Nikki Brain, Resilience Officer from Frome Town Council, and asked if she could be invited to the July meeting of the Board; Mr Sweet said that he could discuss it with the SCC Resilience Officer, as it may be best to restrict participation to County and/or District Resilience Officers. The Chair advised that she would still like to invite Ms Brain.

With respect to the resources review, much is formulated around best practice; Mr Sweet refers to it as a financial forecast rather than a budget and reviews it quarterly, with recurring pensions being the easiest part to forecast. The fund should continue to be cash positive next year, contributions should increase more than payments, and deficit reduction payments will increase in line with the plan to be deficit-free by 2038.

Regarding cash management strategy, which refers to where cash is placed, this is externally managed, with it being asked every year if this continues to be favoured as a matter of good governance. A treasury management strategy is approved by full Council every year; this is the equivalent for the Pension Fund and is a transparency issue.

The Chair noted regarding TORs that a few tweaks are needed with respect to quorate meetings and elected vs co-opted members.

The Board noted the update.

Mr Harris announced that this is his last Pensions Board meeting, as he will be moving to another position, and there will be a replacement for his current role.

Mr Milne noted that the next scheduled meeting will take place on 8 July 2022; it might be at County Hall, as the full Council meeting on 25 May will make a decision on whether meetings will continue to be held virtually or return to in-person. The Clerk of the Pensions Board and Committee (T Brazier) will keep all members advised of the decision.

There will be a series of training sessions for new Councillors; the session for the Pensions Committee will be held on 27 May 2022. The same material will be used as in the previous training already provided to Board members. Appointments to committees will be discussed at the full Council meeting, although some may not be made until after the meeting. The question of whom will be appointed to any particular committee will depend on the majority party or a potential 'hung' Council, and it is very complicated. One thing that is known is that members of the Pensions Committee should not have executive roles. The Chair enquired if the Board could provide guidance on what skills and knowledge are needed to sit on the Pensions Committee; Mr Sweet said that any Councillor would be taken and any potential skills gap dealt with, as in his opinion it was better to have someone with a keen interest rather than someone experienced who is not as interested.

The Chair thanked all those present for attending and closed the meeting. The date of the next meeting will be 8 July 2022.

(The meeting ended at Time Not Specified)

CHAIRMAN